

SCARBOROUGH EQUITIES LIMITED

FULL YEAR REPORTS:

ASX Appendix 4E Preliminary Final Report
Directors' Report
Auditors' Independence Declaration
Financial Report
Audit Report

30 June 2005



ASX Code: SCB (formerly RFS)

Scarborough Equities Limited
A.B.N. 58 061 287 045

(formerly Rivkin Financial Services Limited)

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APPENDIX 4E PRELIMINARY FINAL REPORT

This Preliminary Final Report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.3A

Current Reporting Period:	Financial year ended 30 June 2005
Previous Corresponding Period:	Financial year ended 30 June 2004
Balance Date:	30 June 2005

Company:	Scarborough Equities Limited ("SCB") (formerly Rivkin Financial Services Limited)
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Consolidated Entity:	SCB and controlled entities:
	(1) Avcol Stockbroking Pty Ltd (wholly owned subsidiary until disposed by SCB on 29 April 2005);
	(2) Rivkin Funds Management Limited (wholly owned subsidiary until disposed by SCB on 2 August 2004);
	(3) Rivkin Mortgage & Leasing Pty Limited (wholly owned subsidiary from July 2004 until deregistered by SCB on 22 May 2005);
	(4) Rivkin Investments Pty Limited ("RIPL") (wholly owned subsidiary); and
	(5) HTH Trading Pty Limited (wholly owned subsidiary of RIPL).

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Consolidated	2005 Year \$'000	2004 Year \$'000	% Change	Up / Down
Revenues from ordinary activities:				
Proceeds from disposal of investments	22,462	33,260	(32%)	Down
Brokerage and related revenues	5,723	7,310	(22%)	Down
Other investment related income	1,145	603	90%	Up
Total revenues from ordinary activities	29,330	41,173	(29%)	Down
Cost of disposal of investments	(19,560)	(27,950)	(30%)	Down
Net revenues from ordinary activities	9,770	13,223	(26%)	Down
Total expenses from ordinary activities	(7,732)	(8,264)	(6%)	Down
Profit from ordinary activities before tax	2,038	4,959	(59%)	Down
Income tax expense	(269)	(1,064)	(75%)	Down
Profit from ordinary activities after tax attributable to members	1,769	3,895	(55%)	Down
Basic and diluted earnings per share (cents)	1.8	4.2	(57%)	Down
Pre-Tax NTA backing per share (cents)	21.6	17.8	21%	Up
Post-Tax NTA backing per share (cents)	21.3	17.1	25%	Up

APPENDIX 4E PRELIMINARY FINAL REPORT

Dividends

On 6 September 2005, the Directors announced a declaration of dividend in respect of the financial year ended 30 June 2005:

Dividend Rate	Record Date	Payment Date	Franking	Total Dividends Paid
0.60 cent per share	30 September 2005	7 October 2005	50% franked	\$451,877

The Directors expect that the Company will be in a position to pay a further dividend of 0.60 cents per share (50% franked) after the release of its December 2005 half year results in February 2006.

Brief Explanation of Results

Revenues from ordinary activities include:

- (1) \$22.462 million gross proceeds from the sale of share investments (2004: \$33.260 million);
- (2) \$5.723 million gross brokerage revenues from Avcol (2004: \$7.310 million);

Expenses from ordinary activities include:

- (1) \$19.560 million costs of disposal of share investments (2004: \$27.950 million);
- (2) \$4.951 million operating expenses of Avcol (2004: \$6.553 million);
- (3) \$1.875 million professional fees (2004: \$0.140 million).

Avcol's after tax net profit for the financial year to 29 April 2005 was \$0.723 million (2004: \$0.643 million).

Avcol's results are expressed to 29 April 2005, when SCB disposed of the subsidiary.

Professional fees comprise principally legal expenses arising from various capital management matters and litigation proceedings as described in the Securities and Capital Management section and Section 4 of the Review of Operations section of the attached Directors' Report.

COMMENTARY ON RESULTS AND OTHER SIGNIFICANT INFORMATION

Please refer to the attached Directors' Report and Financial Report for further information on a review of the Consolidated Entity's operations and the financial position and performance of the Consolidated Entity and Company for the year ended 30 June 2005.

Please also refer to the attached Letter from the Investment Manager, FSP Equities Management Limited, for information concerning the Company's investment in the FSP Equities Leaders' Fund.

APPENDIX 4E PRELIMINARY FINAL REPORT

STATUS OF AUDIT

This Preliminary Final Report is based on:



Accounts which have been audited.

ANNUAL GENERAL MEETING

The Company's Annual General Meeting is expected to be held in Sydney, New South Wales, in October 2005, at a location, date and time still to be determined by the Board.

The Notice of Annual General Meeting and 2005 Annual Report is expected to be despatched to shareholders in September 2005.

For and on behalf of the Directors,



Date: 6 September 2005

Victor Ho
Company Secretary

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DIRECTORS' REPORT

The Directors present their Directors' Report on Scarborough Equities Limited (formerly Rivkin Financial Services Limited from 16 March 2001 to 12 May 2005) ("Company" or "SCB" or "RFS") and its controlled entities (the "Consolidated Entity") for the financial year ended 30 June 2005 ("Balance Date").

SCB is a company limited by shares that was incorporated in New South Wales in August 1993 and is presently domiciled in New South Wales and has been listed on the Australian Stock Exchange ("ASX") since August 1994 (present ASX Code "SCB" (formerly "RFS")).

SCB has prepared a consolidated financial report incorporating the entities that it controlled during the financial year. Controlled entities are:

- (1) Avcol Stockbroking Pty Ltd ABN 37 091 247 620 (formerly Rivkin Discount Stockbroking Pty Ltd) (wholly owned subsidiary until disposed by SCB on 29 April 2005) ("Avcol");
- (2) Rivkin Funds Management Limited ABN 74 094 911 038 (wholly owned subsidiary until disposed by SCB on 2 August 2004);
- (3) Rivkin Mortgage & Leasing Pty Limited ABN 67 102 981 457 (wholly owned subsidiary from July 2004 until deregistered by SCB on 22 May 2005);
- (4) Rivkin Investments Pty Limited ABN 58 096 139 374 ("RIPL") (wholly owned subsidiary); and
- (5) HTH Trading Pty Limited ABN 60 105 905 904 (wholly owned subsidiary of RIPL).

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity during the financial year were:

- (1) The management of its funds available for investment; and
- (2) The provision of private client non-advisory execution only stockbroking services through wholly owned subsidiary, Avcol, until its disposal on 29 April 2005.

OPERATING RESULTS

Consolidated	2005 \$'000	2004 \$'000
Total revenues from ordinary activities	29,330	41,173
Total expenses from ordinary activities	(27,292)	(36,214)
Profit from ordinary activities before income tax	2,038	4,959
Income tax on ordinary activities	(269)	(1,064)
Profit from ordinary activities after income tax	<u>1,769</u>	<u>3,895</u>

Revenues from ordinary activities include:

- (1) \$22.462 million gross proceeds from the sale of share investments (2004: \$33.260 million);
- (2) \$5.723 million gross brokerage revenues from Avcol (2004: \$7.310 million);

Expenses from ordinary activities include:

- (1) \$19.560 million costs of disposal of share investments (2004: \$27.950 million);
- (2) \$4.951 million operating expenses of Avcol (2004: \$6.553 million);
- (3) \$1.875 million professional fees (2004: \$0.140 million).

DIRECTORS' REPORT

Avcol's operating results (to 29 April 2005, when SCB disposed of this subsidiary) are detailed in Section 2 of Review of Operations. Profits for the period within the financial year was \$0.723 million (2004: \$0.643 million).

Professional fees comprise principally legal expenses arising from various capital management matters and litigation proceedings as described in the Securities and Capital Management section and Section 4 of the Review of Operations.

EARNINGS PER SHARE

Consolidated	2005 (cents)	2004 (cents)
Basic earnings per share	1.8	4.2
Diluted earnings per share	1.8	4.2

FINANCIAL POSITION

Consolidated	2005 \$'000	2004 \$'000
Investments	14,895	8,204
Cash	906	10,853
Intangibles	-	1,732
Receivables	627	15,483
Other Assets	5	552
	16,433	36,824
Liabilities	(362)	(19,357)
Net assets	16,071	17,467
Contributed Equity	17,127	20,292
Accumulated losses	(1,056)	(2,825)
Total Equity	16,071	17,467

NET TANGIBLE ASSET BACKING

Consolidated	2005 \$'000	2004 \$'000
Net assets (before tax)	16,241	18,082
Less intangibles	-	(1,732)
Net tangible assets	16,241	16,350
Pre-Tax NTA Backing per share (cents)	21.6	17.8
Less: Provision for tax	(170)	(615)
Net tangible assets (after tax)	16,071	15,735
Post-tax NTA Backing per share (cents)	21.3	17.1
Based on total issued share capital	75,312,820	91,972,134

DIRECTORS' REPORT

DIVIDENDS

On 6 September 2005, the Directors announced a declaration of dividend in respect of the financial year ended 30 June 2005:

Dividend Rate	Record Date	Payment Date	Franking	Total Dividends Paid
0.60 cent per share	30 September 2005	7 October 2005	50% franked	\$451,877

The Directors expect that the Company will be in a position to pay a further dividend of 0.60 cents per share (50% franked) after the release of its December 2005 half year results in February 2006.

During the financial year, the Company paid the following dividends in respect of the last financial year ended 30 June 2004:

Dividend Rate	Record Date	Payment Date	Franking	Total Dividends Paid
1 cent per share	5 July 2004	12 July 2004	Fully franked	\$919,721
1.5 cents per share	8 October 2004	15 October 2004	Fully franked	\$1,504,682

Dividend Policy

It is the objective of the Company to provide a regular and stable dividend payment to shareholders after the announcement of its half year and full year operating results. These results are normally announced in February and August each year and the Company will endeavour to announce its dividend payments at this time.

The Company intends to distribute to shareholders at least 50% of the available net profits arising from the dividend, interest and other income it receives from its investments and the gains on its investments, to the extent permitted by law and prudent business practices. Dividends will be franked to the extent that available franking credits permit and in accordance with the stated objective of providing 2 dividend payments a year.

The extent of future dividend payments cannot be quantified as they depend on the actual operating results and net profits of the Company for a relevant reporting period. There can be no guarantee that any profits or dividends will be made in any reporting period.

The Company does not presently have a Dividend Reinvestment Plan ("DRP"). The Directors propose to develop and implement a DRP in the future, subject to there being a reduction in the current discount between the Company's share price and its Net Tangible Asset backing.

DIRECTORS' REPORT

SECURITIES AND CAPITAL MANAGEMENT

At the date of this Directors' Report, the Company has 75,312,820 fully paid ordinary shares on issue. All such shares are listed on ASX.

The following is a summary of capital management matters arising during the financial year:

Date	Matter
5 July 2004	The Company issued 5,000,000 shares and paid \$1 million cash as consideration for the subscription for 10,000,000 shares in ASX listed outdoor advertising and media company Network Limited (" Network ")
5 July 2004	The Company issued 3,340,000 shares as consideration for the acquisition of 3,500,000 Network shares from Cole Kablow Superannuation Pty Ltd (" Cole Kablow ")
24 December 2004	The Company lodged a prospectus for a fully underwritten 1 for 3 renounceable rights issue (at an issue price of 20 cents to raise approximately \$6.7 million) (" Rights Issue ")
19 January 2005	The Company announced that it would not to proceed with the Rights Issue (refer Section 4.2 and 4.3 of Review of Operations)
25 January 2005	The Company announced a Share Purchase Plan (" SPP ") under which eligible shareholders (at the record date of 21 January 2005) were entitled to acquire up to \$5,000 worth of new shares at an issue price of 20 cents each (which is equivalent to 25,000 new shares). The SPP was capped at 30 million new shares and was intended to raise up to \$6 million to increase the size of Company's investment portfolio
29 April 2005	The Company bought-back and cancelled (on 2 May 2005) 24,999,314 shares pursuant to the selective share buy-back agreements referred to in Section 3 of Review of Operations in this Directors' Report. The Company's issued share capital reduced from 100,312,134 to 75,312,820 shares after such share buy-back and cancellation
29 April 2005	All of the Company's 2,301,000 options issued to employees of Avcol under the Company's Share Option Plan (exercisable at 40 cents each and expiring on 23 July 2007) lapsed upon the disposal of Avcol
3 May 2005	The Company announced that it would not proceed with the SPP, given the Company's recent trading price had been trading at a substantial discount to the SPP issue price of 20 cents per share

The Board will continue to consider various capital management issues including but not limited to undertaking a future share purchase plan or undertaking share buy-backs in circumstances where the market price for its shares continue to trade at a significant discount to their underlying asset value.

DIRECTORS' REPORT

Future Increases in Capital Base

The Board will, in conjunction with any capital management issues, consider opportunities to increase the Company's investment portfolio size to raise the Company's profile in the general investment community and reduce the Company's management expense ratio ("MER"). This is particularly relevant as the Directors have negotiated a 2 tier management fee structure with FSP such that the ratio of total management fees decreases as the further funds are advanced to FSP.

