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# Chairman's report

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For year ending 30 June 2006

This report covers the first full year of trading by the Heathcote and District **Community Bank**<sup>®</sup> Branch.

The branch opened for very limited business on 1 July 2005, in temporary premises, awaiting the completion of the purpose-built office, where it would officially begin operations on 26 August 2005. During those first eight weeks, the temporary office was open an average of two days a week, with much of the work involving opening new accounts and re-domiciling accounts.

The opening on August 26 was a highlight of the year in Heathcote, with Bendigo Bank Managing Director Rob Hunt officially declaring the branch open.

To the end of the financial year 2005/2006, the Heathcote and District **Community Bank**<sup>®</sup> Branch was able to report banking business of more than \$23 million, well above the forecast figure of \$17.8 million contained in the prospectus. Cumulative losses for the year were \$141,600, against a forecast of \$182,700.

This is an encouraging achievement for the Board of management, the staff and Shareholders.

Having said that, it is important to note that the margin income from the banking business has been marginally below expectations. The shortfall in income is directly related to significant variations in product mix compared to the forecast in the prospectus. It is expected that this will continue to have an impact on profits, in relation to the forecast in the prospectus, in the future. Full details of the financial position of the Company are to be found in the audited accounts which form part of the financial statements.

The Heathcote and District **Community Bank**<sup>®</sup> Branch is well on the way to achieving its goal of providing a banking service which will return tangible benefits to the local community.

However, the job is not yet done.

For the bank to be successful, it needs the full support of you, the Shareholders, not only by bringing your business to the Heathcote and District **Community Bank**<sup>®</sup> Branch, but by encouraging your family, colleagues and friends to do likewise. As Chairman of a dedicated Board of Directors, I am using this annual report to remind all Shareholders that this is your bank branch, your business. Please give it your support.

The past year has seen some movement on the Board table, with the departure of several of the people who were involved in the years leading up to and during the establishment phase of the branch. Former Chairman John Sheridan, former Secretary Penny Wigg, dedicated Director John Hill all made significant contributions to the Board and the establishment of the branch. They have earned our thanks and our gratitude.

The Board has been fortunate to have gained the services of Ian Cordiner, Danielle Gilmore, Patrick Connally, all of whom bring individual experience, skills and professional attributes to the Boardroom table. The Board is delighted to have such enthusiastic and dedicated people prepared to put in countless hours of honorary work for their community.

## Chairman's report continued

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One of the most pleasing aspects of the past year has been the performance of our staff. Under the guidance of our hard-working Manager Sally McGaffin, the staff have performed in an exemplary manner. Despite some duress as a result of building malfunctions in the new office, they proved once again that, in business, good staff are your greatest asset. It is interesting to note that there was no turnover of staff and in fact, during one quarter, the branch achieved the best customer service score for the region of 99 per cent from a "mystery shopper" survey focused on insurance.

The Heathcote and District **Community Bank**<sup>®</sup> Branch has been able to support a number of local organisations with donations and sponsorships, including and in particular the Heathcote Wine and Food Festival. As a Board, we look forward to being able to support more organisations as the business grows.

The operation of the Heathcote and District **Community Bank**<sup>®</sup> Branch would not be possible without our partners, the Bendigo Bank. I take this opportunity to personally thank the bank staff, in particular, former Relationship Manager Keith MacQueen, current Regional Manager David Boromeo and more recently, Acting Regional Manager Michael O'Shea, for their untiring assistance, their commitment to the **Community Bank**<sup>®</sup> model, and their friendship to the Heathcote Board of Directors. The **Community Bank**<sup>®</sup> support group, including Maree Selwood and Judy Marrone, have also been of invaluable assistance as we moved steadily forward.

While the dream is still a dream, our aim of being able to distribute profits back into the community is closer now than it was 12 months ago. But it needs everyone to play a part. It needs all of our Shareholders to be customers, all of our customers to be ambassadors. The **Community Bank**<sup>®</sup> model is a powerful community force and the community can make it happen.



