

HOBSON'S BAY COMMUNITY FINANCIAL SERVICES LTD

A.C.N. 091 661 166

Annual Report

For the year ended 30 June 2006

HOBSON'S BAY COMMUNITY FINANCIAL SERVICES LTD
A.C.N. 091 661 166

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CHAIRMAN'S REPORT

As you will see from the attached financial results, this report signifies the progress of our Company in terms of solid growth. Who would have imagined that within six years of opening the Laverton branch we would have \$160 million in balances with over 12,000 accounts.

As Directors, in partnership with the Bendigo Bank, we offered the community an opportunity to address the concerns created by the withdrawal of banking services. It is community minded people (our shareholders) who demonstrated through positive actions what could be achieved if the community stood as one.

Effective communication works both ways and we welcome feedback from our shareholders on ways we can improve, or simply to let us know that we are heading in the right direction.

During the past six years for Laverton and three years for Altona and one year for Point Cook our branches have developed and are today considered to play a vital role in our community. I take this opportunity on behalf of the Board of Directors to thank all our staff for the tremendous job they do. Without the competent cheerful staff that we have we wouldn't be as successful as we are. The board is confident that by continuing to deliver the high standard of service our customers are now accustomed to, our value within the community will continue to increase.

The last twelve months have been very busy with the celebration of Laverton's 6th Birthday, Altona's 3rd Birthday, Laverton Festival, Bayside Festival, Christmas by the Lake, assisting with the Altona Beach Market, sponsorship of various sporting clubs and community groups and support to local schools to towards rewarding a student or students for school or community achievements. Our Community Grants Program has been another significant milestone in giving back to the community together with the establishment of the Foundation in which our company contributed a further \$20,000 towards in assisting community groups who applied.

We are also extremely proud to announce that The Youth Foundation Victoria, a unique initiative of the Victorian Government and the Community Enterprise™ Foundation, the philanthropic arm of the Bendigo Bank, was launched at the recent Bendigo Bank Community Bank® National Conference by Victorian Treasurer John Brumby, the Hobson's Bay Youth Foundation Victoria project will enable young people to form groups to determine the needs of their communities and with mentoring from local leaders, to undertake the process of fundraising and grant making to meet these needs.

Leading the way in the Hobson's Bay area, with a show of support for the project, is the Altona Community Bank® Branch, Laverton/Altona Meadows Community Bank® Branch and Point Cook sub-branch who have committed \$100,000 over four years to establish the first Youth Foundation Victoria.

We are very proud of our achievements to date and are mindful of the importance you, the shareholders, have played by providing initial start up capital. Perhaps, just as importantly, you are also a customer and continue to support the banking and financial services the branches can offer you, your family and friends.

Business expansion cannot happen by itself and should not happen unless there are well designed plans to ensure the sustainability and continued viability of the business. I can assure shareholders that the board will not make any decision which will in any way risk the solid financial basis we have developed during the past five years. The opening of a sub-branch at Point Cook in Sanctuary Lakes Shopping Centre in June has proved to be a very positive move in the right direction. This branch is well on the way to becoming another Community Bank[®] in October / November 2006.

As our company expands, it has become increasingly necessary for our Directors to increase their knowledge and skill level to enable us to take the next step with confidence. Over the past twelve months Directors have attended Regional Conference's, the Bendigo Bank National Conference and Director Development Programs to increase their knowledge and skills.

The Company is now listed with the Bendigo Stock Exchange allowing transparency in sale and disposal of shares.

The Board of Directors works closely with Bendigo Bank staff. Representatives attend Board meetings from time to time and their input is most helpful and appreciated.

I would also like to take this opportunity to thank my fellow Directors for their contribution and support during the year. Without their support this company would not run as effectively as it has been. This is coupled by the immense work Dionne Thomas my secretary endures daily in co-ordinating events, meetings and general day to day business of the Company.

In order for Community[®] Banks to continue to exist in the community we still need to encourage more people to use our bank and utilise all of the services we offer for both personal and business use.

I look forward to meeting with shareholders at the Annual General Meeting. and extend our warm thanks and patience to our shareholders.

Kind regards

Henry DaSilva
Chairman

MANAGER'S REPORT

Hello to everyone. This is my sixth Annual Report I will have written and I am writing this after attending Bendigo Bank's Annual Community Bank Conference, held for the first time outside of Bendigo in the TELSTRA DOME. This was due to Bendigo City not having a venue capable of handling the 400 attendees. This was the seventh such conference I have attended, particularly relevant for our Community Bank as our Laverton Youth Foundation, in partnership with The State Government, was announced for the first time by State Treasurer John Brumby, however I'm sure you'll hear more about this exciting initiative from others elsewhere in this report.