The Company has identified a number of reasons why the asset base of the Company should increase and these include the following:

- A reasonable MER for the Company is a key factor for investors. Given the relatively high and fixed nature of costs associated with the Company being listed on the ASX, the Company believes it is important to achieve economies of scale by increasing the size of the Company so that these costs are amortised across a larger asset base. Such amortisation should thereby assist in the overall percentage level of shareholder returns generated by the Company on its investment portfolio;
- A larger asset base allows for greater flexibility and risk diversification in allocating capital to asset classes within the investment portfolio of the Company; and
- A larger asset base should be more attractive to institutional investors and to increasing liquidity in the market for the Company's shares.

The Board will consider the expansion of the capital base of the Company through the issue of equity capital or mergers (through schemes or takeovers) with other listed investment companies or managed funds.

REVIEW OF OPERATIONS

1. INVESTMENT PORTFOLIO

The Consolidated Entity has been (since 29 April 2005 upon the disposal of Avcol) solely a listed investment company ("LIC") with net assets comprising:

	31 July 2005 (unaudited) \$'millions	30 June 2005 (audited) \$'millions
Net Assets		
Investment in the FSP Equities Leaders' Fund ("FSP Fund") managed by the Company's investment manager, FSP Equities Management Limited	14.83	14.05
Shares in Drillsearch Energy Limited ("DLS")	1.74	1.69
Other listed share investments	0.06	0.05
Provision for settlement of legal proceedings between the Company and Alan Davis Group Pty Limited ("ADG") in relation to the termination of a selective share buy-back agreement between the parties (refer also Section 4.1 of Review of Operations)	(0.29)	(0.29)
Provision for income tax	(0.37)	(0.17)
Net cash at bank and on deposit	0.68	0.74
Total Net Assets	16.65	16.07

DIRECTORS' REPORT

1.1. Appointment of New Investment Manager

On 9 December 2004 the current Board appointed FSP Equities Management Limited ("FSP" or "Investment Manager") to manage the Company's investment funds for an initial two-year term. FSP holds an Australian Financial Services Licence to manage its FSP Equities Leaders' Fund (FSP Fund) - a wholesale fund not open to retail investors. The investment management team of the FSP Fund is led by Mr Ronni Chalmers.

The appointment of FSP is a major step forward for RFS in restoring stability and direction to the Company's investment portfolio and is consistent with the current Board's stated intention to place the Company's investment funds under the management of an independent and professional funds manager. This was an important part of the platform on which the current Directors were elected by shareholders at a general meeting held on 29 November 2004.

As the objective of the Fund is to outperform the S&P/ASX 200 Accumulation Index over the medium term, FSP targets at least 75% of the investments of the Fund in securities from the S&P/ASX 200 Index. The balance of the Fund's investments will be in securities drawn from outside the S&P/ASX 200 Index. The performance of the Company's investment fund is benchmarked against the S&P/ASX 200 Accumulation Index. The fund is currently invested in over 90 stocks.

The 12 month net performance of the FSP Fund to 30 June 2005 has been 24.9%. The benchmark performance (S&P/ASX 200 Accumulation Index) has been 26%.

The management fees normally payable by participants in the FSP Fund is 1% per annum base management fee and a performance fee of 20% of the performance of the fund in excess of the S&P/ASX 200 Accumulation Index benchmark. The Board has negotiated a variable fee structure that represents a favourable rebate to the normal fees charged by the FSP Fund, whilst still providing a material incentive to the Investment Manager for investment out performance of the benchmark. Achieving this favourable fee structure has in part been possible due to the Company's commitment to invest with the Investment Manager for a period of two years and the quantum of funds placed under management with FSP.

1.2. Investment into the FSP Equities Leader's Fund

In December 2004, an initial amount of \$6.05 million of the Company's cash reserves was transferred to FSP's custodian for investment by FSP.

On 29 April 2005, \$7.64 million cash proceeds received by the Company on the disposal of Avcol was invested further into the FSP Fund.

In July 2005 the FSP Fund distributed \$0.61 million income to the Company for the year ended 30 June 2005. At Balance Date, the Company's investment in the FSP Fund (cum income entitlements) has appreciated by \$0.36 million.

As at 31 July 2005, the investment (with income reinvested) has appreciated by \$1.1 million to \$14.83 million.

On 2 August 2005, the Company invested a further \$0.75 million of excess cash reserves into the FSP Fund.

DIRECTORS' REPORT

1.3. Other Investment Activities During The Year

At the start of the financial year, the former Board liquidated the then investment portfolio of the Consolidated Entity realising gross proceeds of \$9.5 million and a net gain on disposal of \$0.228 million.

Network Limited

On 2 July 2004, the former Board announced that it had:

- (1) Issued 5,000,000 RFS shares (at 22 cents each) and paid \$1,000,000 cash to subscribe for 10,000,000 shares (at 21 cents each) in ASX listed outdoor advertising and media company Network Limited (**Network**);
- (2) Loaned Network \$1,000,000 for 3 years at an interest rate of 9 % per annum; and
- (3) Issued 3,340,000 RFS shares (at 22 cents each) to Cole Kablow Superannuation Pty Ltd (**Cole Kablow**) as consideration for the acquisition of 3,500,000 Network shares (at 21 cents each) from Cole Kablow (which Network had that day issued as consideration for the acquisition of an outdoor advertising company from Cole Kablow's directors).

In September/October 2004, the former Board acquired a further 346,600 Network shares on market.

At the initiative of the new Board, Network agreed, pursuant to the Network Selective Share Buy-Back Agreement (referred to in Section 3 of Review of Operations) to an early repayment of the \$1 million loan (which was repaid with accrued interest on 11 April 2005). The loan would otherwise have been repayable by Network on 2 July 2007.

On 29 April 2005, the Company disposed of its 13,846,600 Network shares pursuant to settlement of the Network and Cole Kablow Selective Share Buy-Back Agreements (referred to in Section 3 of Review of Operations). The consideration for the disposal was the buy-back and cancellation of 12,460,000 RFS shares from Network and Cole Kablow. The Company realised a \$0.417 million loss on disposal of its Network shares.

Drillsearch Energy Limited

Between 22 July and 13 October 2004, the previous Board acquired 28,198,016 shares in ASX listed oil and gas company Drillsearch Energy Limited ("**Drillsearch**") on market at a total cost of \$1.4 million (5 cents per share). Between 24 January and 2 February 2005, the current Board disposed of 3,410,000 Drillsearch shares on market realising gross proceeds of \$0.23 million (6.9 cents per share) and a net profit of \$0.063 million.

At Balance Date, the Company's investment in Drillsearch has appreciated by \$0.44 million to \$1.69 million. The Company was also the second largest holder in Drillsearch with 7.5% of its total issued share capital.

On 25 August 2005, the Company transferred 4 million Drillsearch shares to ADG, pursuant to a settlement of the Alan Davis Group Litigation (referred to in Section 4.1 of Review of Operations). The market price of Drillsearch shares as at the date of the settlement agreement on 11 August 2005 was 7.2 cents, valuing the 4 million parcel at \$0.29 million. This amount has been provided for as an expense in the accounts to 30 June 2005.

DIRECTORS' REPORT

The balance of the Drillsearch investment does not meet the Board's criteria for inclusion in the investment portfolio of the Company. Accordingly, the present intention of the Board is to seek to extract maximum value on a disposal of such strategic 6.3% stake in Drillsearch.

2. SALE OF AVCOL STOCKBROKING

Avcol Stockbroking Pty Ltd ("Avcol") provides clients with competitive brokerage rates, live market information and the choice to trade listed shares, exchange traded options and warrants via the telephone or Internet or in person at offices in Sydney, Melbourne, the Gold Coast and Perth.

The company's name was changed from "Rivkin Discount Stockbroking Pty Ltd" to "Avcol Stockbroking Pty Ltd" effective 1 October 2004.

On 29 April 2005, the Company settled the sale of Avcol to IWL Broking Solutions (pursuant to the Avcol Share Sale Agreement referred to Section 3 of Review of Operations) which was approved by shareholders at a general meeting held on 28 April 2005. The \$10.4 million total consideration received by the Company comprised:

- (1) \$2.24 million cash;
- (2) an amount equal to the net cash reserves of Avcol (net of provision for tax) at settlement in the amount of \$5.4 million; and
- (3) the buy back and cancellation of 12,539,314 RFS shares held by Pinnacle pursuant to the Pinnacle Share Buy-Back Agreement (referred to Section 3 of Review of Operations).

The Company realised a \$1.80 million net profit (before tax) on disposal of Avcol (\$3.05 million net profit before tax after consolidation adjustments).

In the meeting documentation seeking shareholder approval for the Avcol Share Sale and Pinnacle Share Buy-Back Agreements (which resolutions were inter-dependent at the general meeting), the Directors noted that the transactions were of positive benefit to the Company as they would result in the disposal of a business at a profit, the freeing up of capital for the investment activities of the Company and the ability of the Company to fully focus on its investment operations as a pure LIC. For further information, please refer to the notice of general meeting and explanatory memorandum dated 10 March 2005 - such document is available for viewing and download from the Company's website: www.scarboroughequities.com.au.

The Consolidated Entity's financial performance for the year includes the financial performance of Avcol for the financial year to the date of disposal on 29 April 2005:

	Avcol's Results Year to 29 April 2005 \$'millions	Consolidated Entity's Results 2005 \$'millions
Total Revenues	5.927	29.330
Operating Expenses	(4.951)	(27.292)
Net Operating Profit Before Tax	0.976	2.038
Income Tax Expense	(0.253)	(0.269)
Net Operating Profit After Tax	0.723	1.769

DIRECTORS' REPORT

3. General Meeting of 28 April 2005

At a general meeting held on 28 April 2005 ("**General Meeting**"), shareholders approved the following transactions:

- (1) A share sale agreement dated 4 February 2005 - for IWL Broking Solutions Limited (a wholly owned subsidiary of ASX listed broking technologies and stockbroking company, IWL Limited) ("**IWL Broking Solutions**") to acquire all of the Avcol shares from RFS ("**Avcol Share Sale Agreement**");
- (2) A selective share buy-back agreement dated 4 February 2005 for the buy-back and cancellation of 12,539,314 RFS shares held by Pinnacle in consideration for part of the consideration payable by IWL Broking Solutions under the Avcol Share Sale Agreement ("**Pinnacle Share Buy-Back Agreement**");
- (3) A selective share buy-back agreement dated 4 February 2005 for the buy-back and cancellation of 9,000,000 RFS shares in consideration for the buy-back and cancellation by Network of 10,001,557 Network shares held by RFS (which will also be subject to Network shareholder approval) ("**Network Share Buy-Back Agreement**");
- (4) A selective share buy-back agreement dated 4 February 2005 for the buy-back and cancellation of 3,460,000 RFS shares held by Cole Kablow in consideration for 3,845,043 Network shares held by RFS ("**Cole Kablow Share Buy-Back Agreement**").

Resolution 6, seeking approval for a selective share buy-back agreement dated 7 February 2005 for the buy-back and cancellation of 7,305,784 RFS shares held by Alan Davis Group in consideration for 24,788,016 Drillsearch shares held by RFS and \$58,021 cash ("**ADG Share Buy-Back Agreement**"), was not considered at the General Meeting as a consequence of the judgment of Justice Gzell in proceedings commenced against the Company by Alan Davis Group (referred to in Section 4.1 of Review of Operations).

The Independent Expert's Report by Moore Stephens WI concluded that the Avcol Share Sale and the Pinnacle, Network and Cole Kablow Share Buy-Back Agreements were each fair and reasonable and the ADG Share Buy-Back Agreement was not fair but reasonable, to the non-associated shareholders of the Company.

At the conclusion of the transactions approved by shareholders (on 29 April 2005), the Company disposed of the whole of its shareholdings in Avcol Stockbroking and Network, and each of Pinnacle, Network and Cole Kablow disposed of the whole of their respective shareholdings in the Company.

For further information, please refer to the notice of general meeting and explanatory memorandum dated 10 March 2005 - such document is available for viewing and download from the Company's website: www.scarboroughequities.com.au.

DIRECTORS' REPORT

4. LITIGATION

4.1. Alan Davis Group

On 29 March 2005, Alan Davis Group commenced proceedings in the Supreme Court of New South Wales seeking a declaration that the ADG Buy-Back Agreement was terminated and an order that RFS be restrained from disregarding any votes cast by ADG at the General Meeting.

On 26 April 2004, Justice Gzell handed down his judgment:

- (1) ADG was entitled to a declaration that the ADG Buy-Back Agreement was validly terminated;
- (2) ADG was regarded as an associate of IWL Limited/Pinnacle and the Chairman of the General Meeting is entitled to disregard the votes of ADG on Resolutions 2 and 3 at the General Meeting (in relation to the sale of Avcol Stockbroking and the selective share buy-back of RFS shares held by Pinnacle) under the ASX Listing Rules;
- (3) ADG was not entitled to a declaration that it was entitled to vote at the General Meeting;
- (4) ADG was not entitled to an order that RFS be restrained from disregarding the votes cast by ADG at the General Meeting;
- (5) ADG may be entitled to damages for breach of contract - to be determined separately.

