

# **Heathcote & District**

## **Financial Services Limited**

### **Financial Statements**

**as at**

**30 June 2006**

**Heathcote & District Financial Services Limited**  
**ABN 44 112 376 986**  
**Directors' Report**

Your Directors submit the financial report of the company for the financial year ended 30 June 2006.

**Directors**

The names and details of the company's directors who held office during or since the end of the financial year:

**Barry Maxwell Cail**

Director  
Age: 53  
Occupation: Newspaper Publisher  
Experience and expertise: Career in journalism in metropolitan and regional newspapers  
Special responsibilities: Public Relations Committee

**Gregory John Williams**

Director  
Age: 43  
Occupation: Business Proprietor  
Experience and expertise: Former Corporate Accountant & Mayor, City of Greater Bendigo.  
Special responsibilities: Treasurer & Audit and Governance Committee

**Kathryn Mary Gilmore**

Director  
Age: 33  
Occupation: Mother & Administration Assistant  
Experience and expertise: Career in the finance industry including extensive company secretarial work.  
Special responsibilities: Company Secretary & Audit and Governance Committee

**Keith Macpherson Chambers**

Director  
Age: 54  
Occupation: Primary School Principal  
Experience and expertise: Career in education in regional Victoria  
Special responsibilities: Human Resources & Business Development Committees

**Jeremy Myddleton Davis**

Director  
Age: 45  
Occupation: Owner/Manager  
Experience and expertise: Career in the Air Force, managerial positions in the Heavy Machinery Industry and small business  
Special responsibilities: Human Resources Committee

**Joseph Zurek**

Director  
Age: 58  
Occupation: Retired  
Experience and expertise: Career as a Corporate Accountant and Supermarket Proprietor.  
Special responsibilities: Chair, Audit and Governance Committee

**Patrick Joseph Connally**

Director (*Appointed 27 March 2006*)  
Age: 56  
Occupation: Real Estate Agent  
Experience and expertise: Licensed auctioneer & Owned and operated small business for 30 years  
Special responsibilities: Business Development & Premises Committees

**Dannielle Maree Gilmore**

Director (*Appointed 28 November 2005*)  
Age: 34  
Occupation: Account Manager  
Experience and expertise: 2 years banking experience  
Special responsibilities: Chair, Business Development Committee

**Ian Douglas Cordiner**

Director (*Appointed 27 March 2006*)  
Age: 66  
Occupation: Consultant  
Special responsibilities: Audit and Governance & Business Development Committees

**Colin Bernard Stobauss**

Director  
Age: 60  
Occupation: Builder  
Experience and expertise: Owned and operated building business for 29 years.  
Special responsibilities: Chair, Premises Committee

**Adolf John Hill**

Director (*Resigned 28 February 2006*)  
Age: 61  
Occupation: Grazier

**John Leslie Sheridan**

Director (*Resigned 19 December 2006*)  
Age: 66  
Occupation: Real Estate Agent

**Penelope Jane Wigg**

Director (*Resigned 28 November 2005*)  
Age: 54  
Occupation: Company Director/Business Manager

Directors were in office for this entire year unless otherwise stated.

No Directors have material interests in contracts or proposed contracts with the company other than those outlined in Note 17 in the Notes to the Financial Statements on page 18.

**Heathcote & District Financial Services Limited**  
**ABN 44 112 376 986**  
**Directors' Report**

**Company Secretary**

The company secretary is Kathryn Mary Gilmore. She was appointed to the position of secretary on 5 January 2005. Kathryn has extensive administrative experience working for an Accounting Firm.

**Principal activities**

The principal activities of the company during the course of the financial year were in providing community banking services under management rights to operate a franchised branch of Bendigo Bank Limited.

There has been no significant changes in the nature of these activities during the year.

**Operating Results**

Operations have continued to perform in line with expectations. The loss of the company for the financial year after provision for income tax was:

Year ended 30 June 2006	Year ended 30 June 2005
\$	\$
(95,037)	(46,520)

**Remuneration Report**

No Director of the company receives remuneration for services as a company director or Committee member.