I was struck by the growth and development evident in the Bendigo Bank staff, many who I only see at these Annual Conferences. Seeing these individuals, some younger, some older, some very senior and many just starting out on their careers standing up there on stage rubbing shoulders with the John Brumby's of Our World, it was evident how far they had come as individuals in those six years. There is no doubt this growth mirrored Bendigo Bank's and obviously our own Company, our branches and our staff.

From humble beginnings just over six years ago, on that cold and wet and windy Laverton winter's night when Premier Steve Brack's officially opened our first branch, we've opened a second and now a third branch and have more than 12,000 account holders and some \$160Million in balances under management, employees numbers growing from the original 5 to 16 staff. I know that I personally have developed well out of my comfort zone and I also know our staff have too!

A Community Bank operates within a Community-obviously and I want to reflect on what are our three communities for a moment. Laverton in particular was in a fairly sorry state six years ago but boy look at it now. Go further and look at the plans for Laverton and the district and the focus The State Government is placing on the area, with funds and resources, and I'm sure this development and maturity I'm talking about in this report relates to our first Community. The same can be said for Altona where four years ago there was a 30-40% vacancy rate in the buildings in that precinct, however, try and rent a property now. It is a restaurant and dining area rivalling - no - bettering Williamstown. Of course I'm not suggesting Community Banks opening were the sole reason for this rebirth, but I would contend they were a significant contributing factor and of course we look forward to a similar input in the Point Cook area with our latest branch.

Being a Community Bank means we are able to get closer to our customers and build strong relationships and sadly with some 12,000 odd I can't say I know them all, but hopefully everyone of our customers has managed to build a relationship with other staff, whether it be counter staff, or management. In six years I have been able to build very strong relationships with many of our customers, both individuals and businesses alike, and I feel I can confidently say that the vast majority have also grown in the past six years, and hopefully our Banking Relationship has helped.

Let's not forget our tireless and hard working Board Members whom I must say deserve much acknowledgement and appreciation. Having been involved with these gentlemen since the beginning I too have seen them develop, again, not just as individuals but also as a cohesive body and I am probably most aware of the time and effort they contribute. So, as I do every year, thank you.

I should mention our Shareholders, however, I hope they come under the customer category too. A sincere thank you for starting this off. I hope you feel, on reflection you have developed and grown, both personally and financially in the past six years and I again thank you, for the things I talk about in this report would not have happened without your valuable input.

Of course I should mention that we offer everything that any other Bank can, only we do it better and I must ask my perennial question "Why isn't everyone in our Community(s) banking with their Community Bank?" Being a Community Bank means we offer more than just banking services to our Community - Community Benefit - assisting in bringing about positive change and development to our areas. The Laverton Youth Foundation and "Push for Pink" initiative being just two recent examples.

In summary it has been an extremely exciting six years and I'm pleased to say that your own Community Bank, it's staff and representatives would have no trouble sharing a stage with the John Brumbys of the World whether they be local, State or wherever.

John Dawson
Senior Manager
Hobsons Bay Community Financial Services Pty Ltd

CORPORATE GOVERNANCE STATEMENT

The board is comprised entirely of non executive independent directors. The skills experience and composition of the board is detailed in the director's report. Details of the director's shareholdings, their remuneration and any transactions which they have conducted with the company are included in the Directors Report and Notes to the Financial Statements.

The board has committed to a high standard of corporate governance, financial reporting and integrity throughout the company's operations. The following portfolios have been established as subcommittees to assist and advise the board.

- Corporate Governance
- Audit
- Finance and Asset Management
- Human Resources
- Marketing and Business Development
- Sponsorship and Promotions

Independent Professional Advice

Directors have the right to seek independent professional advice in the furtherance of their duties as directors at the company's expense. Written approval must be obtained from the chairman prior to incurring any expense on behalf of the company.

Identifying and Managing Business Risks

The board regularly monitors the operational and financial performance of the company against budget and other key performance measures. The board also receives advice on areas of operational and financial risks, and develops strategies in conjunction with management, to mitigate those risks.

Communication with Shareholders

The board of Directors aims to ensure that shareholders, on behalf of whom they act, are informed of all major developments affecting the company's activities and its state of affairs, including information necessary to assess the performance of the Directors.

Communication with shareholder is achieved through the distribution of the following information:

- The Annual Report distributed to all shareholders
- The Annual General Meeting to obtain shareholder approval for Board action as appropriate
- Announcements on the Bendigo Stock Exchange (BSX) website www.bsx.com.au
- Regular shareholder newsletter.

The board strives to ensure that company announcements via the BSX are made in a timely manner, are factual, do not omit material information and are expressed in a clear and objective manner. The board has appointed the Corporate Governance Committee to be responsible for the disclosure processes of the BSX.