On 11 August 2005, the Company reached agreement with Alan Davis Group to settle the outstanding issue of damages in the proceedings. Pursuant to such settlement, on 25 August 2005, the Company transferred 4 million Drillsearch shares to Alan Davis Group and obtained relevant consent orders from the Court discontinuing the action with each party bearing their own costs.

4.2. Pinnacle

On 4 January 2005, Pinnacle commenced proceedings in the Supreme Court of Victoria seeking to restrain RFS from proceeding with the Rights Issue. As a result of an interim injunction granted by the Court, the Company was unable to proceed with the Rights Issue pending the Court's final hearing of the matter. Pursuant to the Avcol Share Sale Agreement, Pinnacle agreed to discontinue its action with each party to bear its own costs in the matter. The proceeding was discontinued on such basis on 3 March 2005.

4.3. Network

On 31 December 2004, Network lodged an application with the Takeovers Panel ("Panel") seeking orders that, amongst other matters, RFS be restrained from proceeding with the Rights Issue, which was underwritten by Westchester Financial Services Pty Limited (an entity associated with Director, Mr Christopher Ryan) and fully sub-underwritten by RFS' largest shareholder, Central Exchange (who was the only major shareholder (of all the major shareholders approached by Westchester Financial Services, including Network and Pinnacle) to express an offer to sub-underwrite the Rights Issue).

On 18 January 2005, the Company provided undertakings to the Panel including, amongst other matters, that it would not proceed with the underwriting and sub-underwriting elements of the Rights Issue without prior RFS shareholder approval. As a consequence of the undertakings provided by the Company, the Panel did not make any final orders in its decision released on 20 January 2005.

On 19 January 2005, the Board resolved not to proceed with the Rights Issue.

DIRECTORS' REPORT

4.4. Sofcom, Altera Capital and Fast Scout

On 14 July 2004, the previous RFS Board commenced proceedings in the Federal Court of Australia in Sydney against Sofcom Limited ("**Sofcom**"), Fast Scout Limited ("**Fast Scout**") and Altera Capital Limited ("**Altera Capital**") for conduct allegedly contrary to the insider trading provisions of the Corporations Act (in relation to the three companies' acquisition of RFS shares comprising their initial aggregate 5% interest in the Company).

On 4 August 2004, Sofcom, Fast Scout and Altera Capital filed a cross-claim seeking orders against each of RFS, Network, Cole Kablo, Alan Davis Group and then RFS Managing Director, Alan Andrew Davis, in relation to the affairs of RFS out of several transactions - the acquisition of the Rene Rivkin holding in RFS by Alan Davis Group on 17 June 2004 and the share swap and loan transactions announced by RFS and Network on 2 July 2004 concerning RFS, Network and Cole Kablo (referred to in Section 1.2 of Review of Operations) (the "**2 July Transactions**").

The hearing was concluded before Justice Emmett on 4 November 2004 after a 9 day trial, who delivered his judgment on 26 November 2004:

- (a) dismissing RFS' claims against Sofcom, Fast Scout and Altera Capital; and
- (b) dismissing the cross-claims by Sofcom, Fast Scout and Altera Capital against RFS, Network, Cole Kablo, Alan Davis Group and Alan Andrew Davis.

On 10 December 2004, Justice Emmett made the following orders as to costs:

- (a) In relation to the claim brought by RFS against Sofcom, Fast Scout and Altera Capital, the Court awarded costs to the defendants on a "party-party" basis;
- (b) In relation to the cross claims brought by Sofcom, Fast Scout and Altera Capital against RFS and the others, the Court ordered Sofcom, Fast Scout and Altera Capital to pay all of RFS' and the other cross defendants' costs on an "indemnity basis" provided such costs have been reasonably incurred.

On 17 December 2004, Sofcom, Fast Scout and Altera Capital lodged an appeal against that part of the decision of Justice Emmett on 26 November 2004 dismissing their cross-claims against each of RFS, Network, Alan Davis Group, Cole Kablo and Alan Andrew Davis.

On 11 April 2005, the Company and Sofcom, Fast Scout and Altera Capital reached agreement to resolve the outstanding matters between them by Sofcom, Fast Scout and Altera Capital discontinuing the appeal with no order as to the costs and by Sofcom, Fast Scout and Altera Capital paying an amount of \$382,500 to the Company (net of the Company's payment obligations to these parties under Justice Emmet's costs order (a) above) - \$0.39 million was received by the Company on 30 June 2005 (which included accrued interest).

Sofcom, Fast Scout and Altera Capital have also announced that they have settled the appeal and the cost orders with each of Network, Alan Davis Group, Cole Kablo.

Such settlements conclude all outstanding matters between the parties to the litigation.

DIRECTORS' REPORT

4.5. Central Exchange

- (1) There have been various proceedings between RFS (through the previous Board) and Central Exchange in relation to a general meeting of RFS called by Central Exchange under section 249F of the Corporations Act (which was ultimately held on 29 November 2004). The net effect of the cost orders awarded by the Court in relation to these proceedings is that RFS is expected to recover a portion of its costs from Central Exchange on a "party-party" basis.
- (2) The Company also notes that there is another outstanding costs issue in relation to the proceedings involving Sofcom, Fast Scout and Altera Capital, arising out of subpoenas which were served by RFS (through the previous Board) against Central Exchange and Mr William Johnson (a director of Central Exchange). Under the Federal Court Rules, RFS may be ordered to pay the reasonable costs and expenses incurred by Central Exchange and Mr Johnson in complying with the subpoenas.

The Company is still negotiating with Central Exchange in relation to settlement of legal costs in the proceedings described above. The Company expects the costs of each of the above proceedings to be settled with a net minor amount payable to the Company by Central Exchange.

5. SUMMARY OF CHANGES TO THE BOARD OF THE COMPANY

- (1) At a general meeting held on 29 November 2004, Messrs Alan Andrew Davis, George Lister and Lawrence Chartres were removed as directors and Messrs Farooq Khan, Christopher Ryan and Simon Cato were elected directors.
- (2) At the 2004 Annual General Meeting ("AGM") held immediately after the above general meeting, resolutions 2 to 4 (the re-election of Messrs Davis, Lister and Chartres), 5 (the election of Mr Khan) and 7 (the election of Mr Cato) were withdrawn by the Chairman (Mr Khan) as they did not fall to be considered given the results of the earlier general meeting. Resolution 6 for the election of Mr Ryan was not passed by shareholders. Furthermore, resolution 1 for the change of the Company's name to "Avcol Group Limited", which was a special resolution requiring support from at least 75% of voting shares at the meeting, was also not passed by shareholders.
- (3) On 29 November 2004, after the AGM, the Board appointed Mr Christopher Ryan and Mr William Johnson as directors. Mr Johnson is Chairman of the Company's largest shareholder, Central Exchange.
- (4) On 6 December 2004, Pinnacle gave notice of its intention to call a general meeting of RFS under section 249F of the Corporations Act to seek to remove the existing Board members and elect its four nominees.
- (5) On 6 December 2004, Network lodged a market announcement giving notice of its intention to "requisition a general meeting under section 249F of the Corporations Act, to be held in Sydney coinciding with or within one week after the Pinnacle meeting" (referred to above) to remove the existing Board and seek to appoint Network's nominees as directors of RFS.
- (6) On 21 January 2005, Pinnacle despatched meeting documents for a general meeting called under section 249F of the Corporations Act. This meeting was scheduled for 22 February 2005 but was cancelled on 7 February 2005 pursuant to a term of the Avcol Share Sale Agreement (as referred to above in Section 3 of Review of Operations).

DIRECTORS' REPORT

- (7) On 7 February 2005, pursuant to a term of the Network Share Buy-Back Agreement, Network agreed not to proceed with its previously announced intention to call a meeting of RFS shareholders pursuant to section 249F of the Corporations Act.

6. SUMMARY OF MATERIAL CHANGES TO THE COMPANY'S SHARE REGISTER

- (1) On 21 June 2004, Rene Rivkin sold his holding of 7,305,734 RFS shares to Alan Davis Group.
- (2) On 30 June 2004, Sofcom announced that together with its associates Fast Scout and Altera Capital it had acquired in excess of 5% of the issued capital of RFS and that it intended to requisition a meeting of RFS shareholders to seek the removal of Messrs Alan Andrew Davis and Shannon Rivkin as directors and the election of Messrs Farooq Khan, Simon Cato and Christopher Ryan as directors.
- (3) On 2 July 2004, RFS announced that it had issued 5,000,000 RFS shares and paid \$1,000,000 cash to subscribe for 10,000,000 shares in Network.
- (4) Also on 2 July 2004, RFS announced that it had issued 3,340,000 RFS shares to Cole Kablow as consideration for the acquisition of 3,500,000 Network shares.
- (5) On 1 September 2004, Network acquired 4,000,000 RFS shares on market to increase its holding to 9,000,000 RFS shares.
- (6) On 9 September 2004, Central Exchange lodged an initial substantial holder notice disclosing that it had become associated with Sofcom, Altera Capital and Fast Scout in relation to acting cooperatively in relation to each company's shareholding in RFS and announced that it intended to support the election of Messrs Khan, Cato and Ryan as directors of RFS. Central Exchange subsequently increased its holding to 14,993,048 shares.
- (7) On 24 November 2004, Pinnacle lodged an initial substantial holder notice disclosing that it had acquired 10,170,613 shares. Pinnacle subsequently increased its holding to 12,539,314 shares.
- (8) On 16 December 2004, Central Exchange lodged a change of substantial shareholding notice indicating that it had ceased its agreement to act co-operatively with Sofcom, Altera Capital and Fast Scout in relation to RFS shares held them. Sofcom, Altera Capital and Fast Scout also lodged appropriate substantial shareholding notices reflecting the same.
- (9) On 2 May 2005 Central Exchange lodged a change of substantial shareholding notice indicating that it had entered into option deeds with each of Sofcom, Altera Capital and Fast Scout to acquire their respective shareholdings in RFS.
- (10) On 2 May 2005, Network, Cole Kablow and Pinnacle ceased to be shareholders pursuant to the cancellation of shares bought back from each such company (refer Section 3 of Review of Operations).
- (11) On 30 June 2005, Central Exchange completed the acquisition of 3,167,152 SCB shares from Sofcom and 698,718 SCB shares from Altera Capital, pursuant to the option deeds (referred to in (9) above). Central Exchange have also advised the Company that it had acquired Fast Scout's 846,101 shares in SCB pursuant to an option deed between the companies (referred to in (9) above).
- (12) On 27 July 2005, Alan Davis Group ceased to be a substantial shareholder as a result of the disposal of shares on market.

DIRECTORS' REPORT

(13) As at 2 September 2005, the top 5 shareholders on the Company's share register were:

Major Shareholders	Shares Held	% of Issued Capital
Central Exchange Limited	20,045,019	26.62
Invia Custodian Pty Limited <WAM Capital Limited A/C>	3,685,663	4.89
Rochester No 39 Pty Ltd	1,610,965	2.14
Mr Michael David Barnett <Barnett Super Fund A/C>	1,072,550	1.42
Island Arch Pty Ltd <Barnett Investment A/C>	955,500	1.27

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There was no significant change in the state of affairs of the Consolidated Entity during the financial year, save for:

- (1) The appointment of FSP as Investment Manager;
- (2) The sale of Avcol Stockbroking, and

otherwise as outlined in the Review of Operations.

FUTURE DEVELOPMENTS

Information on likely developments in the operations of the Consolidated Entity and the expected results of operations have not been included in this Directors' Report because the Directors believe it would be likely to result in unreasonable prejudice to the Consolidated Entity.

ENVIRONMENTAL REGULATION

The Consolidated Entity is not subject to any particular or significant environmental regulation under either Commonwealth or State legislation. To the extent that any environmental regulations may have an incidental impact on the Consolidated Entity's operations, the Directors are not aware of any breach by the Consolidated Entity of those regulations.

DIRECTORS' REPORT

DIRECTORS

Information concerning Directors currently in office are:

Farooq Khan — **Chairman**

Appointed — Elected by shareholders on 29 November 2004

Qualifications — BJuris , LLB. (UWA)

Experience — Mr Khan is a qualified lawyer having previously practised principally in the field of corporate law. Mr Khan has extensive experience in the securities industry, capital markets and executive management of ASX listed companies. In particular, Mr Khan has guided the establishment and growth of a number of public listed companies and has considerable industry experience in the fields of capital raisings, mergers and acquisitions and investments.

Relevant interest in shares — 20,045,019 ordinary shares (not held directly)

Special Responsibilities — Chairman of the Board

Other current directorships in listed entities — Current Chairman and Managing Director of:

- (1) Queste Communications Limited (since 10 March 1998);
- (2) Fast Scout Limited (since 3 September 1999);
- (3) Altera Capital Limited (since 9 November 2001);
- (4) Sofcom Limited (since 3 July 2002).

