

**Heathcote & District  
Financial Services Limited**

**Financial Statements**

**as at**

**30 June 2009**

**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 2009.

**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**

Chairman  
Age: 56  
Occupation: Business Owner  
Experience & expertise: Career in journalism  
Interests in shares: 2,001

**Caroline FitzGerald James**

Director  
Age: 65  
Occupation: Owner/Manager  
Experience & expertise: Education & Administration  
Interests in shares: 500

**Joseph Zurek**

Director  
Age: 61  
Occupation: Retired  
Experience & expertise: Corporate accountant,  
Supermarket proprietor  
Interests in shares: 10,001

**Keith Macpherson Chambers**

Director  
Age: 56  
Occupation: Retired  
Experience & expertise: Education  
Interests in shares: 1,001

**Colin Bernard Stobaus**

Director  
Age: 63  
Occupation: Builder  
Experience & expertise: Building industry  
Interests in shares: 3,001

**Ian Douglas Cordiner**

Director  
Age: 69  
Occupation: Director  
Experience & expertise: Senior management  
Interests in shares: 6,001

**Eleanor Louise Johnson Dempster**

Director  
Age: 49  
Occupation: Self employed  
Experience & expertise: Small business,  
agriculture  
Interests in shares: Nil

**Gregory Ian Speirs**

Director  
Age: 59  
Occupation: Manager  
Experience & expertise: Local Government  
Interests in shares: 5,000

**Bryan Rutherford Wearne**

Director (*Appointed 21 April 2009*)  
Age: 49  
Occupation: General Manager  
Experience & expertise: Marketing  
Interests in shares: Nil

**Patrick Joseph Connally**

Director (*Resigned 31 July 2009*)

**Gregory John Williams**

Director (*Resigned 2 March 2009*)

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 16 in the Notes to the Financial Statements.

**Company Secretary**

The Company Secretary is Kathryn Mary Gilmore. Kathryn was appointed to this position on the 1 September 2008. Kathryn has previously held the position and was the initial Secretary from 5 January 2005 until 28 August 2006. She also has extensive administration expertise and works for a Bendigo accountancy firm.

**Principal activities**

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

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

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

**Operating Results**

The recent global financial crisis has adversely impacted the stability of the international financial system. The current global financial crisis presents a challenge for all financial institutions, including Bendigo and Adelaide Bank and in turn Heathcote & District Financial Services Limited. The duration and extent of the global financial crisis is still largely unknown and continuation of these conditions could adversely affect the ongoing financial performance or financial condition of the Company's business as a franchisee of a Community Bank® branch. The profit of the company for the financial year after provision for income tax was:

Year ended 30 June 2009	Year ended 30 June 2008
\$	\$
26,268	11,936

**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 Company executives who are directly accountable and responsible for the strategic direction and operational management of the entity. This is wholly a Board role (who act in a voluntary capacity).

Therefore the board is of the view that there are no Senior Managers as defined by the Corporations Act.

**Dividends**

No dividends were declared or paid in the previous year and the Directors are reviewing the financial situation of the Company and anticipate a dividend will be declared in the near future.

**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 facilitating banking services to the community.

**Environmental Regulation**

The company is not subject to any significant environmental regulation.

**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 except as disclosed in note 16 to the financial statements. 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.

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

**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 Manager 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>Number of Board Meetings eligible to attend</b>	<b>Number attended</b>
Barry Maxwell Cail	11	9
Caroline FitzGerald James	11	9
Joseph Zurek	11	10
Keith Macpherson Chambers	11	8
Colin Bernard Stobaas	11	5
Ian Douglas Cordiner	11	11
Eleanor Louise Johnson Dempster	11	8
Gregory Ian Speirs	11	9
Bryan Rutherford Wearne ( <i>Appointed 21 April 2009</i> )	3	3
Patrick Joseph Connally ( <i>Resigned 31 July 2009</i> )	11	4
Gregory John Williams ( <i>Resigned 2 March 2009</i> )	7	1

**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 is 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:

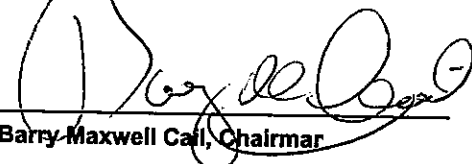
all non-audit services have been reviewed by the audit committee to ensure they do not impact on the impartiality and objectivity of the Auditor;

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.

**Auditors' independence declaration**

A copy of the Auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 4.