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DIRECTORS' REPORT

The directors present their report, together with the financial statements of the Hobson's Bay Community Financial Services Ltd for the year ended 30 June 2006.

Directors

The directors of the Company at any time during the financial year are:

H Da Silva	M S Pernar	W M Gray	F J Porter
G Inserra	B J Cahoon	A D Shanahan	L Barrett
R R Quail	G J Murdoch	M A Boyd	

Principal Activities

During the year the company continued to operate the Laverton / Altona Meadows Community Bank[®], Altona Community Bank[®] and Point Cook Sub Branch with the support of the Bendigo Bank Ltd.

Operating Results

The Laverton Branch made a net profit for the year of \$345,369. The Altona Branch made a net profit for the year of \$73,236. The Point Cook Branch made a net loss for the year of (\$225,830). The overall net profit of the company after providing for income tax was \$192,775 (2005 \$188,714).

Dividends

Dividends paid or declared for payment are as follows:

Ordinary dividend paid on 28 March 2006, as recommended in last year's report	\$ 80,200
The directors have recommended payment of a dividend of 10 cents per share	\$102,500

Review of Operations

The net assets of the company have increased by \$134,296 from 01 July 2005 to \$1,081,894 as at 30 June 2006.

The company has continued to grow with assets under management now exceeding \$160 million at the date of this report.

Significant Changes in 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 which have not been disclosed in this report.

After Balance Date Events

The company's auditor has challenged some aspects of the valuation which was the basis of the bonus issue of shares announced on 31 July 2006. The bonus issue has been deferred and will be reviewed when this matter has been resolved.

No other matters or circumstances have arisen since the end of the financial year which 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 subsequent financial years.

Future Developments

The company intends to issue a prospectus to commence the process of converting the Point Cook sub branch of the Bendigo Bank Ltd into a Community Bank.

The company will continue to work towards its budget targets for the three branches at Laverton, Altona and Point Cook.

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DIRECTORS' REPORT

Environmental Regulations

The company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Information on Directors

Mr H DaSilva Chairperson	Appointed Director 18 th February 2000. Original Steering Committee member. He is a local businessman and owner of the local Ray White Real Estate office.
Mr M S Pernar Secretary	Appointed Director 18 th February 2000. Original Steering Committee member. He is into his seventh year as Manager of Laverton Community Centre. Involved in many local groups.
Mr W M Gray Treasurer	Appointed 18 th February 2000. Original Steering Committee member. Ex-naval officer, local resident who now works for IBM.
Mr G Inserra	Appointed Director on 18 February 2000. Original Steering Committee member and local resident. He is also a respected community worker with membership of numerous organisations.
Mr B J Cahoon	Appointed Director 18 February 2000. Original Steering Committee member. He is a local resident and part owner of the Double C Jeanery, a local institution.
Mr G J Murdoch (OAM)	Appointed Director at 2001 AGM. Retired school principal, Councillor and former Mayor of Hobsons Bay.
Mr F J Porter	Appointed Director at 2001 AGM. Many years involvement with Hobsons Bay Council. Justice of the Peace.
A D Shanahan	Appointed Director at 2001 AGM. Clothing store proprietor, former accountant and current member of Rotary.
Mr R R Quail Appointed 29.11.05	Appointed Director at 2005 AGM. I.T. consultant. Business owner for thirteen years. Involvement in community service.
Mr M A Boyd Appointed 29.11.05	Appointed Director at 2005 AGM. Restaurateur. Business owner for eighteen years. Inaugural chairperson for Hobsons Bay Community Financial Services Ltd.
Mr L Barrett Appointed 29.11.05	Appointed Director at 2005 AGM. Manager – Company Executive. Founder Point Cook Residents association.

The directors and their associates have the following shares in the company as at the 30th June 2006

Director		Associates	Total
Henry DaSilva	2,101		2,101
Wayne Gray	6,374	735	7,109
Denis Shanahan	500		500
Michael Boyd	1,352	525	1,877
Michael Pernar	1,119		1,119
Robert Quail	200	300	500
Leigh Barrett	500		500
Frank Porter	17,750	3,000	20,750
Bruce Cahoon	1,051	5250	6,301
Joe Inserra	1	5,250	5,251
Graeme Murdoch	1,000		1,000

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DIRECTORS' REPORT

Directors Meetings

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated. During the financial year, 11 meetings of directors were held. Attendances were:

	Eligible to attend	Number attended
Mr H DaSilva (Chairperson)	11	11
Mr M S Pernar (Secretary)	11	10
Mr F J Porter	11	10
Mr G Inserra	11	8
Mr B J Cahoon	11	11
Mr W M Gray (Treasurer)	11	11
Mr G J Murdoch	11	9
Mr AD Shanahan	11	11
Mr L Barrett	6	5
Mr R R Quail	6	6
Mr M A Boyd	6	5

Portfolio Meetings

Meetings commenced in February 06

	Audit Portfolio	Finance Portfolio	Sponsorships and Donations Portfolio	Marketing and Business Development Portfolio	Corporate Governance Portfolio	Human Resources Portfolio	Point Cook Steering Committee	Charitable Trusts Advisory Committee
Total Meetings Held	2	5	4	5	2	4	7	3
Henry Da Silva		2	1	2			1	1
Michael Pernar					2			
Wayne Gray	2	5						
Denis Shanahan	2	5		5	1		1	
Graeme Murdoch			4	3				3
Guiseppe Inserra			2			2		2
Bruce Cahoon			3					
Frank Porter				3		4		
Michael Boyd				5	2		6	
Robert Quail	1		4				6	3
Leigh Barrett					1		1	

DIRECTORS' REPORT

Remuneration Report

Total remuneration of Directors

	2006	2005
Henry Da Silva	\$3,000.00	Nil
Michael Pernar	\$3,000.00	Nil
Wayne Gray	\$3,000.00	Nil
Frank Porter	\$3,000.00	Nil
Denis Shanahan	\$2,000.00	Nil
Graeme Murdoch	\$2,000.00	Nil
Guiseppe Inserra	\$2,000.00	Nil
Bruce Cahoon	\$2,000.00	Nil
Michael Boyd	\$ 700.00	Nil
Leigh Barrett	\$ 700.00	Nil
Robert Quail	\$ 700.00	Nil

The chairman, company secretary, treasurer and staffing director were each paid \$3,000. The other directors were paid at the rate of \$2,000 per annum. The company does not pay directors salaries and there are no performance conditions placed on directors remuneration. Director's remuneration is set by the members at the AGM.

Directors' and auditors' insurance and indemnification

The company has paid premiums to insure the directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of a director of the company, other than conduct involving a wilful breach of duty in relation to the company.

The company has not during or since the end of, the financial year, in respect of any person who is or has been an auditor of the Company or a related body corporate:

- Indemnified or made any relevant agreement for indemnifying against a liability incurred, including costs and expenses in successfully defending legal proceedings, or
- Paid or agreed to pay a premium in respect of a contract insuring against a liability incurred for the costs or expenses to defend legal proceedings.

Audit Services

The Company's Auditor has not provided any non audit services during the year.

Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under Section 307C of the Corporations Act is included on page 13 of the Report

Signed in accordance with a resolution of the Board of Directors.

.....
Director – Henry DaSilva

.....
Director - Michael Stephen Pernar

Dated this day of 2006

AUDITOR'S INDEPENDENCE DECLARATION

I declare that to the best of my knowledge and belief, during the year ended 30 June 2006 there have been:

- i. No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- ii. No contraventions of any applicable code of professional conduct in relation to the audit.

Signed on:

Ross Clarke
Ross Clarke Pty Ltd
ABN68085401583

HOBSON'S BAY COMMUNITY FINANCIAL SERVICES LTD
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INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006	2005
		\$	\$
Revenues from Ordinary Activities	3	<u>1,542,014</u>	<u>1,250,655</u>
Amortisation of franchise fee	4	(24,830)	(24,830)
Amortisation of leased assets	4	(3,122)	(3,122)
Depreciation of furniture & equipment	4	(33,516)	(30,649)
Employment expenses		(593,879)	(444,740)
Other expenses from ordinary activities		<u>(601,445)</u>	<u>(467,072)</u>
Total Expenses from Ordinary Activities		<u>(1,256,792)</u>	<u>(970,413)</u>
Profit/(Loss) from Ordinary Activities before Income Tax		285,222	280,242
Income Tax Revenue/(Expenses) relating to Ordinary Activities	6	<u>(92,447)</u>	<u>(91,528)</u>
Profit (Loss) from Ordinary Activities after Income Tax		192,775	188,714
Profit/(Loss) attributable to extraordinary items			
Net Profit/(Loss) Attributable to Members		192,775	188,714
Retained Profits/(Losses) at the beginning of the Financial Year	2	<u>(32,410)</u>	<u>(140,924)</u>
Total available for appropriation/(deficiency)		160,365	47,790
Dividends recognised as a liability	23	(102,500)	(80,200)
Retained Profits/(Deficit) at the end of the Financial Year		<u>57,865</u>	<u>(32,410)</u>
Total Retained Profits/(Deficit) at the end of the Financial Year		<u>57,865</u>	<u>(32,410)</u>
Overall Operations			
Basic & Diluted earnings per share (cents per share)	11	19.23	18.62