The Board's policy in respect of the branch manager is to maintain remuneration at parity within the Community Bank® network and local market rates for comparable roles.

There are no executives who are directly accountable and responsible for the strategic direction and operational management of the entity. This is wholly a board role. There are therefore no Specified Executives.

**Dividends**

No dividends were declared or paid for the previous year and the directors recommend that no dividend be paid for the current year.

**Significant changes in the state of affairs**

In the opinion of the directors there were no significant changes in the state of affairs of the company that occurred during the financial year under review not otherwise disclosed in this report or the financial report.

**Matters subsequent to the end of the financial year**

There are no matters or circumstances that have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the company, the results of those operations or the state of affairs of the company, in future years.

**Likely Developments**

The company will continue its policy of providing banking services to the community.

**Environmental Regulation**

The company is not subject to any significant environmental regulation.

**Heathcote & District Financial Services Limited**  
**ABN 44 112 376 986**  
**Directors' Report**

### **Directors' Benefits**

No Director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the company, controlled entity or related body corporate with a Director, a firm which a Director is a member or an entity in which a Director has a substantial financial interest. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the company's accounts, or the fixed salary of a full-time employee of the company, controlled entity or related body corporate.

### **Indemnification and Insurance of Directors and Officers**

The company has indemnified all Directors and the Manager in respect of liabilities to other persons (other than the company or related body corporate) that may arise from their position as Directors or Managers of the company except where the liability arises out of conduct involving the lack of good faith.

Disclosure of the nature of the liability and the amount of the premium is prohibited by the confidentiality clause of the contract of insurance. The company has not provided any insurance for an auditor of the company or a related body corporate.

### **Directors Meetings**

The number of Directors meetings attended by each of the Directors of the company during the year were:

	<b><u>Number of Board Meetings eligible to attend</u></b>	<b><u>Number attended</u></b>
Barry Maxwell Cail	12	12
Keith Macpherson Chambers	12	9
Jeremy Myddleton Davis	12	7
Kathryn Mary Gilmore	12	11
Colin Bernard Stobaus	12	9
Gregory John Williams	12	12
Joseph Zurek	12	10
Patrick Joseph Connally ( <i>Appointed 27 March 2006</i> )	4	3
Ian Douglas Cordiner ( <i>Appointed 27 March 2006</i> )	4	4
Dannielle Maree Gilmore ( <i>Appointed 28 November 2005</i> )	8	5
Adolf John Hill ( <i>Resigned 28 February 2006</i> )	7	5
John Leslie Sheridan ( <i>Resigned 19 December 2006</i> )	5	2
Penelope Jane Wigg ( <i>Resigned 28 November 2005</i> )	4	3

### **Non Audit Services**

The company may decide to employ the auditor on assignments additional to their statutory duties where the auditor's expertise and experience with the company are important. Details of the amounts paid or payable to the Auditor (Andrew Frewin & Stewart) for audit and non audit services provided during the year are set out in the notes to the accounts.

The board of directors has considered the position, in accordance with the advice received from the audit committee and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The directors are satisfied that the provision of non-audit services by the auditor, as set out in the notes did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

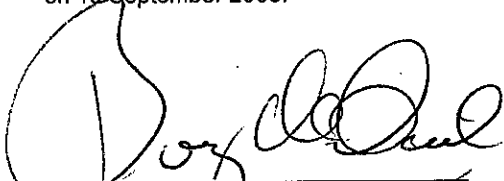

all non-audit services have been reviewed by the audit committee to ensure they do not impact on the impartiality and objectivity of the auditor;

none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

**Heathcote & District Financial Services Limited**  
**ABN 44 112 376 986**  
**Directors' Report**

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 5.

Signed in accordance with a resolution of the Board of Directors at Heathcote on 19 September 2006.