Signed in accordance with a resolution of the Board of Directors at Heathcote, Victoria on 31 August 2009

  
Barry Maxwell Cail, Chairman

  
Caroline FitzGerald James, Director

**Lead Auditor's Independence Declaration under section 307C of the Corporations Act 2001  
to the directors of Heathcote & District Financial Services Limited**

I declare that to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2009 there have been:

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



**David Hutchings**  
**Auditor**

**Andrew Frewin & Stewart**  
Bendigo, Victoria

Dated 31<sup>st</sup> day of August 2009

**Heathcote & District Financial Services Limited**  
**ABN 44 112 376 986**  
**Income Statement**  
**for the year ended 30 June 2009**

	<u>Notes</u>	<b>2009</b> <b>\$</b>	<b>2008</b> <b>\$</b>
Revenues from ordinary activities	3	480,648	402,589
Salaries and employee benefits expense		(249,951)	(229,155)
Advertising and promotion expenses		(33,474)	(8,598)
Occupancy and associated costs		(34,695)	(33,053)
Systems costs		(22,004)	(22,986)
Depreciation and amortisation expense	4	(19,218)	(19,303)
General administration expenses		(82,970)	(70,781)
<b>Profit before income tax expense</b>		<b>38,336</b>	<b>18,713</b>
Income tax expense	5	(12,068)	(6,777)
<b>Profit for the period</b>		<b>26,268</b>	<b>11,936</b>
<b>Profit attributable to members of the entity</b>		<b>26,268</b>	<b>11,936</b>
<b>Earnings per share (cents per share)</b>		<b>c</b>	<b>c</b>
- basic for profit for the year	18	4.4	2

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 2009**

	<u>Notes</u>	2009 \$	2008 \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash assets	6	262,075	236,706
Trade and other receivables	7	27,139	17,349
<b>Total Current Assets</b>		<u><b>289,214</b></u>	<u><b>254,055</b></u>
<b>Non-Current Assets</b>			
Property, plant and equipment	8	79,849	60,975
Intangible assets	9	20,402	32,402
Deferred tax assets	10	51,337	63,405
<b>Total Non-Current Assets</b>		<u><b>151,588</b></u>	<u><b>156,782</b></u>
<b>Total Assets</b>		<u><b>440,802</b></u>	<u><b>410,837</b></u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	11	15,146	11,449
<b>Total Current Liabilities</b>		<u><b>15,146</b></u>	<u><b>11,449</b></u>
<b>Total Liabilities</b>		<u><b>15,146</b></u>	<u><b>11,449</b></u>
<b>Net Assets</b>		<u><b>425,656</b></u>	<u><b>399,388</b></u>
<b>Equity</b>			
Issued capital	12	558,357	558,357
Accumulated losses	13	(132,701)	(158,969)
<b>Total Equity</b>		<u><b>425,656</b></u>	<u><b>399,388</b></u>

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 2009**

	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Total equity at the beginning of the period	399,388	387,452
Net profit for the period	26,268	11,936
Net income/expense recognised directly in equity	-	-
Total income and expense recognised by the entity for the year	<u>26,268</u>	<u>11,936</u>
Dividends provided for or paid	-	-
Shares issued during period	-	-
Costs of issuing shares	-	-
Total equity at the end of the period	<u><u>425,656</u></u>	<u><u>399,388</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 2009**

	<u>Notes</u>	2009 \$	2008 \$
<b>Cash Flows From Operating Activities</b>			
Receipts from customers		501,992	383,583
Payments to suppliers and employees		(466,744)	(363,766)
Interest received		16,213	12,431
<b>Net cash provided by operating activities</b>	14	<u>51,461</u>	<u>32,248</u>
<b>Cash Flows From Investing Activities</b>			
Payments for property, plant and equipment		(26,092)	-
<b>Net cash used in investing activities</b>		<u>(26,092)</u>	<u>-</u>
<b>Cash Flows From Financing Activities</b>			
Repayment of borrowings		-	(2,940)
<b>Net cash used in financing activities</b>		<u>-</u>	<u>(2,940)</u>
<b>Net increase in cash held</b>		25,369	29,308
Cash at the beginning of the financial year		236,706	207,398
<b>Cash at the end of the half-year</b>	6(a)	<u>262,075</u>	<u>236,706</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 2009**

**1. Summary of significant accounting policies**

**Basis of preparation**

This general purpose financial report has been prepared in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001.