**Barry Cail**  
**Chairman**

# Manager's report

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For year ending 30 June 2006

Our Chairman has already provided a comprehensive report on the results of our first year of the business, so I will simply reaffirm. Total balances including both loans and deposits as at the 30th June were \$23.8 mil from 1513 accounts and financial services products. Forecast balances for the end of the first year were \$17.8 mil.

As we only had 10 months of actual trading this was a very good result considering the budgets and forecasts were based on a full 12 months. Income at \$178,481 against budget of \$124,171 was a very good result and expenses were at \$313,055 against budget of \$318,063.

Whilst our automatic teller machine may not return any significant income to our business, it is self funding, with monthly income generated sufficient to cover its running costs. It provides an invaluable asset and service to the local community and to passing traffic.

Our qualified Financial Planner, John Bawden, has proven to be very popular with local people who have taken advantage of his regular fortnightly visits.

Many customers were not initially aware that we also provide a wide range of insurance products which is soon to include Health Insurance. This is an area in which we can look to expand our business.

I would like to personally acknowledge my staff, Supervisor Jodie Rowe, and part time Customer Service Officers, Josephine Jacobs, Wendy Peers and Cathy Perris for their contribution to the early success of the business. Their stability, professionalism and willingness to strive to meet all customers' needs is commendable. There have been no customer complaints during the year; staff absences have been nominal despite the period when building problems causing some health issues.

Loan enquiry remains firm. The majority of which consist of consumer enquiry rather than business facilities. However, our Business Banking and Agri Business specialists' colleagues have continued to service a large existing base of business customers attached to our branch and have also sourced several new business proposals. I would personally like to thank those colleagues and namely, Jim Mangan, Agri Business Manager for his support in assisting to growth our business.

When considering operational risk, I am pleased to report we received a "satisfactory" rating at our first operational audit, indicating staff are abiding by all policies and Government requirements. A good result with staff being new to the Bendigo Bank. There was only one very nominal teller discrepancy recorded for the entire year!

As outlined in Chairman's report we have used some funds budgeted for market development to provide sponsorship to several of the local community clubs who are in turn supporting the Community Bank®.

I would like to thank the retiring Chairman, John Sheridan for his strong support provided in the initial months and to our current Chairman, Barry Cail and the Board members for their efforts during the year.

## Manager's report continued

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I reaffirm the Chairman's comments, that to continue to grow, and be in a position to make worthwhile contributions back to the community, we encourage the support of all of the community and of the shareholders. As the shareholders of the Heathcote and District Community Bank® branch, if you have any ideas for projects of how our Community Bank® branch maybe able to assist the community in the future, I encourage you to discuss with any of the board members or myself, so that they maybe given consideration.

I look forward to working with you all to see the business continuing to grow and prosper in the coming year.

Thank You

A handwritten signature in black ink, appearing to read 'Sally McGaffin', with a stylized flourish at the end.

**Sally McGaffin**  
**Branch Manager.**

# Directors' report

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For year ending 30 June 2006

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 &

### **Keith Macpherson Chambers**

Director

Age: 54

Occupation: Primary School Principal

Experience and expertise:

Career in education in regional Victoria

Special responsibilities: Human Resources & Audit and Governance Committee & 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

## Directors' report continued

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### **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: Director

Special responsibilities: Audit and Governance &  
Business Development Committees

### **Colin Bernard Stobaus**

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.

### **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.

# Directors' report continued

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## 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.



# Directors' report continued

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## 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:

	Number of Board meetings eligible to attend	Number attended
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 (Appointed 27 March 2006)	4	3
Ian Douglas Cordiner (Appointed 27 March 2006)	4	4
Dannielle Maree Gilmore (Appointed 28 November 2005)	8	5
Adolf John Hill (Resigned 28 February 2006)	7	5
John Leslie Sheridan (Resigned 19 December 2006)	5	2
Penelope Jane Wigg (Resigned 28 November 2005)	4	3

## Directors' report continued

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### 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.