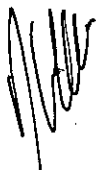
  
Barry Maxwell Call, Chairman  
Gregory John Williams, Director

### Auditor's Independence Declaration

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Heathcote & District Financial Services Limited.

As lead auditor for the review of the financial statements of Heathcote & District Financial Services Limited for the year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b) any applicable code of professional conduct in relation to the review.



David Hutchings  
Auditor

Andrew Frewin & Stewart

Bendigo VIC 3550

Dated: 19 September 2006

**Heathcote & District Financial Services Limited**  
**ABN 44 112 376 986**  
**Income Statement**  
**for the year ended 30 June 2006**

	<u>Notes</u>	2006 \$	2005 \$
Revenues from continuing operations	3	178,481	652
Salaries and employee benefits expense		(180,689)	(61,149)
Advertising and promotion expenses		(813)	-
Occupancy and associated costs		(28,799)	-
Depreciation and amortisation expense	4	(27,685)	-
Finance costs	4	(4)	(126)
General administration expenses		(75,065)	(5,833)
<b>Loss from ordinary activities before income tax credit</b>		<b>(134,575)</b>	<b>(66,457)</b>
Income tax credit	5	39,538	19,937
<b>Loss from ordinary activities after income tax credit</b>		<b>(95,037)</b>	<b>(46,520)</b>
<b>Loss attributable to members of Heathcote &amp; District Financial Services Limited</b>		<b>(95,037)</b>	<b>(46,520)</b>
<b>Earnings per share (cents per share)</b>			
- basic for losses for the year	18	(16.0)	(7.9)

The accompanying notes form part of these financial statements

**Heathcote & District Financial Services Limited**  
**ABN 44 112 376 986**  
**Balance Sheet**  
**as at 30 June 2006**

	<u>Notes</u>	<b>2006</b> <b>\$</b>	<b>2005</b> <b>\$</b>
<b>Current Assets</b>			
Cash assets	6	237,809	439,661
Trade and other receivables	7	7,200	13,022
<b>Total Current Assets</b>		<b><u>245,009</u></b>	<b><u>452,682</u></b>
<b>Non-Current Assets</b>			
Property, plant and equipment	8	77,667	-
Intangibles	9	56,402	60,000
Deferred tax assets	10	59,475	19,937
<b>Total Non-Current Assets</b>		<b><u>193,544</u></b>	<b><u>79,937</u></b>
<b>Total Assets</b>		<b><u>438,553</u></b>	<b><u>532,619</u></b>
<b>Current Liabilities</b>			
Trade and other payables	11	9,813	17,158
Borrowings	12	9,000	-
<b>Total Current Liabilities</b>		<b><u>18,813</u></b>	<b><u>17,158</u></b>
<b>Current Liabilities</b>			
Borrowings	12	2,940	-
<b>Total Current Liabilities</b>		<b><u>2,940</u></b>	<b><u>-</u></b>
<b>Total Liabilities</b>		<b><u>21,753</u></b>	<b><u>17,158</u></b>
<b>Net Assets</b>		<b><u>416,800</u></b>	<b><u>515,461</u></b>
<b>Equity</b>			
Contributed equity	13	558,357	561,981
Accumulated losses	14	(141,557)	(46,520)
<b>Total Equity</b>		<b><u>416,800</u></b>	<b><u>515,461</u></b>

The accompanying notes form part of these financial statements



**Heathcote & District Financial Services Limited**  
**ABN 44 112 376 986**  
**Statement of changes in equity**  
**for the year ended 30 June 2006**

	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
Total equity at the beginning of the financial year	515,461	-
Net loss for the year	(95,037)	(46,520)
Net income/expense recognised directly in equity	-	-
Dividends provided for or paid	-	-
Shares issued during period	8,600	586,310
Equity raising costs during period	(12,224)	(24,329)
Total equity at the end of the financial year	<u><u>416,800</u></u>	<u><u>515,461</u></u>

The accompanying notes form part of these financial statements

**Heathcote & District Financial Services Limited**  
**ABN 44 112 376 986**  
**Statement of Cashflows**  
**for the year ended 30 June 2005**