*Compliance with IFRS*

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial statements and notes comply with International Financial Reporting Standards (IFRS). These financial statements and notes comply with IFRS.

*Historical cost convention*

The financial report has been prepared under the historical cost conventions on an accruals basis as modified by the revaluation of financial assets and liabilities at fair value through profit or loss and where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

**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.

**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.

**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 2009**

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

**Income tax (*continued*)**

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method on 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 there is a legally enforceable right to offset current tax and when the balances relate to taxes levied by the same taxation authority and the Company intends to settle its 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.

**Employee entitlements**

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

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. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

**Comparative figures**

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

**Heathcote & District Financial Services Limited**  
**ABN 44 112 376 986**  
**Notes to the Financial Statements**  
**for the year ended 30 June 2009**

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

**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

**Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired branch/agency at the date of acquisition. Goodwill on acquisition is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Company's investment in each branch.

**Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below:

*Estimated Impairment of Goodwill*

The Company tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1(above). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions.

## **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 that have an indefinite useful life 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.

### **Trade 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 initially measured at the principal amount. Interest is recognised as an expense as it accrues.

### **Financial Instruments**

#### Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial instruments are initially measured at fair value plus transactions costs. Financial instruments are classified and measured as set out below.

#### Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset.

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

### Financial Instruments (*continued*)

#### Classification and Subsequent Measurement

(i) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

(ii) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the entity's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

(iii) *Financial Liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

#### Impairment

At each reporting date, the entity assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the income statement.

### Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the entity are classified as finance leases. Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

### 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 Equity

Ordinary shares are 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.

### Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

## **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 and Adelaide 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 and Adelaide Bank Limited mitigates this risk significantly.

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

Interest-bearing assets are held with Bendigo and Adelaide 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 and Adelaide Bank Limited mitigates this risk significantly.

### **(vi) Capital management**

The Board's policy is to maintain a strong capital base so as to sustain future development of the Company. The Board of Directors monitor the return on capital and the level of dividends to Shareholders. Capital is represented by total equity as recorded in the Balance Sheet.

In accordance with the franchise agreement, in any 12 month period, the funds distributed to shareholders shall not exceed the Distribution Limit.

- (i) the Distribution Limit is the greater of:
  - (a) 20% of the profit or funds of the Franchisee otherwise available for distribution to Shareholders in that 12 month period; and
  - (b) subject to the availability of distributable profits, the Relevant Rate of Return multiplied by the average level of share capital of the Franchisee over that 12 month period; and
- (ii) the Relevant Rate of Return is equal to the weighted average interest rate on 90 day bank bills over that 12 month period plus 5%.

The Board is managing the growth of the business in line with this requirement. There are no other externally imposed capital requirements, although the nature of the Company is such that amounts will be paid in the form of charitable donations and sponsorship. Charitable donations and sponsorship paid for the year ended 30 June 2009 can be seen in the Income Statement.

There were no changes in the Company's approach to capital management during the year.

**Heathcote & District Financial Services Limited**  
**ABN 44 112 376 986**  
**Notes to the Financial Statements**  
**for the year ended 30 June 2009**

**3. Revenue from ordinary activities**

	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Operating activities:		
- services commissions	424,717	353,929
- other revenue	40,617	35,417
Total revenue from operating activities	<u>465,334</u>	<u>389,346</u>
Non-operating activities:		
- interest received	15,314	13,243
Total revenue from non-operating activities	<u>15,314</u>	<u>13,243</u>
Total revenues from ordinary activities	<u><u>480,648</u></u>	<u><u>402,589</u></u>

**4. Expenses**

Depreciation of non-current assets:		
- plant and equipment	2,578	4,132
- leasehold improvements	4,640	3,171
Amortisation of non-current assets:		
- franchise agreement	12,000	12,000
	<u>19,218</u>	<u>19,303</u>

**5. Income tax expense**

The components of tax expense comprise:

- Current tax	-	-
- Deferred tax	2,153	-
- Recoupment of prior year tax losses	9,915	6,777
- Future income tax benefit attributable to losses	-	-
	<u>12,068</u>	<u>6,777</u>

The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:

Operating profit	38,336	18,713
Prima facie tax on profit from ordinary activities at 30%	11,501	5,614
Add tax effect of:		
- non-deductible expenses	3,600	3,600
- timing difference expenses	322	(244)
- other deductible expenses	(5,508)	(2,193)
Current tax	9,915	6,777
Movement in deferred tax	2,153	-
Income tax expense on operating profit	<u>12,068</u>	<u>6,777</u>

10.