Current Chairman of:

- (5) Bentley International Limited (since 2 December 2003).

Former directorships in other listed entities in past 3 years — Formerly Chairman and Managing Director of Central Exchange Limited (4 October 1999 to 4 July 2003).

William M. Johnson — **Executive Director**

Appointed — Appointed on 29 November 2004

Qualifications — MA (Oxon), MBA

Experience — Mr Johnson commenced his career in resource exploration and has most recently held senior management and executive roles in a number of public companies in Australia, New Zealand and Asia. As Regional Director Asia Pacific for Telecom New Zealand Ltd, Mr Johnson was responsible for identifying, evaluating and implementing investment strategies that included start-up technology ventures, a technology focussed venture capital fund and strategic investments and acquisitions in Asia and Australia. As Executive Chairman of ASX listed investment company, Central Exchange Limited, Mr Johnson has been actively involved in the strategic analysis of a diverse range of business and investment opportunities and the execution of a number of corporate transactions. Mr Johnson brings a considerable depth of experience in business strategy and investment analysis and execution.

Relevant interest in shares — None

Special Responsibilities — None

Other current directorships in listed entities — Current Chairman of:

- (1) Central Exchange Limited (Director since 28 February 2003; Chairman since 3 July 2003.)

Former directorships in other listed entities in past 3 years — None

DIRECTORS' REPORT

Simon K. Cato — **Non-Executive Director**

Appointed — Elected by shareholders on 29 November 2004

Qualifications — B.A. (USYD), MSDIA

Experience — Mr Cato has more than 20 years capital markets experience within the Australian securities industry both in investment broking and in regulatory roles. He has been employed by the ASX in Sydney and Perth in the companies department most recently as Manager, Companies for ASX Perth. Over the last 15 years Mr Cato has been an Executive Director of two stockbroking firms and in these roles has been involved in a diverse range of management and capital investment activities.

Relevant interest in shares — None

Special Responsibilities — None

Other current directorships — Current Director of:

in listed entities

- (1) Bentley International Limited (since 5 February 2004);
- (2) Medusa Mining Limited (since 5 February 2002);
- (3) Altera Capital Limited (since 8 January 2004);
- (4) Sofcom Limited (since 8 January 2004).

Former directorships in other listed entities in past 3 years — None

Christopher B. Ryan — **Non-Executive Director**

Appointed — Appointed on 29 November 2004

Qualifications — BEcon (UWA), MBA (UNSW)

Experience — Mr Ryan is the Principal of Westchester Corporate Finance, a Sydney based corporate advisory firm specialising in advising listed companies on fund raising, mergers and acquisitions and associated transactions. Prior to forming Westchester in July 1996, Christopher was with Schroders Australia for 27 years. At Schroders, he served 3 years in the investment division, 2 years as an economist monitoring influences on interest and exchange rates and 22 years in the corporate finance division of which he was a director for 19 years specialising in advising on project financing and mergers and acquisitions mainly in the Australian minerals and oil and gas sectors.

Relevant interest in shares — None

Special Responsibilities — None

Other current directorships — Current Chairman of:

in listed entities

- (1) Golden Cross Resources Limited (since 25 March 2003);
- (2) Bligh Ventures Limited (since 11 December 2003);
- (3) Blue Ensign Technologies Limited (since 22 August 2002).

Current Director of:

- (1) Bentley International Limited (since 5 February 2004).

Former directorships in other listed entities in past 3 years — None

The names of other Directors in office during the financial year are:

- (1) Lawrence Joseph Chartres (Chairman) - appointed on 2 July 2004 and removed by shareholders at a general meeting on 29 November 2004;
 - (2) Alan Andrew Davis (Managing Director) - appointed on 21 June 2004 and removed by shareholders at a general meeting on 29 November 2004;
 - (3) George Anthony Lister (Non-Executive Director) - appointed on 2 July 2004 and removed by shareholders at a general meeting on 29 November 2004;
 - (4) David Croll - appointed 30 May 2003 and resigned on 2 July 2004
-

DIRECTORS' REPORT

- (5) Jordan Rivkin - appointed 5 May 2003 and resigned on 2 July 2004;
 (6) Shannon Rivkin - appointed 30 May 2003 and resigned on 2 July 2004.

COMPANY SECRETARY

Victor P. H. Ho — Company Secretary

Appointed — Appointed on 29 November 2004

Qualifications — BCom, LLB (*Western Australia*)

Experience — Mr Ho has been in company secretarial/executive roles with a number of public listed companies since early 2000. Previously, Mr Ho had 9 years experience in the taxation profession with the Australian Tax Office and in a specialist tax law firm. Mr Ho has been actively involved in the structuring and execution of a number of corporate transactions, capital raisings and capital management matters and has extensive experience in public company administration, corporations law and stock exchange compliance and shareholder relations.

Relevant interest in shares — None

Other positions held in listed entities — Current Executive Director and Company Secretary of:

- (1) Queste Communications Limited (Secretary since 30 August 2000);
- (2) Fast Scout Limited (Secretary since 9 March 2000 and Director since 12 October 2000);
- (3) Central Exchange Limited (Secretary since 2 August 2000 and Director since 4 July 2003);
- (4) Altera Capital Limited (Director since 9 November 2001 and Secretary since 26 November 2001);
- (5) Sofcom Limited (Director since 3 July 2002 and Secretary since 23 July 2003).

Current Company Secretary of:

- (6) Bentley International Limited (since 5 February 2004).
-

DIRECTORS' MEETINGS

The following table sets out the numbers of meetings of the Company's Directors held during the year (including directors' circulatory resolutions) and the numbers of meetings attended by each Director of the Company:

Name of Director	Meetings Attended	Maximum Possible Meetings
Farooq Khan	22	22
Simon Cato	22	22
William Johnson	20	20
Christopher Ryan	18	18
Lawrence Chartres	14	14
A. Andrew Davis	15	15
G. Anthony Lister	13	14
David Croll	1	1
Jordan Rivkin	1	1
Shannon Rivkin	1	1

There were no meetings of committees of the Board.

DIRECTORS' REPORT

Board Committees

During the financial year and as at the date of this Directors' Report, the Company did not have separate designated Audit or Remuneration Committees. In the opinion of the Directors, in view of the size of the Board and nature and scale of the Consolidated Entity's activities, matters typically dealt with by an Audit or Remuneration Committee are dealt with by the full Board.

REMUNERATION REPORT

This report details the nature and amount of remuneration for each Director of the Company and Executive Officer of the Consolidated Entity.

(1) Remuneration Policy

The Board determines the remuneration structure of all Directors and Executive Officers having regard to the Consolidated Entity's nature, scale and scope of operations and other relevant factors, including the frequency of Board meetings, length of service, particular experience and qualifications.

Pursuant to the Company's Constitution, each Director is entitled to receive:

- (1) Payment for the performance of extra services or the making of special exertions at the request of the Board and for the purposes of the Company.
- (2) Payment for reimbursement of all reasonable expenses (including traveling and accommodation expenses) incurred by a Director for the purpose of attending meetings of the Company or the Board, on the business of the Company, or in carrying out duties as a Director.

The Company does not presently have any equity (shares or options) based remuneration arrangements pursuant to any executive or employee share or option plan or otherwise.

The Company does not presently provide retirement benefits or incentive/performance based benefits to Directors or the sole Executive Officer.

The Company does not presently have formal service agreements or employment contracts with the Directors or the current sole Executive Officer.

(2) Details of Remuneration of Directors

Details of the nature and amount of each element of remuneration of each Director paid or payable by the Consolidated Entity during the financial year are as follows:

Name of Director	Office Held	Directors' Fees \$	Superannuation \$	Other Payments	Total \$
Current Directors					
Farooq Khan	Executive Chairman	30,000	2,700	-	32,700
William Johnson	Executive Director	6,000	540	-	6,540
Simon Cato	Non-Executive Director	13,195	1,305	-	14,500
Christopher Ryan	Non-Executive Director	30,819 ⁽¹⁾	-	45,506 ⁽²⁾	76,325

DIRECTORS' REPORT

Name of Director	Office Held	Directors' Fees \$	Superannuation \$	Other Payments	Total \$
Former Directors					
Lawrence Chartres	Nom-Executive Chairman	-	-	-	-
A. Andrew Davis	Managing Director	-	-	-	-
G. Anthony Lister	Non-Executive Director	-	-	-	-
David Croll	Non-Executive Director	-	-	-	-
Jordan Rivkin	Non-Executive Director	-	-	-	-
Shannon Rivkin	Non-Executive Director	-	-	-	-

Notes:

- (1) Mr Ryan's Directors' fees have been paid to Westchester Financial Services Pty Limited (trading as Westchester Corporate Finance), a corporate advisory company in which Mr Ryan is principal, and is reported inclusive of goods and services tax ("GST").
- (2) Westchester Financial Services Pty Limited also received the following payments during the financial year:
 - (a) \$2,654 reimbursement of expenses;
 - (b) \$19,250 fees and \$11,000 reimbursement of legal expenses, in relation to an underwriting agreement;
 - (c) \$12,602 for the provision of investor relation services to the Company.

(3) Details of Remuneration of Executive Officers

The Consolidated Entity had 3 Executive Officers during the financial year. Details of the nature and amount of each element of remuneration of each Executive Officer paid or payable by the Consolidated Entity during the financial year are as follows:

Name of Executive Officer	Position Held	Salary \$	Superannuation \$	Other Benefits \$	Total \$
Victor Ho	Company Secretary	20,417	1,837	-	22,254
Christopher Thorndike	Managing Director of Avcol ⁽¹⁾	132,692	9,275	-	141,967
David Cordingley	Financial Controller and Executive Director of Avcol ⁽²⁾	147,769	9,305	4,635	161,709

Notes:

- (1) Mr Thorndike retired on 29 April 2005.
- (2) SCB disposed of Avcol on 29 April 2005 and Mr Cordingley ceased to be an Executive Officer of the Consolidated Entity.

DIRECTORS' REPORT

(4) Directors' and Officers' Insurance

The Directors have not included details of the nature of the liabilities covered or the amount of premiums paid in respect of a Directors and Officers liability and legal expenses' insurance contract, as such disclosure is prohibited under the terms of the contract.

(5) Directors' Deeds

The Company has also entered into a deed with each of the current Directors to regulate certain matters between the Company and each Director, both during the time the Directors holds office and after the Director ceases to be an officer of the Company (or wholly owned subsidiaries), including the following matters:

- (1) The Company's retention of and the Director's access to Board papers and company books (subject to confidentiality and privilege) both while the Director is a director of the Company and after the Director ceases to hold office, for the purposes expressly permitted by the deed.
- (2) The Company's obligation to use its best efforts to ensure that so far as practical (having regard to the cost of coverage and its availability), that there is an appropriate directors' and officers' insurance cover (as permitted by the Corporations Act) for the period that each Director is a director of the Company and for 7 years after that Director ceases to hold office;
- (3) The Company's obligation to indemnify a Director for liabilities or legal costs incurred as an officer of the Company (to the extent permitted by the Corporations Act);
- (4) Subject to the terms of the deed and the Corporations Act, the Company may, at the request of the Director and on such terms as it thinks fit, advance monies to the Director to meet any costs or expenses of the Director incurred in circumstances relating to the indemnities provided under the deed and prior to the outcome of a legal proceeding. The Company cannot make such an advance to a Director in respect of legal costs incurred in a legal proceeding initiated by the Company against the Director. Advances must be repaid by the Director once the outcome of the legal proceeding is known, but may be set-off by indemnities from the Company (where permitted by the deed and the Corporations Act); and
- (5) the Company's and Director's rights and obligations in respect of confidential information, legal proceedings against the Director, disclosure of Director's benefits and notifiable interests, costs of independent advice and related party benefits.

(6) Other Directors' Benefits

No Director of the Company has, since the end of the previous financial year, received or become entitled to receive a benefit, other than a remuneration benefit as disclosed above, by reason of a contract made by the Company or a related entity with the Director or with a firm of which he is a member, or with a Company in which he has a substantial interest.

DIRECTORS' REPORT

AUDITOR

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

Audit & Review Fees \$'000	Fees for Other Services \$'000	Total \$'000s
63	42	105

The Board is satisfied that the provision of non-audit services by the auditor during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Board is satisfied that the nature of the non-audit services disclosed above did not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Statement F1: Professional Independence, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 forms part of this Directors Report and is set out on page 26.

EVENTS SUBSEQUENT TO BALANCE DATE

The Directors are not aware of any matters or circumstances at the date of this Directors' Report, other than those referred to in this Directors' Report (in particular, in Review of Operations) or the financial statements or notes thereto (in particular Note 29), that have significantly affected or may significantly affect the operations, the results of operations or the state of affairs of the Consolidated Entity in subsequent financial years.

ROUNDING OF AMOUNTS

The Company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the directors' report and financial statements to the nearest \$1,000 or in certain cases to the nearest dollar. Amounts have been rounded off in this directors' report and financial statements in accordance with this class order.