HOBSON'S BAY COMMUNITY FINANCIAL SERVICES LTD
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BALANCE SHEET AS AT 30 JUNE 2006

	Note	2006	2005
		\$	\$
Current Assets			
Cash assets	7	664,169	491,655
Receivables	8	150,107	120,967
Other	9	8,019	52,009
Total Current Assets		822,295	664,631
Non-Current Assets			
Property, Furniture and Equipment	10	798,018	734,738
Deferred tax asset	12	38,219	30,219
Intangible assets	13	7,677	32,507
Total Non-Current Assets		843,914	797,464
Total Assets		1,666,209	1,462,095
Current Liabilities			
Payables	14	117,232	40,045
Interest-bearing liabilities	15	6,948	2,748
Tax liabilities	16	(19,875)	55,359
Provisions	17	160,431	129,705
Total Current Liabilities		264,736	227,857
Non-Current Liabilities			
Provisions	17	79,305	55,626
Interest-bearing liabilities	15	221,408	231,014
Tax Liabilities	16	18,866	-
Total Non-Current Liabilities		319,579	286,640
Total Liabilities		584,315	514,497
Net Assets		1,081,894	947,598
Equity			
Issued capital	18	980,008	980,008
Retained Profits/(Accumulated Losses)		57,865	(32,410)
Revaluation Reserve		44,021	-
Total Equity		1,081,894	947,598

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

Note 1: Statement of Accounting Policies

The significant accounting policies adopted in the preparation of this financial report are:

(a) Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The following is a summary of the material accounting policies adopted by the company in the preparation of the financial report. These accounting policies have been consistently applied, unless otherwise stated.

The company has prepared the financial statements in accordance with the Australian Equivalents to International Financial Reporting Standards (AIFRS) from 1 July 2005.

In accordance with the requirements of AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards (AIFRS) adjustments to the accounts resulting from the introduction of IFRS have been applied retrospectively to 2005 comparative figures. These accounts are the first financial statements of the company to be prepared in accordance with AIFRS.

The accounting policies set out below have been consistently applied to all years presented.

Reconciliations of the transition from previous Australian Generally Accepted Accounting Principles (GAAP) to AIFRS have been included in Note 2 to this report.

(b) Revenue Recognition

Revenues are recognised at fair value of the consideration received net of the amounts of goods and services tax (GST). Exchanges of goods or services of the same nature and value without any cash consideration are not recognised as revenues.

Franchise Revenue

Franchise revenue is recognised when the services are provided.

Interest Income

Interest income is recognised when it accrues.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

(c) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

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

(d) Property, Plant and Equipment

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

Property

Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on a valuation by Landlink Property Group Pty Ltd, independent valuers dated 5th September 2006.

Plant and Equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by the directors to ensure it is not in excess of the amount recoverable from these assets.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

(e) Leases

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the Company are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual value.

Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that ownership of the assets will be obtained or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

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.

(f) Investments

Non-current investments are measured on the cost basis. The carrying amount of investments is reviewed annually by the directors to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the quoted market value for shares in listed companies or the underlying net assets for other non-listed corporations. The expected net cash flows from investments have not been discounted to their present value in determining the recoverable amounts.

Dividends are brought to account in the profit and loss account when received.

(g) Franchise Fee

The Franchise Fee is initially recorded at the amount, which the Franchisee paid the Franchisor. The Franchise Fee is amortised on a straight line basis over the life of the agreement which expires on 12th November, 2007. The balance is reviewed annually and any balance representing future benefits for which the realisation is considered to be no longer probable is written off.

(h) 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 superannuation fund as required by law. Contributions are charged against income as they are made.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

(i) Cash

For the purpose of the statement of cash flows, cash includes cash on hand and in at call deposits with banks or financial institutions and investments in money market instruments maturing within less than two months, net of bank overdrafts.

(j) Comparative Figures

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

(k) Payables

Liabilities are recognised for amounts to be paid in the future for goods, or services received, whether or not billed to the Company. Trade accounts payable are normally settled within 60 days.

(l) Receivables

Trade Debtors

The Bendigo Bank Limited is the company's only trade debtor. Accounts are settled every 30 days and no provision has been made for any portion of the amount due to be doubtful.