**6. Cash assets**

Cash at bank and on hand	39,223	35,169
Term Deposits	222,852	201,537
	<u>262,075</u>	<u>236,706</u>

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cashflows as follows:

**6(a) Reconciliation of cash**

Cash at bank and on hand	39,223	35,169
Term deposit	222,852	201,537
	<u>262,075</u>	<u>236,706</u>



**Heathcote & District Financial Services Limited**  
**ABN 44 112 376 986**  
**Notes to the Financial Statements**  
**for the year ended 30 June 2009**

	2009 \$	2008 \$
<b>7. Trade and other receivables</b>		
Trade receivables	22,107	12,143
Prepayments	5,032	5,206
	<u>27,139</u>	<u>17,349</u>
 <b>8. Property, plant and equipment</b>		
<i>Plant and equipment</i>		
At cost	44,890	38,794
Less accumulated depreciation	(20,658)	(18,081)
	<u>24,232</u>	<u>20,713</u>
 <i>Leasehold improvements</i>		
At cost	74,553	54,557
Less accumulated depreciation	(18,936)	(14,295)
	<u>55,617</u>	<u>40,262</u>
 Total written down amount	<u>79,849</u>	<u>60,975</u>
<b>Movements in carrying amounts:</b>		
<i>Plant and equipment</i>		
Carrying amount at beginning	20,713	23,884
Additions	6,096	-
Disposals	-	-
Less: depreciation expense	(2,577)	(3,171)
Carrying amount at end	<u>24,232</u>	<u>20,713</u>
 <i>Leasehold improvements</i>		
Carrying amount at beginning	40,262	44,394
Additions	19,996	-
Disposals	-	-
Less: depreciation expense	(4,641)	(4,132)
Carrying amount at end	<u>55,617</u>	<u>40,262</u>
 Total written down amount	<u>79,849</u>	<u>60,975</u>
 <b>9. Intangible assets</b>		
<i>Franchise Fee</i>		
At cost	60,000	60,000
Less: accumulated amortisation	(48,000)	(36,000)
Goodwill (Purchase of Agency)	8,402	8,402
	<u>20,402</u>	<u>32,402</u>
 <b>10. Deferred Tax</b>		
Deferred Tax		
- Opening Balance	63,405	70,182
Future income tax benefits attributable to losses	-	-
Recoupment of prior year tax losses	(9,915)	(6,777)
Deferred tax on provisions	(2,153)	-
- Closing Balance	<u>51,337</u>	<u>63,405</u>

**Heathcote & District Financial Services Limited**  
**ABN 44 112 376 986**  
**Notes to the Financial Statements**  
**for the year ended 30 June 2009**

	2009	2008
	\$	\$
<b>11. Trade and other payables</b>		
Trade Creditors	10,346	6,949
Other creditors & accruals	4,800	4,500
	<u>15,146</u>	<u>11,449</u>
<b>12. Contributed equity</b>		
594,910 Ordinary shares fully paid of \$1 each (2008: 594,910)	594,910	594,910
Less: equity raising expenses	(36,553)	(36,553)
	<u>558,357</u>	<u>558,357</u>

**Rights attached to shares**

(a) *Voting Rights*

Subject to some limited exceptions, each member has the right to vote at a general meeting.

On a show of hands or a poll, each member attending the meeting (whether they are attending the meeting in person or by attorney, corporate representative or proxy) has one vote, regardless of the number of shares held. However, where a person attends a meeting in person and is entitled to vote in more than one capacity (for example, the person is a member and has also been appointed as proxy for another member) that person may only exercise one vote on a show of hands. On a poll, that person may exercise one vote as a member and one vote for each other member that person represents as duly appointed attorney, corporate representative or proxy.

The purpose of giving each member only one vote, regardless of the number of Shares held, is to reflect the nature of the Company as a community based company, by providing that all members of the community who have contributed to the establishment and ongoing operation of the Community Bank® have the same ability to influence the operation of the Company.

(b) *Dividends*

Generally, dividends are payable to members in proportion to the amount of the share capital paid up on the shares held by them, subject to any special rights and restrictions for the time being attaching to shares. The Franchise Agreement with Bendigo and Adelaide Bank Limited contains a limit on the level of profits or funds that may be distributed to Shareholders. There is also a restriction on the payment of dividends to certain Shareholders if they have a prohibited shareholding interest (see below).