Signed for and on behalf of the Directors in accordance with a resolution of the Board,



Farooq Khan
Chairman



Simon Cato
Director

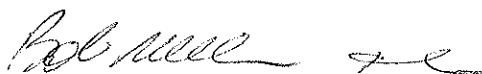
6 September 2005

Bob Miller & Co ABN 62 260 275 146

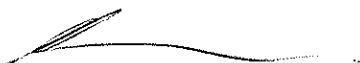
CHARTERED ACCOUNTANT
30 Clarence Street, Sydney, NSW 2000
GPO Box 2003, Sydney, NSW 2001
Phone: (02) 9299 6693 Facsimile: (02) 9262 1453
E-mail: bob_miller@iprimus.com.au

Auditor's Independence Declaration to the Directors of Scarborough Equities Limited

In relation to our audit of the financial report of Scarborough Equities Limited for the financial year ended 30 June 2005, 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.



Bob Miller & Co



Bob Miller
Partner

Sydney, 6 September 2005

STATEMENT OF FINANCIAL POSITION

as at 30 June 2005

	Notes	Consolidated		Parent Entity	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Current Assets					
Cash	8	906	10,853	906	1,045
Receivables	9	627	15,483	2,584	13,425
Investments	10	1,451	8,204	-	-
Other	11	-	195	-	76
Total Current Assets		2,984	34,735	3,490	14,546
Non-Current Assets					
Property, plant and equipment	12	5	357	5	-
Investments	10	13,444	-	13,444	8,408
Intangibles	13	-	1,732	-	-
Total Non-Current Assets		13,449	2,089	13,449	8,408
Total Assets		16,433	36,824	16,939	22,954
Current Liabilities					
Payables	14	192	16,142	446	64
Tax liabilities	15	170	615	-	395
Provisions	16	-	2,600	-	2,425
Total Current Liabilities		362	19,357	446	2,884
Total Non-Current Liabilities		-	-	-	-
Total Liabilities		362	19,357	446	2,884
Net Assets		16,071	17,467	16,493	20,070
Equity					
Parent entity interest:					
Contributed equity	17	17,127	20,292	17,127	20,292
Accumulated losses	18	(1,056)	(2,825)	(634)	(222)
Total Equity	19	16,071	17,467	16,493	20,070

This statement of financial position is to be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 30 June 2005

	Notes	Consolidated		Parent Entity	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Gross revenue from ordinary activities:					
Avcol Stockbroking related		5,943	7,511	-	-
Investment related		23,387	33,662	13,431	8,696
Total gross revenue from ordinary activities	2	29,330	41,173	13,431	8,696
Cost of disposal of investments		(19,560)	(27,950)	(11,318)	(4,145)
Total net revenue from ordinary activities		9,770	13,223	2,113	4,551
Net revenue from ordinary activities comprises:					
Avcol Stockbroking related		5,927	7,511	-	-
Investment related		3,843	5,712	2,113	4,551
Total net revenue from ordinary activities		9,770	13,223	2,113	4,551
Expenses:					
Avcol Stockbroking related expenses:					
Employee benefits		(2,348)	(2,946)	-	-
Depreciation and amortisation		(399)	(171)	-	-
Amortisation of goodwill		(84)	(101)	-	-
Selling expenses		(1,044)	(1,433)	-	-
Administration and other expenses		(1,159)	(2,003)	-	-
Sub-total Avcol Stockbroking related expenses		(5,034)	(6,654)	-	-
Investment related and corporate expenses:					
Employee benefits		(93)	(65)	(76)	(65)
Unrealised losses on investments		(160)	(1,172)	(203)	-
Legal and professional fees		(1,866)	(104)	(1,866)	(57)
Administration and other expenses		(579)	(268)	(565)	(251)
Borrowing costs		-	(1)	-	-
Sub-total investment related and corporate expenses		(2,698)	(1,610)	(2,710)	(373)
Total expenses	3	(7,732)	(8,264)	(2,710)	(373)
Profit/(loss) from ordinary activities before income tax (expense)/benefit	3	2,038	4,959	(597)	4,178
Income tax (expense)/benefit	6	(269)	(1,064)	185	(793)
Profit/(loss) from ordinary activities after income tax (expense)/benefit		1,769	3,895	(412)	3,385
Net profit/(loss) attributable to members of Scarborough Equities Limited	18	1,769	3,895	(412)	3,385
Total revenues, expenses and valuation adjustments attributable to members of Scarborough Equities Limited recognised directly in equity	19	1,769	3,895	(412)	3,385
Total changes in equity other than those resulting from transactions with owners as owners	19	1,769	3,895	(412)	3,385
		Cents	Cents		
Basic earnings per share	7	1.8	4.2		
Diluted earnings per share	7	1.8	4.2		

This statement of financial performance is to be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

for the year ended 30 June 2005

	Notes	Consolidated		Parent Entity	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Cash flows from operating activities					
Receipts from customers		5,777	7,384	11	11
Net working capital provided as agent for clients		(1,844)	2,258	-	-
		<u>3,933</u>	<u>9,642</u>	<u>11</u>	<u>11</u>
Payments to suppliers and employees		(7,120)	(6,321)	(2,308)	(402)
		<u>(3,187)</u>	<u>3,321</u>	<u>(2,297)</u>	<u>(391)</u>
Proceeds from disposal of investments		9,757	33,260	-	8,579
Payments for investments (in shares)		(2,694)	(28,879)	-	-
Interest received		502	463	108	116
Dividends received		31	379	-	-
Borrowing costs paid		-	(1)	-	-
Income tax paid		(714)	(437)	(254)	(397)
Net cash inflow/(outflow) from operating activities	26(b)	<u>3,695</u>	<u>8,106</u>	<u>(2,443)</u>	<u>7,907</u>
Cash flows from investing activities					
Payments for property, plant and equipment		(119)	(79)	(5)	-
Proceeds from disposal of controlled entities		3,623	-	7,705	-
Payments for investments (in FSP Equities Leaders' Fund)		(14,722)	-	(14,722)	-
Payments for loans to other entities		(1,000)	-	(1,000)	-
Proceeds of loans repaid by other entities		1,000	-	1,000	-
Net proceeds of loans repaid by controlled entities		-	-	11,750	-
Payments for loans to controlled entities		-	-	-	(4,725)
Net cash inflow(outflow) from investing activities		<u>(11,218)</u>	<u>(79)</u>	<u>4,728</u>	<u>(4,725)</u>
Cash flows from financing activities					
Dividends paid		(2,424)	(2,299)	(2,424)	(2,299)
Net cash outflow from financing activities		<u>(2,424)</u>	<u>(2,299)</u>	<u>(2,424)</u>	<u>(2,299)</u>
Net increase/(decrease) in cash held		<u>(9,947)</u>	<u>5,728</u>	<u>(139)</u>	<u>883</u>
Cash at the beginning of the financial year		<u>10,853</u>	<u>5,125</u>	<u>1,045</u>	<u>162</u>
Cash at the end of the financial year	26(a)	<u>906</u>	<u>10,853</u>	<u>906</u>	<u>1,045</u>

This statement of cash flows is to be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

1. Statement of Significant Accounting Policies

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

The financial report covers the consolidated entity of Scarborough Equities Limited and controlled entities, and Scarborough Equities Limited as an individual parent entity. Scarborough Equities Limited is a listed public company, limited by shares, and incorporated and domiciled in Australia.

The financial report has been prepared in accordance with the historical cost convention, except for certain assets which, as noted, are at valuation. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

(a) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Scarborough Equities Limited (the "Company" or "parent entity") as at 30 June 2005 and the results of all controlled entities for the year then ended. Scarborough Equities Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full.

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

(b) Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at the date of acquisition. Both purchased goodwill and goodwill on consolidation are amortised on a straight line basis over a period of 20 years.

The balances are reviewed at least annually and any balance representing future benefits for which the realisation is considered to be no longer probable is written off. There was no goodwill at balance date.

(c) Revenue Recognition

Brokerage revenue earned from share and option trading activities is recognised on execution of the transaction.

Interest income is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend income is brought to account when the right to receive a dividend has been established.

All revenue is stated net of the amount of goods and services tax (GST).

(d) Income Tax

The consolidated entity adopts the liability method of tax effect accounting, whereby the income tax expense is based on the profit (or loss) from ordinary activities adjusted for any permanent differences.

Timing differences, which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income, are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

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

(e) Investments

Shares in listed entities, exchange traded options and futures contracts held as current assets are valued by the Directors at market value at each balance date. Units invested in the FSP Equities Leaders' Fund (managed by the Company's investment manager, FSP Equities Management Limited) are valued at the unit price published by FSP Equities Management Limited at balance date - the unit price reflects the net tangible asset backing of the fund and no buy/sell spread or exit fees are charged to the Company on redemption. The gains or losses, whether realised or unrealised, are included in the profit or loss from ordinary activities before income tax.

NOTES TO THE FINANCIAL STATEMENTS

1. Statement of Significant Accounting Policies (continued)

(e) Investments (continued)

Non-current investments are valued by the Directors at market value at each balance date. The carrying amount of non-current investments is reviewed annually by the Directors to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the quoted market value for listed investments or the underlying net assets for other non-current assets.

The expected net cash flows from investments have not been discounted to their present value in determining the recoverable amounts.

(f) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation or amortisation.

Leasehold Improvements and Furniture, Fittings and Equipment

Leasehold improvements and furniture, fittings and equipment are measured on the cost basis.

The carrying amount of leasehold improvements and furniture, fittings and equipment is reviewed annually by the Directors to ensure that it is not in excess of the recoverable amount of these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from employment of the assets and their subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

Depreciation and Amortisation

All fixed assets are depreciated on a straight line basis over their useful lives to the consolidated entity commencing from the time that the asset is held ready for use. Leasehold improvements are amortised over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation/amortisation rates used for each class of depreciable asset are:

<i>Class of Asset</i>	<i>Depreciation/Amortisation Rate</i>
Leasehold Improvements	50% per annum
Furniture, Fittings and Equipment	5% to 40% per annum

(g) Provision for Doubtful Debts

The collectibility of debts is assessed on a regular basis, at least annually, and a provision is made for any specific doubtful accounts.

(h) Employee Entitlements

Wages, Salaries, Annual Leave and Long Service Leave

Provision is made for the consolidated entity's liability for employee entitlements arising from services rendered by employees to balance date. Employee entitlements expected to be settled within one year together with entitlements arising from wages and salaries and annual leave, which will be settled after one year, have been measured at their nominal amount. Other employee entitlements payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those entitlements. The employee entitlement provision also includes costs that are a consequence of employment but which are not employee benefits, such as payroll tax and other similar on-costs. These costs are recognised as liabilities and expenses when the employee benefits to which they relate are recognised as liabilities and expenses.

Superannuation

Contributions made by the consolidated entity to employee superannuation funds are charged as expenses when incurred.

(i) Employee Share Option Plan

During the financial year certain employees were entitled to participate in the Scarborough Equities Limited Share Option Plan (the "Share Option Plan"). The details of the scheme are described in Note 17(e). No remuneration expense was recognised in respect of employee options issued.

(j) Cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank, and deposits at call that are readily convertible to cash on hand, and which are used in the cash management function on a day to day basis, net of any bank overdrafts.

(k) Comparative Figures

Where required by Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

(l) Rounding of Amounts

The Company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

NOTES TO THE FINANCIAL STATEMENTS

2. Revenue

	Consolidated		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Revenue from ordinary activities:				
Brokerage and related revenue	5,723	7,310	7	1
Proceeds from disposal of investments	22,462	33,260	12,705	8,579
Trust income distributions	498	-	498	-
Dividends	115	140	84	-
Interest	532	463	137	116
	29,330	41,173	13,431	8,696

3. Operating Profit/(Loss)

(i) Operating profit/(loss) before income tax has been determined after crediting the following items:

Interest received - other persons	532	463	137	116
Dividends received - non-related entities	115	140	84	-
Realised gains on disposal of controlled entities	3,053	-	1,804	-
Net realised gains on disposal of investments	-	5,310	-	4,434

(ii) Operating profit/(loss) before income tax has been determined after charging the following items:

Borrowing costs - other parties	-	1	-	-
Depreciation of property, plant and equipment	399	171	-	-
Amortisation of goodwill on consolidation	84	101	-	-
Provision for employee entitlements	51	40	-	-
Provision for doubtful debts	87	438	-	-
Bad debts written off	-	96	-	-
Lease rental expenses - operating leases	262	330	-	-
Net realised losses on disposal of investments	151	-	417	-
Net unrealised losses on investments	160	1,172	203	-
Significant expenses - legal and professional fees	1,875	140	1,866	57

(iii) Auditors' Remuneration

Amounts received, or due and receivable by the auditors for:

Auditing the accounts	63	56	54	7
Other services	42	21	33	15
	105	77	87	22

4. Loss of Control of Entities

On 2 August 2004 and 29 April 2005 the consolidated entity disposed of its funds management and stockbroking operations, Rivkin Funds Management Limited and Avcol Stockbroking Pty Ltd respectively. The sales have been incorporated into the current year's operating results.