	<u>Notes</u>	<b>2006</b> <b>\$</b>	<b>2005</b> <b>\$</b>
<b>Cash flows from operating activities</b>			
Cash received from customers		164,508	198
Cash paid to suppliers and employees		(290,805)	(62,845)
Interest received		17,887	454
Interest paid		(4)	(126)
<b>Net inflow/(outflows) from operating activities</b>	15(b)	<u><b>(108,414)</b></u>	<u><b>(62,320)</b></u>
<b>Cash Flows From Investing Activities</b>			
Payment for intangible assets		-	(60,000)
Payment for purchase of agency		(8,402)	-
Payments for property plant and equipment		(93,352)	-
<b>Net cash inflows/(outflows) investing activities</b>		<u><b>(101,754)</b></u>	<u><b>(60,000)</b></u>
<b>Cash Flows From Financing Activities</b>			
Proceeds of share issues		8,600	586,310
Receipt of Council loan		11,940	-
Payment of share issue costs		(12,224)	(24,329)
<b>Net cash inflows/(outflows) financing activities</b>		<u><b>8,316</b></u>	<u><b>561,981</b></u>
<b>Net increase/(decrease) in cash held</b>		<b>(201,852)</b>	<b>439,661</b>
Cash at the beginning of the financial year		439,661	-
<b>Cash at the end of the financial year</b>	15(a)	<u><u><b>237,809</b></u></u>	<u><u><b>439,661</b></u></u>

The accompanying notes form part of these financial statements

**Heathcote & District Financial Services Limited**  
**ABN 44 112 376 986**  
**Notes to the Financial Statements**  
**for the year ended 30 June 2006**

## **1. Summary of significant accounting policies**

### **Basis of preparation**

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

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

*Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards (AIFRS)*

These financial statements are the first Heathcote & District Financial Services Limited financial statements to be prepared in accordance with AIFRSs. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

The Financial Statements of Heathcote & District Financial Services Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing Heathcote & District Financial Services Limited's 2006 financial statements, management amended certain accounting and valuation methods that are applied in the AGAAP financial statements to comply with AIFRS.

Reconciliations and descriptions of the effect of the transition from previous AGAAP to AIFRSs on the Company equity and its net income are given in note 19.

### **Revenue**

Interest and fee revenue is recognised when earned. All revenue is stated net of the amount of Goods and Services Tax (GST). The gain or loss on disposal of property, plant and equipment is recognised on a net basis and is classified as income rather than revenue.

### **Income tax**

#### **Current tax**

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

**Heathcote & District Financial Services Limited**  
**ABN 44 112 376 986**  
**Notes to the Financial Statements**  
**for the year ended 30 June 2006**

**1. Summary of significant accounting policies (continued)**

**Income tax (continued)**

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they related to income taxes levied by the same taxation authority and the company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

**Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable for the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

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

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet. Cash flows are included in the statement of cash flows on a gross basis.

The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operation cash flows.

**Heathcote & District Financial Services Limited**

**ABN 44 112 376 986**

**Notes to the Financial Statements  
for the year ended 30 June 2006**

**1. Summary of significant accounting policies (continued)**

**Employee entitlements**

The provision for employee benefits to wages, salaries and annual leave represents the amount which the company has a present obligation to pay resulting from employees' services provided up to the balance date. The provision has been calculated on undiscounted amounts based on wage and salary rates expected to be paid and includes related on-costs.

The company contributes to a defined contribution plan. Contributions to employee superannuation funds are charged against income as incurred.

**Intangibles**

The cost of the company's franchise fee has been recorded at cost and is amortised on a straight line basis at a rate of 20% per annum.

**Cash**

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts.