(c) *Transfer*

Generally, ordinary shares are freely transferable. However, the Directors have a discretion to refuse to register a transfer of shares.

Subject to the foregoing, Shareholders may transfer shares by a proper transfer effected in accordance with the Company's constitution and the Corporations Act 2001.

**Prohibited shareholding interest**

A person must not have a prohibited shareholding interest in the Company.

In summary, a person has a prohibited shareholding interest if any of the following applies:

- They control or own 10% or more of the shares in the Company (the "10% limit").

As with voting rights, the purpose of this prohibited shareholding provision is to reflect the community-based nature of the Company.

Where a person has a prohibited shareholding interest, the voting and dividend rights attaching to the shares in which the person (and his or her associates) have a prohibited shareholding interest, are suspended.

The Board has the power to request information from a person who has (or is suspected by the Board of having) a legal or beneficial interest in any shares in the Company or any voting power in the Company, for the purpose of determining whether a person has a prohibited shareholding interest. If the Board becomes aware that a member has a prohibited shareholding interest, it must serve a notice requiring the member (or the member's associate) to dispose of the number of Shares the Board considers necessary to remedy the breach. If a person fails to comply with such a notice within a specified period (that must be between three and six months), the Board is authorised to sell the specified Shares on behalf of that person. The holder will be entitled to the consideration from the sale of the Shares, less any expenses incurred by the Board in selling or otherwise dealing with those shares.

In the Constitution, members acknowledge and recognise that the exercise of the powers given to the Board may cause considerable disadvantage to individual members, but that such a result may be necessary to enforce the prohibition.

**Heathcote & District Financial Services Limited**

**ABN 44 112 376 986**

**Notes to the Financial Statements  
for the year ended 30 June 2009**

	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
<b>13. Accumulated losses</b>		
Balance at the beginning of the financial year	(158,969)	(170,906)
Net profit from ordinary activities after income tax	26,268	11,936
Dividends Paid	-	-
Balance at the end of the financial year	<u>(132,702)</u>	<u>(158,969)</u>

**14. Statement of cashflows**

*Reconciliation of loss from ordinary activities after tax to net cash provided by operating activities*

Profit from ordinary activities after income tax	26,268	11,936
Non cash items:		
- depreciation	7,218	7,303
- amortisation	12,000	12,000
Changes in assets and liabilities:		
- increase in receivables	(9,791)	(8,198)
- decrease in other assets	12,068	6,777
- increase in payables	3,698	2,430
Net cashflows provided by operating activities	<u>51,461</u>	<u>32,248</u>

**15. Auditors' remuneration**

Amounts received or due and receivable by the Auditor of the Company for:

- audit & review services	4,500	4,000
- non audit services	2,713	150
	<u>7,213</u>	<u>4,150</u>

**16. Director and Related party disclosures**

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

Barry Maxwell Cail

Caroline FitzGerald James

Joseph Zurek

Keith Macpherson Chambers

Colin Bernard Stobaus

Ian Douglas Cordiner

Eleanor Louise Johnson Dempster

Gregory Ian Speirs

Bryan Rutherford Wearne (*Appointed 21 April 2009*)

Patrick Joseph Connally (*Resigned 31 July 2009*)

Gregory John Williams (*Resigned 2 March 2009*)

The Company has entered into an agreement with Mitbro Trust to lease the property at 2/119 High St. Heathcote for a five year period terminating on 25 August 2010. Director Joseph Zurek is a trustee of the Mitbro Trust. The contract was approved by the Board with Mr Zurek declaring a pecuniary interest and excluding himself from board discussions and approval processes undertaken by the Board. Total payments made under this contract were \$20,593 (2008: \$19,674).

The Company had entered into an agreement with Cherax Pty Ltd for Accounting Services for a two year period terminating on 30 June 2009. Former Director Gregory John Williams is a Shareholder and Director of Cherax Pty Ltd. The contract is now finalised and payments made under this contract were \$Nil (2008: \$2,750).

No other Directors 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.