(m) 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 from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

Receivables and payables in the statement of financial position are shown inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows rising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

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RECONCILIATION OF EQUITY

Note 2: First Time Adoption of Australian Equivalents to International Financial Reporting Standards

	Note	Issued Capital	Retained Reserves	Earnings
1 July 2004				
Balance under existing Australian GAAP		980,008	(138,876)	841,132
-Deferred Tax Asset			1,700	
-Provision for Employee Entitlements (Current Liab)			18,359	
-Provision for Employee Entitlements (Non-Current Liab)			(22,107)	
		<u>980,008</u>	<u>(140,924)</u>	<u>839,084</u>
30 June 2005				
Balance under existing Australian GAAP		980,008	(28,444)	951,564
-Deferred Tax Asset			-	
-Provision for Employee Entitlements (Current Liab)			11,160	
-Provision for Employee Entitlements (Non-Current Liab)			(13,078)	
-Net movement in 2004 Reserve carried forward			(2,048)	
		<u>980,008</u>	<u>(32,410)</u>	<u>947,598</u>
		Land and Buildings	Reserve	Deferred Tax Liability
30 June 2006				
Balance under existing Australian GAAP		366,113	-	-
Revaluation of Land and Buildings at fair value		62,887	44,021	18,866
		<u>429,000</u>	<u>44,021</u>	<u>18,866</u>

HOBSON'S BAY COMMUNITY FINANCIAL SERVICES LTD
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006	2005
		\$	\$
Note 3: Revenue			
Operating Activities:			
Franchise income		1,512,270	1,217,998
Interest revenue		29,744	32,501
Other operating revenue:			
- Other income		-	156
Total Revenue from Ordinary Activities		<u>1,542,014</u>	<u>1,250,655</u>

Note 4: Profit from Ordinary Activities

Profit (loss) from ordinary activities before income tax has been determined after:

Charging as expense:

Amortisation of non-current assets:			
- Franchise fee		24,830	24,830
- Leased assets		3,122	3,132
Total amortisation expenses		<u>27,952</u>	<u>27,962</u>
Bad and doubtful debts		6,556	9,272
Interest paid		19,415	20,623
Depreciation of non-current assets:			
- Plant and equipment		33,516	30,649

Note 5: Auditors' Remuneration

Remuneration of the auditor of the company for:			
Audit Services		11,040	11,515
Other services		nil	nil
		<u>11,040</u>	<u>11,515</u>

Note 6: Income Tax

The prima facie tax payable on operating profit is reconciled to the income tax provided in the accounts as follows:

Operating profit/(loss) before income tax		<u>285,222</u>	<u>280,242</u>
Prima facie income tax payable on operating profit/(Loss) @ 30%		85,567	84,073
Add:			
Tax effect of:			
Fine		-	-
Amortisation of franchise fee		7,449	7,449
Capital works deduction		(569)	(569)
Income tax expense/(revenue) attributable to ordinary activities		<u>92,447</u>	<u>91,528</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006	2005
Note 7: Cash Assets			
Bank accounts:			
- Cash at Bank		212,508	63,195
- Share Offer Account		(200)	742
- Term Deposits		451,569	427,404
- Cash on hand		292	314
		<u>664,169</u>	<u>491,655</u>
Note 8: Receivables			
Current			
Trade debtors		<u>150,107</u>	<u>120,967</u>
Note 9: Other Assets			
Current			
Prepayments		8,019	11,983
Other Debtors		-	27,636
Director Related Entity	22	<u>-</u>	<u>12,390</u>
		<u>8,019</u>	<u>52,009</u>
Note 10: Property, Furniture and Equipment			
Land and Buildings:			
- At fair value		<u>429,000</u>	<u>366,113</u>
		<u>429,000</u>	<u>366,113</u>
Furniture and equipment:			
- At cost		552,383	515,349
- Less accumulated depreciation		<u>(186,651)</u>	<u>(153,132)</u>
		<u>365,732</u>	<u>362,217</u>
Leased assets:			
- At cost		15,615	15,615
- Less accumulated amortisation		<u>(12,329)</u>	<u>(9,207)</u>
		<u>3,286</u>	<u>6,408</u>
		<u>798,018</u>	<u>734,738</u>
Note 11: Earnings per Share			
Earnings used to calculate basic EPS		192,775	186,666
Number of ordinary shares used to calculate basic EPS		1,002,508	1,002,508