**Comparative figures**

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

**Property, plant and equipment**

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated at the rate equivalent to the available building allowance using the straight line method. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

- |                          |                |
|--------------------------|----------------|
| - leasehold improvements | 40 years       |
| - plant and equipment    | 2.5 - 40 years |
| - furniture and fittings | 4 - 40 years   |

**Heathcote & District Financial Services Limited**  
**ABN 44 112 376 986**  
**Notes to the Financial Statements**  
**for the year ended 30 June 2006**

**1. Summary of significant accounting policies (continued)**

**Impairment of assets**

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs. Goodwill is tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

**Payment terms**

Receivables and payables are non interest bearing and generally have payment terms of between 30 and 90 days.

**Receivables and Payables**

Receivables are carried at their amounts due. The collectability of debts is assessed at balance date and specific provision is made for any doubtful accounts. Liabilities for trade creditors and other amounts are carried at cost that is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the company.

**Borrowings**

All loans are measured at the principal amount. Interest is recognised as an expense as it accrues.

**Provisions**

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

**Heathcote & District Financial Services Limited**  
**ABN 44 112 376 986**  
**Notes to the Financial Statements**  
**for the year ended 30 June 2006**

**1. Summary of significant accounting policies (continued)**

**Contributed Capital**

Issued and paid up capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

**2. Financial Risk Management**

The company's activities expose it to a limited variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the entity. The entity does not use derivative instruments.

Risk management is carried out directly by the Board of Directors.

**(i) Market Risk**

The company has no exposure to any transactions denominated in a currency other than Australian dollars.

**(ii) Price Risk**

The company is not exposed to equity securities price risk as it does not hold investments for sale or at fair value. The company is not exposed to commodity price risk.

**(iii) Credit Risk**

The company has no significant concentrations of credit risk. It has policies in place to ensure that customers have an appropriate credit history. The company's franchise agreement limits the company's credit exposure to one financial institution, being Bendigo Bank Limited.

**(iv) Liquidity Risk**

Prudent liquidity management implies maintaining sufficient cash and marketable securities and the availability of funding from credit facilities. The company believes that its sound relationship with Bendigo Bank Limited mitigates this risk significantly.

**(v) Cash flow and fair value interest rate risk**

Interest-bearing assets are held with Bendigo Bank Limited and subject to movements in market interest. Interest-rate risk could also arise from long-term borrowings. Borrowings issued at variable rates expose the company to cash flow interest-rate risk. The company believes that its sound relationship with Bendigo Bank Limited mitigates this risk significantly.

**Heathcote & District Financial Services Limited**

**ABN 44 112 376 986**

**Notes to the Financial Statements  
for the year ended 30 June 2006**

	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
<b>3. Revenue from ordinary activities</b>		
Operating activities:		
- services commissions	144,103	198
- other revenue	14,583	-
Total revenue from operating activities	<u>158,686</u>	<u>198</u>
Non-operating activities:		
- interest received	19,795	454
Total revenue from non-operating activities	<u>19,795</u>	<u>454</u>
Total revenues from ordinary activities	<u><u>178,481</u></u>	<u><u>652</u></u>

**4. Expenses**

Depreciation of non-current assets:		
- plant and equipment	10,289	-
- leasehold improvements	5,396	-
Amortisation of non-current assets:		
- franchise agreement	12,000	-
	<u>27,685</u>	<u>-</u>
Borrowing expenses:		
- interest paid	<u>4</u>	<u>126</u>

**5. Income tax expense**

The prima facie tax on loss from normal operations before income tax is reconciled to the income tax expense as follows:

Operating Loss	(134,575)	(66,457)
Prima facie tax on loss from ordinary operations at 30%	(40,373)	(19,937)
Add tax effect of:		
- non-deductible expenses	1,407	-
- temporary differences	(572)	-
Income tax expense on operating loss	<u>(39,538)</u>	<u>(19,937)</u>

**6. Cash assets**

Cash at bank and on hand	70,757	439,661
Term Deposits	167,052	-
	<u>237,809</u>	<u>439,661</u>