A copy of the Auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 31.

Signed in accordance with a resolution of the Board of Directors at Heathcote on 25 September 2006.



**Barry Maxwell Cail**  
**Chairman**



**Gregory John Williams**  
**Director**

# Financial statements

## Income statement

For year ending 30 June 2006

	Note	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>
Earnings per share (cents per share)			
- basic for losses for the year	18	(16.0)	(7.9)

The accompanying notes form part of these financial statements.

# Financial statements continued

## Balance sheet

As at 30 June 2006

	Note	2006 \$	2005 \$
<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>245,009</b>	<b>452,682</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>193,544</b>	<b>79,937</b>
<b>Total assets</b>		<b>438,553</b>	<b>532,619</b>
<b>Current liabilities</b>			
Trade and other payables	11	9,813	17,158
Borrowings	12	9,000	-
<b>Total current liabilities</b>		<b>18,813</b>	<b>17,158</b>
<b>Non-current liabilities</b>			
Borrowings	12	2,940	-
<b>Total non-current liabilities</b>		<b>2,940</b>	<b>-</b>
<b>Total liabilities</b>		<b>21,753</b>	<b>17,158</b>
<b>Net assets</b>		<b>416,800</b>	<b>515,461</b>
<b>Equity</b>			
Contributed equity	13	558,357	561,981
Accumulated losses	14	(141,557)	(46,520)
<b>Total equity</b>		<b>416,800</b>	<b>515,461</b>

The accompanying notes form part of these financial statements.

# Financial statements continued

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## Equity statement

As at 30 June 2006

	Note	2006 \$	2005 \$
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)
<b>Total equity at the end of the financial year</b>		<b>416,800</b>	<b>515,461</b>

The accompanying notes form part of these financial statements.

# Financial statements continued

## Statement of cash flows

As at 30 June 2006

	Note	2006 \$	2005 \$
<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>	<b>15(b)</b>	<b>(108,414)</b>	<b>(62,320)</b>
<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>		<b>(101,754)</b>	<b>(60,000)</b>
<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>		<b>8,316</b>	<b>561,981</b>
Net increase/(decrease) in cash held		(201,852)	439,661
Cash at the beginning of the financial year		439,661	-
<b>Cash at the end of the financial year</b>	<b>15(a)</b>	<b>237,809</b>	<b>439,661</b>

The accompanying notes form part of these financial statements.

# Notes to the financial statements

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For year ending 30 June 2006

## Note 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).

# Notes to financial statements continued

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## **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.



# Notes to financial statements continued

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## **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

# Notes to financial statements continued

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## **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.

# Notes to financial statements continued

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## **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.

## **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.

## **Note 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.

## Notes to financial statements continued

### (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.

	2006	2005
	\$	\$

### Note 3: Revenue from ordinary activities

#### Operating activities:

- services commissions	144,103	198
- other revenue	14,583	-
<b>Total revenue from operating activities</b>	<b>158,686</b>	<b>198</b>

#### Non-operating activities:

- interest received	19,795	454
<b>Total revenue from non-operating activities</b>	<b>19,795</b>	<b>454</b>
<b>Total revenues from ordinary activities</b>	<b>178,481</b>	<b>652</b>

### Note 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	-
	<b>27,685</b>	<b>-</b>

#### Borrowing expenses:

- interest paid	4	126
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## Notes to financial statements continued

	2006	2005
	\$	\$

### Note 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)	-
<b>Income tax expense on operating loss</b>	<b>(39,538)</b>	<b>(19,937)</b>

### Note 6: Cash assets

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

### Note 7: Trade and other receivables

Trade receivables	3,618	13,022
Prepayments	3,582	-
	<b>7,200</b>	<b>13,022</b>

### Note 8: Property, plant and equipment

#### Plant and equipment

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

#### Leasehold improvements

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

<b>Total written down amount</b>	<b>77,667</b>	-
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## Notes to financial statements continued