Financial information relating to the businesses for the period to the date of disposal is set out below.

NOTES TO THE FINANCIAL STATEMENTS

4. Loss of Control of Entities (continued)

	Consolidated	
	2005 \$'000	2004 \$'000
The financial performance of the businesses to the date of sale, which has been incorporated into the Statement of Financial Performance, is as follows:		
Revenue from ordinary activities	5,927	7,467
Expenses from ordinary activities	(4,951)	(6,553)
Profit from ordinary activities before income tax	976	914
Income tax expense	(253)	(271)
Net profit attributable to members of the parent entity	723	643

The carrying amounts of assets and liabilities of the businesses at the date of sale were:

Total assets	18,864	22,972
Total liabilities	(11,704)	(16,451)
Net assets	7,160	6,521

The net cash flows of the businesses, which have been incorporated into the Statement of Cash Flows, are as follows:

Net cash inflow/(outflow) from operating activities	(959)	3,829
Net cash outflow from investing activities	(114)	(1,184)
Net increase/(decrease) in cash from businesses	(1,073)	2,645

Details of the sales of the businesses, which have been incorporated into the current year's results, are as follows:

Net sales price	10,213	-
Carrying amount of net assets sold	(7,160)	-
Profit on sale before income tax	3,053	-
Income tax expense	(371)	-
Profit on sale after income tax	2,682	-

5. Dividends

	Consolidated		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Interim fully franked ordinary dividend in respect of the year ended 30 June 2004 of 1.0 cent per share franked at the tax rate of 30% (2004: 30%)	-	920	-	920
Final fully franked ordinary dividend in respect of the year ended 30 June 2004 of 1.0 cent per share franked at the tax rate of 30% (2004: 30%)	-	919	-	919
Special fully franked ordinary dividend in respect of the year ended 30 June 2004 of 1.5 cents per share franked at the tax rate of 30%	-	1,505	-	1,505
	-	3,344	-	3,344
Balance of franking account at year end adjusted for franking credits arising from the payment of provision for income tax and dividends recognised as receivables, franking debits arising from the payment of proposed dividends and franking credits that may be prevented from distribution in subsequent financial years	311	-	311	-

NOTES TO THE FINANCIAL STATEMENTS

6. Income Tax

	Consolidated		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
The aggregate amount of income tax attributable to the financial year differs from the amount calculated on the profit/(loss). The difference is reconciled as follows:				
Profit/(loss) from ordinary activities before income tax expense	2,038	4,959	(597)	4,178
Income tax calculated at 30% (2004: 30%)	611	1,488	(179)	1,253
Tax effect of permanent differences:				
Non-assessable capital gains	(552)	-	(178)	-
Non-deductible amortisation of goodwill	25	30	-	-
Other non-deductible expenses	62	2	45	-
Franking credits and tax offsets	(28)	12	(21)	-
	118	1,532	(333)	1,253
Tax effect of timing differences not brought to account:				
Unrealised losses/(gains) on investments	136	(336)	61	-
Provision for doubtful debts	(82)	56	-	-
Provision for employee entitlements	15	12	-	-
Provision for write-down of investments	(15)	15	-	-
Accrued expenses	40	(18)	87	(12)
Capital expenditure items	41	(46)	-	-
Prior year adjustments	16	-	-	-
	151	(317)	148	(12)
Tax effect on profit/(loss) for the year	269	1,215	(185)	1,241
Tax losses transferred to a related entity	-	-	-	(448)
Recoupment of prior years' tax losses where future income tax benefit not previously booked	-	(151)	-	-
Income Tax Expense	269	1,064	(185)	793
Future income tax benefits not brought to account, at the income tax rate of 30%, the benefits of which will only be realised if the conditions imposed for deductibility set out in Note 1(d) occur:				
Timing differences				
- Accrued expenses	122	88	122	36
- Unrealised losses/(gains) on investments	63	(73)	61	-
- Capital items	-	61	-	-
- Provisions	-	198	-	-
	185	274	183	36

The Company and controlled entities of the Company have elected to consolidate for taxation purposes (effective from 1 July 2003) and have entered into a tax sharing and funding agreement in respect of such arrangements.

NOTES TO THE FINANCIAL STATEMENTS

7. Earnings Per Share

	Consolidated	
	2005 Cents	2004 Cents
Basic earnings per share	1.8	4.2
Diluted earnings per share	1.8	4.2
	Number	Number
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share	95,951,485	91,972,134
Weighted average number of potential ordinary shares used in the calculation of diluted earnings per share	97,929,792	94,453,954

8. Cash

	Consolidated		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Cash at bank and on hand	426	3,542	426	20
Deposits at call	480	7,311	480	1,025
	906	10,853	906	1,045

Cash at bank is bearing floating interest rates between nil and 3.75% (2004: between nil and 3.55%). The deposits are bearing floating interest rates of 5.20% (2004: between nil and 5.05%).

9. Receivables

Current

Trade debtors	-	15,879	-	-
Provision for doubtful debts	-	(436)	-	-
Trade debtors (net)	-	15,443	-	-
Amounts receivable from wholly-owned subsidiaries	-	-	1,927	13,422
Unit trust income distributions receivable	610	-	610	-
Income tax recoverable	-	-	32	-
Other debtors	17	40	15	3
	627	15,483	2,584	13,425

10. Investments

Current

Shares in listed corporations, at market value	1,739	8,204	-	-
Provision for settlement of legal claim	(288)	-	-	-
	1,451	8,204	-	-

Non-Current

Shares in controlled entities, at cost	-	-	-	8,408
Units in unlisted investment trust, at market value	13,444	-	13,444	-
	13,444	-	13,444	8,408

Market value of securities listed on a prescribed stock exchange

	1,739	8,204	-	-
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NOTES TO THE FINANCIAL STATEMENTS

10. Investments (continued)

Controlled Entities

(a) Details of controlled entities:

	Country of Incorporation	Percentage Owned	
		2005 %	2004 %
Parent Entity Scarborough Equities Limited	Australia		
Subsidiaries of Scarborough Equities Limited: Avcol Stockbroking Pty Ltd (formerly Rivkin Discount Stockbroking Pty Ltd)	Australia	-	100
Rivkin Investments Pty Limited	Australia	100	100
Rivkin Funds Management Limited	Australia	-	100
Rivkin Mortgage & Leasing Pty Limited	Australia	-	60
Subsidiaries of Rivkin Investments Pty Limited: HTH Trading Pty Limited	Australia	100	100
Subsidiaries of Avcol Stockbroking Pty Ltd: RDS Nominees No. 1 Pty Limited	Australia	-	100
RDS Nominees No. 2 Pty Limited	Australia	-	100

(b) Disposal of Controlled Entities

On 2 August 2004 the Company disposed of its interest in Rivkin Funds Management Limited.

On 29 April 2005 the Company disposed of its interest in Avcol Stockbroking Pty Ltd, together with its wholly owned subsidiaries, RDS Nominees No. 1 Pty Limited and RDS Nominees No. 2 Pty Limited.

On 22 May 2005 the Company deregistered Rivkin Mortgage & Leasing Pty Limited.

No remaining interest in the above entities is held by any member of the consolidated entity.

11. Other Current Assets

	Consolidated		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Prepayments	-	180	-	76
Security deposits	-	15	-	-
	-	195	-	76

12. Property, Plant And Equipment

Leasehold Improvements

At cost	-	119	-	-
Accumulated amortisation	-	(119)	-	-
	-	-	-	-

Furniture, Fittings and Equipment

At cost	5	832	5	-
Accumulated depreciation	-	(475)	-	-
	5	357	5	-
	5	357	5	-

NOTES TO THE FINANCIAL STATEMENTS

12. Property, Plant And Equipment (continued)

Movements in Carrying Amounts:	Leasehold	Furniture,	Total
	Improvements	Fittings and Equipment	
	2005	2005	2005
	\$'000	\$'000	\$'000
Consolidated			
Balance at the beginning of the year	-	357	357
Additions	5	114	119
Disposals	(4)	(118)	(122)
Depreciation/amortisation expense	(1)	(348)	(349)
Carrying amount at the end of the year	-	5	5
Parent Entity			
Balance at the beginning of the year	-	-	-
Additions	-	5	5
Depreciation/amortisation expense	-	-	-
Carrying amount at the end of the year	-	5	5

13. Intangibles

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Goodwill on consolidation, at cost	-	2,019	-	-
Accumulated amortisation	-	(337)	-	-
	-	1,682	-	-
Cost of membership of the Australian Stock Exchange Limited	-	50	-	-
	-	1,732	-	-

14. Payables

Current				
Trade creditors	150	15,998	150	63
Other creditors	24	144	24	1
Amounts payable to wholly-owned subsidiaries	-	-	254	-
Amounts payable to Directors or Director-related entities	18	-	18	-
	192	16,142	446	64

15. Tax Liabilities

Current				
Income tax payable	170	615	-	395

16. Provisions

Current				
Dividends	-	2,425	-	2,425
Employee benefits	-	175	-	-
	-	2,600	-	2,425

	Number	Number	Number	Number
Number of employees at the reporting date	1	29	1	-
Number of directors at the reporting date	4	4	4	4

NOTES TO THE FINANCIAL STATEMENTS

17. Contributed Equity

(a) Share Capital	Notes	Parent Entity		Parent Entity	
		2005 Number of Shares	2004 Number of Shares	2005 \$'000	2004 \$'000
Ordinary shares, fully paid	(b),(c)	75,312,820	91,972,134	17,127	20,292

(b) Movements in Ordinary Share Capital	Notes	Date	Number of Shares	\$'000
Balance at 30 June 2003 and 2004			91,972,134	20,292
Issue of ordinary shares as consideration for the acquisition of shares in other listed corporations		2/7/04	8,340,000	1,835
Buy-back of issued ordinary shares	(d)	29/4/05	(12,460,000)	(2,492)
Buy-back of issued ordinary shares	(d)	29/4/05	(12,539,314)	(2,508)
Balance at 30 June 2005			75,312,820	17,127

On 2 July 2004, the Company:

- (1) Issued 5,000,000 shares (at 22 cents each) and paid \$1,000,000 cash to subscribe for 10,000,000 shares (at 21 cents each) in ASX listed outdoor advertising and media company Network Limited (**Network**);
- (2) Issued 3,340,000 shares (at 22 cents each) to Cole Kablow Superannuation Pty Ltd (**Cole Kablow**) as consideration for the acquisition of 3,500,000 Network shares (at 21 cents each) from Cole Kablow.

(c) Ordinary Shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. On a show of hands, every holder of ordinary shares present at a meeting in person, or by proxy, is entitled to one vote, and upon a poll, each share is entitled to one vote.

(d) Share Buy-Backs

On 29 April 2005 the Company bought-back and cancelled (on 2 May 2005) 24,999,314 shares pursuant to shareholder approval received on 28 April 2005 of the following selective share buy-back agreements:

- (1) A selective share buy-back agreement dated 4 February 2005 for the buy-back and cancellation of 12,539,314 shares in the Company held by Pinnacle Asset Management Pty Ltd in consideration for part of the consideration payable by IWL Broking Solutions Limited under a share sale agreement (for the sale of Avcol Stockbroking Pty Ltd by the Company) between the Company, by IWL Broking Solutions Limited and IWL Limited dated 4 February 2005;
- (2) A selective share buy-back agreement dated 4 February 2005 for the buy-back and cancellation of 9,000,000 shares in the Company held by Network in consideration for the buy-back and cancellation by Network of 10,001,557 Network shares held by the Company;
- (3) A selective share buy-back agreement dated 4 February 2005 for the buy-back and cancellation of 3,460,000 shares in the Company held by Cole Kablow in consideration for 3,845,043 Network shares held by the Company.

The Company's issued share capital reduced from 100,312,134 to the current number of 75,312,820 shares after such share buy-backs and cancellation.

(e) Options

The establishment of the Rivkin Financial Services Share Option Plan was approved by shareholders at an extraordinary general meeting held on 30 January 2001. Eligible participants are directors of the Company or employees of the Company's wholly owned subsidiary, Avcol Stockbroking Pty Ltd.

Options were granted under the plan for no consideration. Options granted did not vest until two years after commencement of employment and were exercisable up until a date five years after the option was granted. Unless otherwise approved by the Board, the participant must remain an employee of Avcol Stockbroking Pty Ltd, and Avcol Stockbroking Pty Ltd must remain within the consolidated entity.

NOTES TO THE FINANCIAL STATEMENTS

17. Contributed Equity (continued)

(e) Options (continued)

Directors and Officers of the Company:

No options have been granted to any Director during or since the end of the financial year.