Heathcote & District Financial Services Limited

ABN 44 112 376 986

Notes to the Financial Statements  
for the year ended 30 June 2006

	2006	2005
	\$	\$
<b>7. Trade and other receivables</b>		
Trade receivables	3,618	13,022
Prepayments	3,582	-
	<u>7,200</u>	<u>13,022</u>

**8. Property, plant and equipment**

*Plant and equipment*

At cost	38,794	-
Less accumulated depreciation	(10,289)	-
	<u>28,505</u>	<u>-</u>

*Leasehold improvements*

At cost	54,557	-
Less accumulated depreciation	(5,396)	-
	<u>49,162</u>	<u>-</u>

Total written down amount	<u>77,667</u>	<u>-</u>
---------------------------	---------------	----------

**Movements in carrying amounts:**

*Plant and equipment*

Carrying amount at beginning	-	-
Additions	38,794	-
Disposals	-	-
Less: depreciation expense	(10,289)	-
Carrying amount at end	<u>28,505</u>	<u>-</u>

*Leasehold improvements*

Carrying amount at beginning	-	-
Additions	54,557	-
Disposals	-	-
Less: depreciation expense	(5,396)	-
Carrying amount at end	<u>49,162</u>	<u>-</u>

Total written down amount	<u>77,667</u>	<u>-</u>
---------------------------	---------------	----------

**9. Intangible assets**

*Franchise Fee*

At cost	60,000	60,000
Less: accumulated amortisation	(12,000)	-

*Goodwill on Purchase of Agency Business*

At cost	8,402	-
	<u>56,402</u>	<u>60,000</u>

**10. Deferred Tax Benefit**

Future income tax benefit		
Tax losses - revenue	<u>59,475</u>	<u>19,937</u>

**Heathcote & District Financial Services Limited**

**ABN 44 112 376 986**

**Notes to the Financial Statements  
for the year ended 30 June 2006**

	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
<b>11. Trade and other payables</b>		
Trade Creditors	7,213	17,158
Other creditors & accruals	2,600	-
	<u>9,813</u>	<u>17,158</u>
<b>12. Borrowings</b>		
<i>Current</i>		
Loan from City of Greater Bendigo <sup>a</sup>	<u>9,000</u>	<u>-</u>
<i>Non-Current</i>		
Loan from City of Greater Bendigo <sup>a</sup>	<u>2,940</u>	<u>-</u>
<sup>a</sup> Loan is repayable quarterly with the final instalment due on 26 August 2007. Interest is recognised at an average rate of 0%. The loan is not secured by any charge over the company's assets		
<b>13. Contributed equity</b>		
594,910 Ordinary shares fully paid of \$1 each (2005: 586,310)	594,910	586,310
Less: equity raising expenses	(36,553)	(24,329)
	<u>558,357</u>	<u>561,981</u>
<b>14. Accumulated losses</b>		
Balance at the beginning of the financial year	(46,520)	-
Net loss from ordinary activities after income tax	(95,037)	(46,520)
Dividends Paid	-	-
Balance at the end of the financial year	<u>(141,557)</u>	<u>(46,520)</u>
<b>15. Statement of cashflows</b>		
<i>(a) Reconciliation of cash</i>		
Cash at bank and on hand	70,757	439,661
Term deposit	167,052	-
	<u>237,809</u>	<u>439,661</u>
<i>(b) Reconciliation of loss from ordinary activities after tax to net cash used in operating activities</i>		
Loss from ordinary activities after income tax	(95,037)	(46,520)
Non cash items:		
- depreciation	15,685	-
- amortisation	12,000	-
Changes in assets and liabilities:		
- (increase)/decrease in receivables	5,822	(13,022)
- (increase)/decrease in other assets	(39,538)	(19,937)
- increase/(decrease) in payables	(7,346)	17,158
Net cashflows used in operating activities	<u>(108,414)</u>	<u>(62,320)</u>

# Heathcote & District Financial Services Limited

ABN 44 112 376 986

## Notes to the Financial Statements for the year ended 30 June 2006

### 16. Auditors' remuneration

	2006 \$	2005 \$
Amounts received or due and receivable by the auditor of the company for:		
- audit & review services	2,750	1,800
- other services in relation to the company	500	2,800
	<u>3,250</u>	<u>4,600</u>