	2006	2005
	\$	\$
Note 8: Property, plant and equipment continued		
<b>Movements in carrying amounts:</b>		
<b>Plant and equipment</b>		
Carrying amount at beginning	-	-
Additions	38,794	-
Disposals	-	-
Less: depreciation expense	(10,289)	-
<b>Carrying amount at end</b>	<b>28,505</b>	<b>-</b>
<b>Leasehold improvements</b>		
Carrying amount at beginning	-	-
Additions	54,557	-
Disposals	-	-
Less: depreciation expense	(5,396)	-
<b>Carrying amount at end</b>	<b>49,162</b>	<b>-</b>
<b>Total written down amount</b>	<b>77,667</b>	<b>-</b>

## Note 9: Intangible assets

<b>Franchise fee</b>		
At cost	60,000	60,000
Less: accumulated amortisation	(12,000)	-
<b>Goodwill on purchase of agency business</b>		
At cost	8,402	-
	<b>56,402</b>	<b>60,000</b>

## Notes to financial statements continued

	2006	2005
	\$	\$

### Note 10: Deferred tax benefit

Future income tax benefit

<b>Tax losses - revenue</b>	<b>59,475</b>	<b>19,937</b>
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### Note 11: Trade and other payables

Trade Creditors	7,213	17,158
Other creditors & accruals	2,600	-
	<b>9,813</b>	<b>17,158</b>

### Note 12: Borrowings

Current

<b>Loan from City of Greater Bendigo</b>	<b>9,000</b>	-
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Non-current

<b>Loan from City of Greater Bendigo</b>	<b>2,940</b>	-
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A 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.

### Note 13: Contributed equity

594,910 Ordinary shares fully paid of \$1 each (2005: 586,310)	594,910	586,310
Less: equity raising expenses	(36,553)	(24,329)
	<b>558,357</b>	<b>561,981</b>

### Note 14: Accumulated losses

Balance at the beginning of the financial year	(46,520)	-
Net loss from ordinary activities after income tax	(95,037)	(46,520)
Dividends Paid	-	-
<b>Balance at the end of the financial year</b>	<b>(141,557)</b>	<b>(46,520)</b>

## Notes to financial statements continued

	2006	2005
	\$	\$

### Note 15: Statement of cash flows

#### (a) Reconciliation of cash

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

#### (b) Reconciliation of loss from ordinary activities after tax to net cash used in operating activities

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
<b>Net cash flows used in operating activities</b>	<b>(108,414)</b>	<b>(62,320)</b>

### Note 16: Auditors' remuneration

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
	<b>3,250</b>	<b>4,600</b>



## Notes to financial statements continued

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### Note 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 Milbro Trust to lease the property at Shop 2, 119 High St, Heathcote, 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.

## Notes to financial statements continued

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### Note 17: Director and Related party disclosures continued

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

Each share held is valued at \$1.

### Note 18: Losses per Share

	<b>c</b>	<b>c</b>
Losses per share for the financial year were:	(16.0)	(7.9)

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### Note 19: Reconciliation from equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under AIFRS

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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.
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Impact on the balance sheet	Nil.
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# Notes to financial statements continued

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## Note 20: Subsequent events

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

## Note 21: Contingent liabilities

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

## Note 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.

## Note 23: Registered office/principal place of business

The registered office and principal place of business is:

Registered office	Principal place of business
1 Shakespeare Street, Heathcote, VIC 3523	Shop 2, 119 High Street, Heathcote, VIC 3523

# Notes to financial statements continued

## Note 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	Fixed interest rate maturing in											
	Floating		1 year		Over 1 to		Over		Non Interest		Weighted	
	interest rate		or less		5 years		5 years		Bearing		average effective interest rate	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%

### Financial assets

Cash assets	70,757	239,661	167,052	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

# Directors' declaration

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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 Cail**  
**Chairman**



**Gregory John Williams**  
**Director**

Signed on the 25th of September 2006.