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006	2005
		\$	\$
Note 12: Deferred Tax Assets			
Deferred Tax asset		<u>(38,219)</u>	<u>(30,219)</u>
The deferred tax asset is made up of the following estimated tax benefits:			
- timing differences		<u>(38,219)</u>	<u>(30,219)</u>
		<u>(38,219)</u>	<u>(30,219)</u>
Note 13: Intangibles			
Franchise fee:			
- At cost		124,151	124,151
- Less accumulated amortisation		<u>(116,474)</u>	<u>(91,644)</u>
		<u>7,677</u>	<u>32,507</u>
Note 14: Payables			
Current			
Unsecured:			
- Trade creditors		97,832	21,165
- Other creditors and accruals		<u>19,400</u>	<u>18,880</u>
Total Current Liabilities		<u>117,232</u>	<u>40,045</u>
Note 15: Interest-Bearing Liabilities			
Current			
Lease liability		<u>6,948</u>	<u>2,748</u>
Non-Current			
Lease liability		1,256	-
Bank loan		<u>220,152</u>	<u>231,014</u>
		<u>221,408</u>	<u>231,014</u>
Finance Lease Commitments Payable			
Not later than 1 year		7,452	2,850
Later than 1 year but not later than 5 years		<u>1,340</u>	<u>-</u>
Minimum Lease Payments		8,792	2,850
Less: Future Finance charges		<u>(588)</u>	<u>(102)</u>
		<u>8,204</u>	<u>2,748</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006	2005
		\$	\$
Note 16: Tax Liabilities			
Current			
Current tax liability		(24,388)	39,742
GST payable		4,513	5,889
Amounts withheld from salary and wages		-	9,728
		<u>(19,875)</u>	<u>55,359</u>
Non-Current			
Deferred Tax Liability		18,866	-
Note 17: Provisions			
Current			
Dividend		102,667	80,942
Employee entitlements		57,764	48,763
		<u>160,431</u>	<u>129,705</u>
Non-Current			
Employee entitlements		79,305	55,626
Aggregate employee entitlements liability		137,069	104,389
Number of employees at end of year		14	16
Note 18: Issued Capital			
1,002,508 Ordinary shares		<u>980,008</u>	<u>980,008</u>
(2002 450,008 ordinary shares)			

Ordinary shares participate in dividends and the proceeds on winding up of the company in proportion to the number of shares held.

At shareholder meetings each member is entitled to one vote either when a poll is called, or otherwise each shareholder has one vote on a show of hands.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

Note 19: Substantial Shareholders

Ten Largest Shareholders	<u>Ordinary Shares</u>
1. Altona Sports Club	92,000
2. Fairlie Family Superannuation Fund	47,250
3. Alfred William Pelns	45,000
4. Tino Ballan	25,000
5. Laverton Community Centre	21,000
6. Frank Porter	17,750
7. LJD Carpet Cleaning Super Fund	17,000
8. Felicity Reid	16,500
9. LJD Carpet Cleaning Super Fund	15,750
10. John Belani Pty. Ltd.	15,750
11. John & Ann Belani	15,750
12. Olive May Dawson	15,750

Note 20: Distribution of Shareholders

The number of shareholders by size of holding is:

	<u>Ordinary Shares</u>	
	<u>Number of Holders</u>	<u>Number of Shares</u>
1 - 1000	272	136,318
1,001 - 5,000	152	314,497
5,001 - 10,000	15	102,673
10,001 - 100,000	22	449,020
100,001 and over	-	-
Total	461	1,002,508

There are 87 shareholders holding less than a marketable parcel of shares (500).

Note 21: Location of Share Register

The Share Register is located at :

Altona Branch - 64 Pier Street, Altona 3018

Telephone (03) 9398 8922

HOBSON'S BAY COMMUNITY FINANCIAL SERVICES LTD
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

Note 22: Related Parties

The following transactions were made with related parties during the financial year. All transactions are on normal commercial terms unless otherwise stated.

	2,006	2,005
	\$	\$
Bannister Glen Pty Ltd, of which Mr H. Da Silva is a director for rental of the Altona premises.	31,046	31,544
So n So's Food Service - Laverton Pty Ltd of which Mr Michael Boyd is a director	684	-
Sanctuary Lakes Corporate Wear of which Mr Bruce Cahoon is the proprietor	7,308	3,385

Note 23: Dividends

Proposed final fully franked ordinary dividend of 1,002,508 at 10 cents per share (2005: 1,002,508 @ 8 cents per share)	<u>102,500</u>	<u>80,200</u>
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Note 24: Segment Information

The company operates predominantly in the financial services sector within Australia.