### 17. Director and Related party disclosures

The names of directors who have held office during the financial year are:

Barry Maxwell Cail  
Keith Macpherson Chambers  
Patrick Joseph Connally (*Appointed 27 March 2006*)  
Ian Douglas Cordiner (*Appointed 27 March 2006*)  
Jeremy Myddleton Davis  
Kathryn Mary Gilmore  
Dannielle Maree Gilmore (*Appointed 28 November 2005*)  
Adolf John Hill (*Resigned 28 February 2006*)  
John Leslie Sheridan (*Resigned 19 December 2006*)  
Colin Bernard Stobaus  
Penelope Jane Wigg (*Resigned 28 November 2005*)  
Gregory John Williams  
Joseph Zurek

The company has entered into an agreement with the Mitbro Trust to lease the property at 119B for a five year period terminating on 25 August 2010. Director Joseph Zurek is a trustee of the Milbro Trust. This contract was approved by the board with Mr Zurek declaring a pecuniary interest and excluding himself from the discussions and approval process undertaken by the board.

The total value of payments made under this contract in the 2005/2006 financial year was \$15,705.

No other director or related entity has entered into a material contract with the company. No director's fees have been paid as the positions are held on a voluntary basis.

### Directors shareholdings

	2006	2005
Barry Maxwell Cail	2,001	2,001
Keith Macpherson Chambers	1,001	1,001
Patrick Joseph Connally ( <i>Appointed 27 March 2006</i> )	10,001	10,000
Ian Douglas Cordiner ( <i>Appointed 27 March 2006</i> )	6,001	-
Jeremy Myddleton Davis	1	1
Kathryn Mary Gilmore	801	801
Dannielle Maree Gilmore ( <i>Appointed 28 November 2005</i> )	1,001	1,000
Adolf John Hill ( <i>Resigned 28 February 2006</i> )	500	501
John Leslie Sheridan ( <i>Resigned 19 December 2006</i> )	2,000	2,001
Colin Bernard Stobaus	3,001	3,001
Penelope Jane Wigg ( <i>Resigned 28 November 2005</i> )	1,000	1,001
Gregory John Williams	2,001	2,001
Joseph Zurek	10,001	10,001

Each share held is valued at \$1.

**Heathcote & District Financial Services Limited**  
**ABN 44 112 376 986**  
**Notes to the Financial Statements**  
**for the year ended 30 June 2006**

<b>18. Losses per Share</b>	<b><u>2006</u></b>	<b><u>2005</u></b>
	<b><u>¢</u></b>	<b><u>¢</u></b>
Losses per share for the financial year were:	(16.0)	(7.9)

**19. Reconciliation from equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under AIFRS**

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

In the Company's opinion, there have been no material impacts in relation to the financial report for the year ended 30 June 2006. There are no impacts to be disclosed.

**Impact on the income statement**

Nil.

**Impact on the balance sheet**

Nil.

**20. Subsequent events**

There have been no events after the end of the financial year that would materially affect the financial statements.

**21. Contingent liabilities**

There were no contingent liabilities at the date of this report to affect the financial statements.

**22. Segment reporting**

The economic entity operates in the financial services sector where it provides banking services to its clients. The economic entity operates in one geographic area being Heathcote district, Victoria.

**23. Registered office/Principal place of business**

The registered office and principal place of business is:

<b><u>Registered office</u></b>	<b><u>Principal place of business</u></b>
1 Shakespeare Street Heathcote VIC 3523	Shop 2, 119 High Street Heathcote VIC 3523

## 26. Financial Instruments

### Net fair values

The net fair values of financial assets and liabilities approximate the carrying values as disclosed in the Statement of Financial Position. The company does not have any unrecognised financial instruments at the year end.