Employees of Avcol Stockbroking Pty Ltd:

On 23 July 2002 the Company granted 2,781,000 options over its unissued ordinary shares to 23 employees of Avcol Stockbroking Pty Ltd. The options were exercisable at a price of 40 cents per option and were due to expire on 23 July 2007. During the year ended 30 June 2004, 480,000 of these options lapsed as a result of the resignation of some employees, leaving 2,301,000 options on issue at that date. On 29 April 2005 the Company disposed of Avcol Stockbroking Pty Ltd, which resulted in these remaining options lapsing.

At 30 June 2005, and at the date of this report, there were no options on issue.

18. Accumulated Losses

	Consolidated		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Accumulated losses at the beginning of the financial year	(2,825)	(3,376)	(222)	(263)
Net profit/ (loss) attributable to the members of Scarborough Equities Limited	1,769	3,895	(412)	3,385
Dividends paid/payable	(1,056)	519	(634)	3,122
	-	(3,344)	-	(3,344)
Accumulated losses at the end of the financial year	(1,056)	(2,825)	(634)	(222)

19. Equity

Total equity at the beginning of the financial year	17,467	16,916	20,070	20,029
Total changes in equity recognised in the Statement of Financial Performance	1,769	3,895	(412)	3,385
Transactions with owners as owners:				
Dividends declared and payable	-	(3,344)	-	(3,344)
Ordinary shares issued	1,835	-	1,835	-
Buy-back of issued ordinary shares	(5,000)	-	(5,000)	-
Total equity at the end of the financial year	16,071	17,467	16,493	20,070

20. Net Tangible Asset Backing

	Consolidated	
	2005 Cents	2004 Cents
Net tangible asset backing per share (pre-tax)	21.6	17.8
Net tangible asset backing per share (post-tax)	21.3	17.1

NOTES TO THE FINANCIAL STATEMENTS

21. Remuneration

(a) Directors

The following persons held the position of Director of the Company during the financial year:

- (1) Farooq Khan, appointed on 29 November 2004 and in office at the date of this report;
- (2) Christopher Ryan, appointed on 29 November 2004 and in office at the date of this report;
- (3) Simon Cato, appointed on 29 November 2004 and in office at the date of this report;
- (4) William Johnson, appointed on 29 November 2004 and in office at the date of this report;
- (5) Alan Andrew Davis, appointed on 21 June 2004, and removed on 29 November 2004;
- (6) Lawrence Chartres, appointed on 2 July 2004, and removed on 29 November 2004;
- (7) George Anthony Lister, appointed on 2 July 2004, and removed on 29 November 2004;
- (8) Jordan Rivkin, resigned on 2 July 2004;
- (9) Shannon Rivkin, resigned on 2 July 2004; and
- (10) David Croll, resigned on 2 July 2004.

(b) Directors' Remuneration

The Company's policy for determining the nature and amount of emoluments to Directors of the Company is as follows: The Board determines the remuneration structure having due regard to the Company's nature, scale and scope of operations and other relevant factors, including the frequency of Board meetings, length of service, particular experience and qualifications. Pursuant to the Company's Constitution, each Director is entitled to receive payment for the performance of extra services or the making of special exertions at the request of the Board and for the purposes of the Company and payment for reimbursement of all reasonable expenses (including traveling and accommodation expenses) incurred by a Director for the purpose of attending meetings of the Company or the Board, on the business of the Company, or in carrying out duties as a Director.

Details of the nature and amount of each element of remuneration of each Director paid or payable by the consolidated entity during the financial year are as follows:

Name of Director	Office Held	Cash Directors' Fees \$	Superannuation \$	Other Cash Payments	Total \$
Farooq Khan	Executive Chairman	30,000	2,700	-	32,700
William Johnson	Executive Director	6,000	540	-	6,540
Simon Cato	Non-Executive Director	13,195	1,305	-	14,500
Christopher Ryan	Non-Executive Director	30,819 ⁽¹⁾		45,506 ⁽²⁾	76,325
Lawrence Chartres	Non-Executive Chairman	-	-	-	-
A. Andrew Davis	Managing Director	-	-	-	-
G. Anthony Lister	Non-Executive Director	-	-	-	-
David Croll	Non-Executive Director	-	-	-	-
Jordan Rivkin	Non-Executive Director	-	-	-	-
Shannon Rivkin	Non-Executive Director	-	-	-	-

(1) Mr Ryan's Directors' fees have been paid or remain payable) to Westchester Financial Services Pty Limited (trading as Westchester Corporate Finance), a corporate advisory company in which Mr Ryan is principal, and is reported inclusive of goods and services tax (GST).

(2) Westchester Financial Services Pty Limited also received the following payments during the financial year:

- (a) \$2,654 reimbursement of expenses;
- (b) \$19,250 fees and \$11,000 reimbursement of legal expenses, in relation to an underwriting agreement;
- (c) \$12,602 for the provision of investor relation services to the Company.

During the year, premiums were paid in respect of a Directors and Officers liability and legal expenses' insurance contract. Details of the nature of the liabilities covered and the amount of premiums paid have not been disclosed as such disclosure is prohibited under the terms of the contract.

NOTES TO THE FINANCIAL STATEMENTS

(c) Remuneration of Executives

The consolidated entity had 3 Executive Officers during the financial year. Details of the nature and amount of each element of remuneration of each Executive Officer paid or payable by the consolidated entity during the financial year are as follows:

Name of Executive Officer	Position Held	Cash Salary	Superannuation	Other Cash Benefits	Total
		\$	\$		\$
Victor Ho	Company Secretary	20,417	1,837	-	22,254
Christopher Thorndike	Managing Director of Avcol Stockbroking Pty Ltd ⁽¹⁾	132,692	9,275	-	141,967
David Cordingley	Financial Controller and Executive Director of Avcol Stockbroking Pty Ltd ⁽²⁾	147,769	9,305	4,635	161,709

(1) Mr Thorndike retired on 29 April 2005.

(2) The Company disposed of Avcol Stockbroking Pty Ltd on 29 April 2005 and Mr Cordingley ceased to be an Executive Officer of the consolidated entity.

No benefits were paid by the consolidated entity in connection with a Director or Executive ceasing to be Director or Executive during the financial year.

22. Commitments

(a) Lease Rental Commitments

Non-cancellable operating leases for the rental of premises, not capitalised in the financial statements and payable:

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
- Not later than one year	-	305	-	-
- Later than one year but not later than five years	-	390	-	-
	-	695	-	-

(b) Investment Management Agreement

On 9 December 2004, FSP Equities Management Limited ("FSP") was appointed to manage the Company's investment funds for an initial two-year term, pursuant to an investment management agreement. FSP holds an Australian Financial Services Licence to manage its FSP Equities Leaders' Fund ("FSP Fund") - a wholesale fund not open to retail investors.

The management fees normally payable by participants in the FSP Fund is 1% per annum base management fee and a performance fee of 20% of the performance of the fund in excess of the S&P/ASX 200 Accumulation Index benchmark. The Board has negotiated a variable fee structure that represents a favourable rebate to the normal fees charged by the FSP Fund, whilst still providing a material incentive to the Investment Manager for investment out performance of the benchmark.

The consolidated entity had no other capital commitments at 30 June 2005 (2004: nil).

23. Contingent Liabilities

The Company has provided an indemnity to IWL Limited and IWL Broking Solutions Limited with respect to the acquisition by IWL Broking Solutions Limited of the Company's shareholding in Avcol Stockbroking Pty Ltd on 29 April 2005. This indemnity covers contingent claims in relation to the operations of Avcol Stockbroking Pty Ltd. The Directors believe that these contingent claims are not material (not exceeding \$100,000 in aggregate) in terms of its potential negative effect on the net asset position of the consolidated entity.

NOTES TO THE FINANCIAL STATEMENTS

24. Related Party Disclosures

Transactions between related parties are conducted on normal commercial terms and conditions, no more favourable than those available to other parties, unless otherwise stated.

	Consolidated		Parent Entity	
	2005	2004	2005	2004
	\$	\$	\$	\$
(a) Transactions with Related Parties				
Brokerage received by Avcol Stockbroking Pty Ltd from Directors and Director-related entities	-	1,667	-	-
Fees paid for professional services to Director-related entities	45,506 ⁽¹⁾	-	45,506 ⁽¹⁾	-
Amounts payable to Directors and Director-related entities by the consolidated entity	17,803 ⁽²⁾	16,350	17,803 ⁽²⁾	16,350
Aggregate amounts payable to the parent entity by wholly-owned controlled entities	-	-	1,926,613	13,422,788

- (1) Payments to Westchester Financial Services Pty Limited (related to Director, Mr Ryan) in respect of amounts described in Note 21(b).
- (2) The aggregate amount payable to Westchester Financial Services Pty Limited in respect of outstanding amounts described in Note 21(b), and Directors' fees payable to Simon Cato at 30 June 2005.

(d) Shareholdings of Directors and Executives

	Balance at 1 July 2004	Balance at Appointment	Net Change Other	Balance at Cessation	Balance at 30 June 2005
Specified Directors					
Farooq Khan		20,051,519	(6,500)		20,045,019
William Johnson		-	-		-
Simon Cato		-	-		-
Christopher Ryan		-	-		-
Lawrence Chartres		-	-		-
A. Andrew Davis	7,305,784		-	7,305,784	
G. Anthony Lister		-	-		-
David Croll		-	-		-
Jordan Rivkin	54,936		-	54,936	
Shannon Rivkin		-	-		-
Specified Executives					
Victor Ho		-	-		-
Christopher Thorndike	5,000		-	5,000	
David Cordingley	5,000		-	5,000	

The above disclosures of equity holdings are in accordance with Accounting Standard AASB 1046 (Director and Executive Disclosure by Disclosing Entities) which includes disclosure of direct and indirect holdings of spouses, relatives, spouses of relatives and entities under the control or significant influence of each of the same.

Disclosure under Accounting Standard AASB 1046 requires only disclosure of equity instruments held directly, indirectly or beneficially, by each specified director and executive, including by personally-related entities as defined under AASB 1046.

The disclosure of shareholdings above are also consistent with the disclosure of "relevant interests" (as defined in sections 608 and 609 of the Corporations Act 2001) in shares in the Company as disclosed by each director in accordance with ASX Listing Rule 3.19A and section 205G of the Corporations Act 2001.

NOTES TO THE FINANCIAL STATEMENTS

25. Segment Information

	Total Revenue		Profit from Ordinary Activities after Tax		Total Assets	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
(a) Industry Segments						
Financial Services						
- External customers	29,330	41,173	1,769	3,895	16,433	36,824
(b) Geographic Segments						
Australia						
- External customers	29,330	41,173	1,769	3,895	16,433	36,824

No transactions occurred between segments during the year.

26. Cash Flow Information

(a) Reconciliation of Cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand and at bank and short term deposits at call, net of any outstanding bank overdrafts. Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	Consolidated		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Cash on hand	-	1	-	-
Cash at bank (interest bearing - note(i))	426	3,085	426	20
Cash at bank - clients' trust account (non-interest bearing)	-	456	-	-
	426	3,542	426	20
Short term deposits at call (interest bearing - note(i))	480	7,311	480	1,025
	906	10,853	906	1,045

(i) Cash amounts are held with banks in interest bearing accounts. At the reporting date the average interest rate was 4.51% (2004: 4.58%).

(b) Reconciliation of Operating Profit/(Loss) after Income Tax to Net Cash Inflow/(Outflow) from Operating Activities

Operating profit/(loss) after income tax	1,769	3,895	(412)	3,385
Non-Cash Items				
Amounts set aside to provisions:				
- Depreciation and amortisation	399	171	-	-
- Amortisation of goodwill	84	101	-	-
- Employee benefits	51	40	-	-
- Doubtful debts	87	438	-	-
Bad debts written off	-	96	-	-
Investing/Financing Items				
- (Profit) on disposal of controlled entities	(3,053)	-	(1,804)	-
- Loss on disposal of other investments	417	-	417	-
- Unrealised loss on revaluation of investments	203	-	203	-
Movements in Provisions				
Income tax	(445)	626	(439)	396

NOTES TO THE FINANCIAL STATEMENTS

26. Cash Flow Information (continued)

(b) Reconciliation of Operating Profit/(Loss) after Income Tax to Net Cash Inflow/(Outflow) from Operating Activities (continued)

	Consolidated		Parent Entity	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Changes in Assets and Liabilities				
(Increase)/decrease in assets:				
- Trade debtors	2,620	3,738	-	-
- Investments	6,753	243	-	4,145
- Other debtors	(603)	237	(608)	7
- Prepayments	38	(37)	72	10
- Security deposits	-	1	-	-
Increase/(decrease) in liabilities:				
- Trade creditors	(4,543)	(1,424)	104	(32)
- Other creditors	(82)	(19)	24	(4)
Net Cash Inflow/(Outflow) from Operating Activities	3,695	8,106	(2,443)	7,907

(c) Non-Cash Items

The following non-cash items occurred during the financial year and are not reflected in the Statement of Cash Flows:

Investing and Financing Activities

Buy-back of issued ordinary share capital as part consideration for disposal of a controlled entity	2,508	-	2,508	-
Buy-back of issued ordinary share capital as full consideration for disposal of other investments	2,492	-	2,492	-
Acquisition of other investments satisfied by the issue of ordinary shares	(1,835)	-	(1,835)	-
	3,165	-	3,165	-

(d) Disposal of Controlled Entities

On 2 August 2004 the Company disposed of its interest in Rivkin Funds Management Limited.