HOBSON'S BAY COMMUNITY FINANCIAL SERVICES LTD
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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006	2005
		\$	\$
Cash Flow from Operating Activities			
Receipts from Bendigo Bank Limited		1,476,573	1,184,535
Payments to suppliers and employees		(998,252)	(847,940)
Payments to share holders		(80,772)	(49,383)
Interest received		29,744	32,501
Interest and other costs of finance		(82,332)	(52,406)
Income tax paid		(164,577)	(69,822)
Net cash provided by (used in) operating activities	2	<u>180,384</u>	<u>197,485</u>
Cash Flow from Investing Activities			
Purchases of property, plant & equipment		(37,034)	(176,438)
Payment of other Debtors		40,026	(27,563)
Net cash provided by (used in) investing activities		<u>2,992</u>	<u>(204,001)</u>
Cash Flow from Financing Activities			
Proceeds of issue of shares			
Proceeds of borrowings			
Repayment of borrowings		(10,862)	(10,249)
Net cash provided by (used in) financing activities		<u>(10,862)</u>	<u>(10,249)</u>
Net increase (decrease) in cash held		172,514	(16,765)
Cash at the beginning of the year		491,655	508,420
Cash at the end of the year	1	<u><u>664,169</u></u>	<u><u>491,655</u></u>

HOBSON'S BAY COMMUNITY FINANCIAL SERVICES LTD
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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2006

Note	2006	2005
	\$	\$

Note 1: Reconciliation of Cash

For the purpose 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.

Cash at the end of the year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

Cash at bank	212,508	63,195
Shares Offer Account	(200)	742
Term Deposits	451,569	427,404
Cash on hand	292	314
	<u>664,169</u>	<u>491,655</u>

Note 2: Reconciliation of Net Cash Provided by/Used in Operating Activities to Net Profit

Operating profit/(loss) after income tax	192,775	188,714
Depreciation	33,516	30,649
Amortisation of franchise fee	24,830	24,830
Amortisation of leased assets	3,122	3,122
Increase/(decrease) in provision for dividends	(80,771)	(49,383)
Increase/(decrease) in future income tax benefit	(8,000)	(7,041)
Increase/(decrease) in provision for income tax	(64,130)	27,047

Changes in assets and liabilities net of effects of purchases and disposals of controlled entities:

(Increase) decrease in trade and term debtors	(29,140)	(24,347)
(Increase) decrease in prepayments	3,964	3,720
Increase (decrease) in trade creditors and accruals	77,187	1,398
Increase (decrease) in other creditors	-	385
Increase (decrease) in lease liabilities	5,456	(6,222)
Increase (decrease) in employee entitlements	32,680	14,479
Increase (decrease) in sundry provisions	(11,105)	(9,866)
Net cash provided by operating activities	<u>180,384</u>	<u>197,485</u>

DIRECTORS' DECLARATION

The directors of the company declare that:

1. The financial statements, notes and cashflow statement.
 - (a) comply with Accounting Standards and the Corporations Law; and
 - (b) give a true and fair view of the financial position as at 30 June 2006 and performance for the year ended on that date of the company
2. The Chairman and Treasurer have each declared that:
 - a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporation Act 2001;
 - b) the financial statements and notes for the financial year comply with the Accounting Standards; and
 - c) the financial statements and notes for the financial year give true and fair view.
3. In the directors' opinion 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.

.....
Director – Henry DaSilva

.....
Director - Michael Stephen Pernar

Dated this day of

2006

INDEPENDENT AUDIT REPORT TO THE MEMBERS

Report on the Financial Report

We have audited the accompanying financial report of Hobson's Bay Community Financial Services Limited which comprises the balance sheet as at 30 June 2006, the income statement and cash flow statement for the year ended on that date, 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 control 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.

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 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 disclosure in the financial report. The procedures selected depend on the auditor's 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, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstance, 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.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Audit Opinion

In our opinion the financial report of HOBSON'S BAY COMMUNITY FINANCIAL SERVICES LTD 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 2006 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (c) other mandatory professional reporting requirements in Australia.

Signed on:

Ross Clarke Pty Ltd
Certified Practising Accountants
ABN 68 085 401 583

Ross Clarke
Partner / Director

SPONSORSHIPS AND DONATIONS

Below is a listing of some of the sponsorships and donations that Hobsons Bay Community Financial Services Limited have made during the 2005 – 2006 financial year.

- Point Cook Residents Association
- Altona Traders Association
- Laverton Festival
- Bayside Festival
- Christmas by the Lake
- Altona Beach Markets
- National Serviceman's Association
- Western Magpies
- Laverton Cricket Club
- Laverton Secondary College
- Altona Sports Club Ladies Uniform
- Altona Newsagency and Toyworld
- Altona Cricket Club
- Hobsons Bay Women's Referral Service
- Altona Soccer Club
- Altona Ladies Bowling Club
- Werribee Basketball Association
- Werribee Golf Course – Mambourin Golf Day
- Tsunami Appeal
- Bushfire Appeal
- Around Laverton
- 10th District Board RSL Lawn Bowls Assoc.
- Laverton Community Centre
- Life Education Australia
- Point Cook Auskick
- Royal Childrens Hospital
- Sanctuary Lakes Golf Club – Ladies Day
- Point Cook Football Club
- Western Jets
- Altona Softball Club

And many more