### Credit risk

The maximum exposure to credit risk at balance date to recognised financial assets is the carrying amount of those assets as disclosed in the Statement of Financial Position and notes to the financial statements.

There are no material credit risk exposures to any single debtor or group of debtors under financial instruments entered into by the economic entity.

### Interest rate risk

Financial instrument	Floating interest rate	Fixed interest rate maturing in						Non interest bearing		Weighted average effective interest rate	
		1 year or less		Over 1 to 5 years		Over 5 years					
		2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	2006 %	2005 %
Financial assets											
Cash assets	70,757	239,661	200,000	-	-	-	-	-	-	5.05	4.95
Receivables	-	-	-	-	-	-	-	7,200	13,022	-	N/A
Financial liabilities											
Interest bearing liabilities	-	-	-	-	-	-	-	11,940	-	Nil.	N/A
Payables	-	-	-	-	-	-	-	9,813	17,158	-	N/A

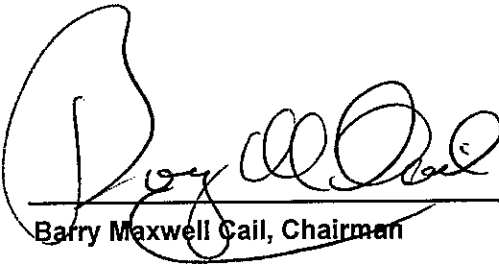
**Heathcote & District Financial Services Limited**  
**ABN 44 112 376 986**  
**Directors' Declaration**

In accordance with a resolution of the directors of Heathcote & District Financial Services Limited, we state that:

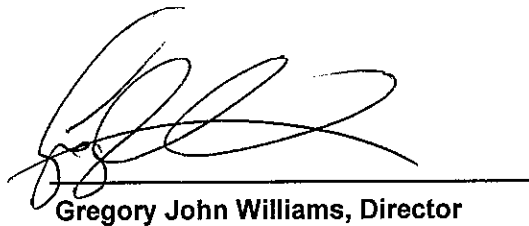
In the opinion of the directors:

- (a) the financial statements and notes of the company are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's financial position as at 30 June 2006 and of its performance for the financial year ended on that date; and
  - (ii) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



Barry Maxwell Gail, Chairman



Gregory John Williams, Director

Signed on the 19th of September 2006.



Chartered Accountants & Business Advisors

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www.afsbendigo.com.au  
ABN 51 061 795 337

## **INDEPENDENT AUDIT REPORT**

To the members of Heathcote & District Financial Services Limited

### **Scope**

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, a summary of significant accounting policies and other explanatory notes and the directors' declaration for Heathcote & District Financial Services Limited for the financial year ended 30 June 2006.

The company has disclosed information about the compensation of key management personnel ("compensation disclosures"), as required by Accounting Standard AASB 124 Related Party Disclosures ("AASB 124") under the heading "remuneration report" in the directors' report as permitted by the ASIC class order 06/50. These compensation disclosures are identified in the directors' report as being subject to audit. The remuneration report also contains information not subject to audit.

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

### **Audit approach**

We have conducted an independent audit of the financial report and compensation disclosures in order to express an opinion on them to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement and the compensation disclosures comply with AASB 124. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, 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 form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards in Australia and the Corporations Act 2001 so as to present a view which is consistent with our understanding of the company's financial position, and performance as represented by the results of its operations, its changes in equity and their cash flows and whether the compensation disclosures comply with AASB 124.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and 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.

The audit opinion expressed in this report has been formed on the above basis.

### **Audit Opinion**

In our opinion:

1. the financial report of Heathcote & District Financial Services Limited is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's financial position as at 30 June 2006 and of its performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations; and
2. the compensation disclosures that are contained in the directors' report under the heading "remuneration report" comply with Accounting Standard AASB 124 *Related Party Disclosures*.

**DAVID HUTCHINGS**

**ANDREW FREWIN & STEWART**

61-65 Bull Street, Bendigo, VIC 3550

Dated this 19<sup>th</sup> day of September 2006