On 29 April 2005 the Company disposed of its interest in Avcol Stockbroking Pty Ltd, together with its wholly owned subsidiaries, RDS Nominees No. 1 Pty Limited and RDS Nominees No. 2 Pty Limited.

On 22 May 2005 the Company deregistered Rivkin Mortgage & Leasing Pty Limited.

Details of the disposal of controlled entities are:

Disposal price

Cash consideration	7,705	-	7,705	-
Buy-back of issued ordinary share capital (non-cash)	2,508	-	2,508	-
	10,213	-	10,213	-

Assets and liabilities held at disposal date

Investments in controlled entities	-	-	8,409	-
Cash assets	4,223	-	-	-
Receivables	12,921	-	-	-
Property, plant and equipment	122	-	-	-
Goodwill on consolidation	1,598	-	-	-
Creditors	(11,326)	-	-	-
Provisions	(378)	-	-	-
	7,160	-	8,409	-
Net gain on disposal	3,053	-	1,804	-
	10,213	-	10,213	-

NOTES TO THE FINANCIAL STATEMENTS

27. Financial Instruments

(a) Interest Rate Risk Exposures

The consolidated entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates, and the effective weighted average interest rates on classes of financial assets and financial liabilities, are as follows:

	Weighted		Floating Interest		Non-Interest		Total	
	Average Effective		Rates		Bearing			
	2005	2004	2005	2004	2005	2004	2005	2004
	%	%	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial Assets:								
Cash	4.51	4.58	906	10,396	-	457	906	10,853
Receivables	-	-	-	-	627	15,483	627	15,483
Investments	-	-	-	-	14,895	8,204	14,895	8,204
Total Financial Assets			906	10,396	15,522	24,144	16,428	34,540
Financial Liabilities:								
Trade and other creditors			-	-	192	16,142	192	16,142
Total Financial Liabilities			-	-	192	16,142	192	16,142

(b) Credit Risk

The maximum exposure to credit risk at balance date to recognised financial assets is the carrying amount, net of any provision for doubtful debts, as disclosed in the Statement of Financial Position and Notes to the Financial Statements.

The consolidated entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the consolidated entity.

(c) Net Fair Value of Financial Assets and Liabilities

The net fair values of listed investments have been valued at the quoted market price at balance date adjusted for transaction costs expected to be incurred. For unlisted investments, where there is no organised financial market, the net fair value has been based on a reasonable estimation of the underlying net assets or discounted cash flows expected to result from holding the investment. For other financial assets and liabilities the net fair value approximates their carrying value.

No financial assets or financial liabilities are readily traded on organised markets in standardised form other than listed investments. Financial assets, where the carrying amount may exceed net fair values, have not been written down as the consolidated entity intends to hold these assets to maturity.

Aggregate fair values and carrying amounts of financial assets and financial liabilities at balance date:

	Consolidated			
	2005		2004	
	Carrying Amount	Net Fair Value	Carrying Amount	Net Fair Value
	\$'000	\$'000	\$'000	\$'000
Financial Assets:				
- Cash	906	906	10,853	10,853
- Receivables	627	627	15,483	15,483
- Investments	14,895	14,895	8,204	8,204
	16,428	16,428	34,540	34,540
Financial Liabilities:				
- Trade and other creditors	192	192	16,142	16,142

NOTES TO THE FINANCIAL STATEMENTS

28. Contributions to Superannuation Funds

The Company and the consolidated entity contribute to various superannuation funds on behalf of Directors and employees for the provision of retirement benefits in accordance with the provisions of the Superannuation Guarantee Act.

29. Subsequent Events

- (a) On 2 August 2005 the FSP Equities Leaders' Fund (managed by the Company's investment manager, FSP Equities Management Limited) distributed \$0.61 million income to the Company for the year ended 30 June 2005. This distribution was re-invested into the fund. Such income has been recognised in the Statement of Financial Performance for the year ended 30 June 2005.
- (b) On 2 August 2005, the Company invested a further \$0.75 million of excess cash reserves into the FSP Equities Leaders' Fund.
- (c) On 11 August 2005, the Company reached agreement with Alan Davis Group Pty Ltd ("ADG") to settle the outstanding issue of damages in Supreme Court proceedings in relation to a terminated selective share buy-back agreement between the Company and ADG. On 25 August 2005, pursuant to such settlement, the Company transferred 4 million shares in Drillsearch Energy Limited shares to ADG and obtained relevant consent orders from the Court discontinuing the action with each party bearing their own costs.
- (d) On 6 September 2005, the Directors declared a dividend of 0.60 cents per share (50% franked) in respect of net profits derived for the year ended 30 June 2005. The record date will be 30 September 2005 with payments to be effected on or about 7 October 2005.

No other matter or circumstance has arisen since the end of the financial year that significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

NOTES TO THE FINANCIAL STATEMENTS

30. Impacts of Adopting Australian Equivalents to IFRS

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

Entities complying with AIFRS for the first time will be required to restate the comparative financial statements ("AGAAP") to amounts reflecting the application of AIFRS to that comparative period. Most adjustments required on transition to AIFRS will be made, retrospectively, against opening retained earnings as at 1 July 2005.

The AIFRS have been analysed and accounting policy changes that will be required identified. In some cases choices of accounting policies are available, including elective exemptions under Accounting Standard AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards. These choices have been analysed to determine the most appropriate accounting policy for the Company.

The known or reliably estimable impacts on the financial report for the year ended 30 June 2005 had it been prepared using AIFRS are set out below. The expected financial effects of adopting AIFRS are shown for each line item in the Statement of Financial Performance and Statement of Financial Position, with descriptions of the differences. No material impacts are expected in relation to the Statement of Cash Flows.

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

Statement of Financial Performance	AGAAP	Effect of Change	AIFRS
	\$'000	\$'000	\$'000
Gross revenue from ordinary activities	29,330	-	29,330
Cost of disposal of investments	(19,560)	-	(19,560)
Net revenue from ordinary activities	<u>9,770</u>	-	<u>9,770</u>
Expenses:			
Employee benefits	(2,441)	-	(2,441)
Depreciation and amortisation	(399)	-	(399)
Amortisation of goodwill	(84)	-	(84)
Unrealised losses on investments	(160)	(50)	(210)
Selling expenses	(531)	-	(531)
Administration and other expenses	(4,117)	-	(4,117)
Total expenses from ordinary activities	<u>(7,732)</u>	<u>(50)</u>	<u>(7,782)</u>
Profit/(loss) from ordinary activities before income tax (expense)/benefit	2,038	(50)	1,988
Income tax (expense)/benefit	(269)	15	(254)
Profit/(loss) from ordinary activities after income tax expense	<u>1,769</u>	<u>(35)</u>	<u>1,734</u>
Net profit/(loss) attributable to members of Scarborough Equities Limited	<u>1,769</u>	<u>(35)</u>	<u>1,734</u>
Total revenues, expenses and valuation adjustments attributable to members of Scarborough Equities Limited recognised directly in equity	<u>1,769</u>	<u>(35)</u>	<u>1,734</u>
Total changes in equity other than those resulting from transactions with owners as owners	<u>1,769</u>	<u>(35)</u>	<u>1,734</u>

NOTES TO THE FINANCIAL STATEMENTS

30. Impacts of Adopting Australian Equivalents to IFRS (continued)

Statement of Financial Position	AGAAP \$'000	Effect of Change \$'000	AIFRS \$'000
Current Assets			
Cash	906	-	906
Receivables	627	-	627
Investments	1,451	(50)	1,401
Total Current Assets	2,984	(50)	2,934
Non-Current Assets			
Property, plant and equipment	5	-	5
Investments	13,444	-	13,444
Total Non-Current Assets	13,449	-	13,449
Total Assets	16,433	(50)	16,383
Current Liabilities			
Payables	192	-	192
Tax liabilities	170	(15)	155
Total Current Liabilities	362	(15)	347
Total Non-Current Liabilities	-	-	-
Total Liabilities	362	(15)	347
Net Assets	16,071	(35)	16,036
Equity			
Parent entity interest:			
Contributed equity	17,127	-	17,127
Accumulated losses	(1,056)	(35)	(1,091)
Total Equity	16,071	(35)	16,036

The significant changes in accounting policies and the associated transitional arrangements adopted in preparing the AIFRS reconciliations and the elections made under AASB 1 are set out below.

However, until the Company prepares its first full AIFRS financial statements, the possibility cannot be excluded that the accompanying disclosures may have to be adjusted and consequently, the final reconciliations presented in the first financial report prepared in accordance with AIFRS (being the half-year ending 31 December 2005) may vary materially from the reconciliations provided below.

(a) Income Tax

Under AASB 112 Income Taxes, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity. Under such AIFRS, the Company must recognise an additional deferred tax liability amount for the tax payable on unrealised gains in the investment portfolio. The Company has already adopted this policy in the preparation of these accounts.

NOTES TO THE FINANCIAL STATEMENTS

30. Impacts of Adopting Australian Equivalents to IFRS (continued)

(b) Financial Assets

"Current" financial assets will be classified as "trading securities" and are recognised in the Statement of Financial Position at fair value. "Non-current" financial assets will be classified as "at fair value through profit and loss" upon initial recognition and are recognised in the Statement of Financial Position at fair value. During the period changes in the fair value of all such financial assets will be recognised in the Statement of Financial Performance.

The fair value of financial assets will be measured at bid price (where available) and last sale price (where bid price is not available) and will exclude disposal costs. The fair value of the Company's investment in the FSP Equities Leaders' Fund (managed by the Company's investment manager, FSP Equities Management Limited) will be valued at the unit price published by FSP Equities Management Limited - the unit price reflects the net tangible asset backing of the fund and no buy/sell spread or exit fees are charged to the Company.

AASB 139 and AG 72 state that the current bid price is usually the appropriate price to be used in measuring the fair value of actively traded financial assets. Financial assets should be valued at their fair values without any deduction for transaction costs that may be incurred on sale or other disposal. This differs from the current treatment, in which the Company measures "current" financial assets at "net market value" using the last sale price net of disposal costs.

On transition to AIFRS this change will not impact net assets. However, the classification of gains and losses between realised and unrealised in the Statement of Financial Performance may differ.

The reconciliation below summarises the known or reliably estimable significant impacts on the consolidated entity's Net Asset position and Net Profit as currently reported in the financial report for the year ended 30 June 2005 had it been prepared using AIFRS. The reconciliations have been prepared on the assumption that the Company will apply the requirements of AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139: *Financial Instruments: Recognition and Measurement* in the first comparative year under AIFRS. The expected financial effects of adopting AIFRS has been shown for significant items comprising Net Assets in the Statement of Financial Position and Net Profit in the Statement of Financial Performance with descriptions of the differences. No disclosures have been made for re-classifications within the Statement of Financial Position and Statement of Financial Performance that have no impact on Net Assets or Net Profit.

Reconciliation of Net Asset Value	\$'000
Total Equity under AGAAP	16,071
Impact of change from last sale to bid price for financial assets	(50)
Income tax payable	15
Total Equity under AIFRS	<u>16,036</u>
Reconciliation of Net Profit	
Net Profit under AGAAP	1,769
Impact of change from last sale to bid price for financial assets	(50)
Income tax expense	15
Net Profit under AIFRS	<u>1,734</u>

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 27 to 49 are in accordance with the *Corporations Act 2001* and:
 - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position as at 30 June 2005 and of the performance for the year ended on that date of the Consolidated Entity and Company;
2. In the Directors' opinion there are reasonable grounds to believe that the Consolidated Entity and Company will be able to pay its debts as and when they become due and payable.
3. The Chairman (the person who performs the chief executive function) and Company Secretary (the person who performs the chief financial officer function) have each declared that:
 - (a) the financial records of the Consolidated Entity and Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
 - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - (c) the financial statements and notes for the financial year give a true and fair view.

This declaration is made in accordance with a resolution of the Directors made pursuant to section 295(5) of the *Corporations Act 2001*.



Farooq Khan
Chairman



Simon Cato
Director

6 September 2005

30 June 2005

SCARBOROUGH EQUITIES LIMITED
A.B.N. 58 061 287 045

INDEPENDENT AUDIT REPORT TO THE MEMBERS

Scope

The financial report and directors' responsibility

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

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

Audit Approach

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

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

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

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

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

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. In addition to our statutory audit, we were engaged to undertake other non-audit services. The provision of these services has not impaired our independence.

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration set out on page 26 of the financial report has not changed as at the date of providing our audit opinion.

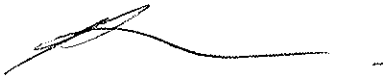
Audit Opinion

In our opinion, the financial report of Scarborough Equities Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.



Bob Miller & Co



Bob Miller
Partner

Sydney Date: 12 September 2005