# Independent audit report



Chartered Accountants & Business Advisors

## INDEPENDENT AUDIT REPORT

PO Box 454  
Bendigo VIC 3552  
61-65 Bull Street  
Bendigo VIC 3550  
Phone (03) 5443 0344  
Fax (03) 5443 5304  
afib@afibendigo.com.au  
www.afibendigo.com.au  
ABN 51 061 795 137

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

## Independent audit report continued

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ABN 51 061 795 107

### 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

# BSX report

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Additional information required by the Bendigo Stock Exchange Limited and not shown elsewhere in this report is as follows. The information is current as at 25th September 2006.

## A. Corporate governance statement

The Board guides and monitors the business and affairs on behalf of the Shareholders to whom they are accountable.

The Board recognises the importance of a strong corporate governance focus and methodology. The Board has adopted policies and procedures that will govern our Company into the future. We believe that building policy framework will assist clarify the future direction of our local Company, provide accountability and transparency and ensure there are guiding principles in place for future decision making.

## B. Substantial Shareholders – largest shareholdings

Shareholder	Number of shares	% Shareholding
Mr Richard Watson	20,000	3.4%
Compton Heights Pty Ltd (Super Find A/C)	10,000	1.7%
R J & E M Laughton (Jasper Hill Vineyard Pty Ltd Super Fund)	10,000	1.7%
F J & H F Granter (Granter Family Trust)	10,000	1.7%
Mrs Helena Ferrier Granter	10,000	1.7%
Mr Frederick James Granter	10,000	1.7%
Mrs Hazel Eastlake	10,000	1.7%
Height Insurance Pty Ltd (Super Find A/C)	10,000	1.7%
Mr Colin Thomas Stephens	10,000	1.7%
Mr David Geoffrey Stephens	10,000	1.7%
R J & J Downing (Downing Estate Super A/C)	10,000	1.7%
Mr Cyril James & Mrs Janice Helene Duff	10,000	1.7%
Connally's Real Estate & Stock Agency Pty Ltd	10,000	1.7%
J M & D Barnes Pty Ltd (DW Barnes Super Fund A/C)	10,000	1.7%
Bms Retail Group Pty Ltd	10,000	1.7%
Mrs Deanhna & Mr David Culshaw	10,000	1.7%
Mr Ray Ingleby	10,000	1.7%
Ms Elizabeth Kate Secomb	10,000	1.7%
Derek Viner Pty Ltd	10,000	1.7%
The Gordon Sloan Super Fund	10,000	1.7%
Chrilyn Pty Ltd	10,000	1.7%
Belgair Superannuation Fund	10,000	1.7%
	<b>230,000</b>	<b>38.7%</b>



# BSX report continued

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## C. Voting rights

Each Shareholder has one vote

## D. Distribution of Shareholders

The number of Shareholders, by size of holding, is:

	Ordinary Shares	
	Number of holders	Number of Shares
1 - 1,000	208	112,610
1,001 - 5,000	76	224,300
5,001 - 10,000	25	238,000
10,001 - 100,000	1	20,000
100,001 and over	-	-
<b>Total</b>	<b>310</b>	<b>594,910</b>

There are no Shareholders holding less than a marketable parcel of shares.

## E. Monitoring of the Board's performance and communication to Shareholders

In order to ensure that the Board continues to discharge its responsibilities in an appropriate manner, the performance of all Director's is reviewed annually by the chairperson. Director's whose performance is unsatisfactory are asked to retire.

The Board and Director's aims to ensure that Shareholders, on behalf of whom they act, are informed of all information necessary to assess the performance of the Directors.

The Board has an Audit Committee.

## F. Address and telephone number of the Office which securities register is kept:

Computershare Investor Services Pty Ltd

60 Carrington St

Sydney, NSW 2000

Telephone: 02 8234 5000

## G. Heathcote & District Community Financial Services Limited

Company Secretary

1 Shakespeare St

Heathcote, VIC 3523

Telephone: 03 5433 3115