**Heathcote & District Financial Services Limited**  
**ABN 44 112 376 986**  
**Notes to the Financial Statements**  
**for the year ended 30 June 2009**

**16. Director and Related party disclosures (continued)**

<b>Directors shareholdings</b>	<b><u>2009</u></b>	<b><u>2008</u></b>
Barry Maxwell Cail	2,001	2,001
Caroline FitzGerald James	500	500
Joseph Zurek	10,001	10,001
Keith Macpherson Chambers	1,001	1,001
Colin Bernard Stobaus	3,001	3,001
Ian Douglas Cordiner	6,001	6,001
Eleanor Louise Johnson Dempster	-	-
Gregory Ian Speirs	5,000	5,000
Bryan Rutherford Wearne ( <i>Appointed 21 April 2009</i> )	-	-
Patrick Joseph Connally ( <i>Resigned 31 July 2009</i> )	10,001	10,001
Gregory John Williams ( <i>Resigned 2 March 2009</i> )	2,001	2,001

There was no movement in Directors shareholdings during the year.

**17. Earnings per Share**

	<b><u>2009</u></b>	<b><u>2008</u></b>
	<b><u>\$</u></b>	<b><u>\$</u></b>
(a) Profit attributable to the ordinary equity holders of the Company used in calculating earnings per share	26,268	11,936
	<b><u>2009</u></b>	<b><u>2008</u></b>
	<b><u>Number</u></b>	<b><u>Number</u></b>
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	594,910	594,910

**18. Events occurring after the balance sheet date**

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

**19. Contingent liabilities**

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

**20. Segment reporting**

The economic entity operates in the service sector where it facilitates community banking services pursuant to a franchise agreement with Bendigo and Adelaide Bank Limited. The economic entity operates in the geographic area of Heathcote and Nagambie districts of Victoria.

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

The registered office and principal place of business is:

**Registered office**  
Shop 2, 119 High St  
Heathcote VIC 3523

**Principal place of business**  
Shop 2, 119 High St  
Heathcote VIC 3523

## 22. 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	
	2009 \$	2008 \$	1 year or less		Over 1 to 5 years		Over 5 years		2009 \$	2008 \$	2009 %	2008 %
			2009 \$	2008 \$	2009 \$	2008 \$	2009 \$	2008 \$	2009 \$	2008 \$		
Financial assets												
Cash assets	39,223	62,677	-	-	-	-	-	-	1	41	0.5	0.5
Investments (1)	30,000	-	-	-	-	-	-	-	-	-	1.85	N/A
Investments (2)	-	-	192,852	173,988	-	-	-	-	-	-	6.55	6.6
Receivables	-	-	-	-	-	-	-	-	27,139	17,349	N/A	N/A
Financial liabilities												
Payables	-	-	-	-	-	-	-	-	15,146	11,449	N/A	N/A

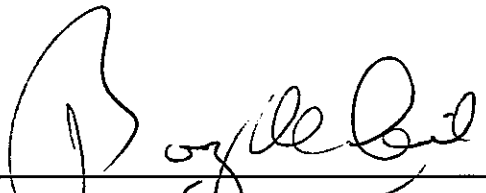
**Heathcote & District Financial Services Limited**  
**ABN 44 112 376 986**  
**Directors' Declaration**

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 2009 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.
- (c) the audited remuneration disclosures set out in the remuneration report section of the Directors' report comply with Accounting Standard AASB174 Related Party Disclosures and the Corporations Regulations 2001.

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

  
Barry Maxwell Cail, Chairman  
Caroline FitzGerald James, Director

Signed on the 31st of August 2009.

## INDEPENDENT AUDITOR'S REPORT

To the members of Heathcote & District Financial Services Limited

We have audited the accompanying financial statements of Heathcote & District Financial Services Limited, which comprise the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

### Directors' Responsibility for the Financial Report

The Directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 1, the directors also state in accordance with the Accounting Standard AASB 101 Presentation of Financial Statements that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

### Auditor's Responsibility

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

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

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

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

## Independence

In conducting our audit we have met the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report and the remuneration disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

## Auditor's Opinion on the Financial Report

In our opinion:

- 1) The financial report of Heathcote & District Financial Services Limited is in accordance with the Corporations Act 2001 including
  - (a) giving a true and fair view of the company's financial position as at 30 June 2009 and of its financial performance and its cash flows for the year then ended and;
  - (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001 and;
- 2) The financial statements and notes also complies with International Financial Reporting Standards as disclosed in Note 1

## Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### Auditor's Opinion

In our opinion, the Remuneration Report of Heathcote & District Financial Services Limited for the year ended 30 June 2009, complies with section 300A if the Corporations Act 2001.



**DAVID HUTCHINGS**

**ANDREW FREWIN & STEWART**

61-65 Bull Street, Bendigo, 3550

Dated 31<sup>st</sup> day of August 2009