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Chairman's report

For year ending 30 June 2006

2005/2006 has been a very busy and eventful year for the members of the Board and the Steering Committee. It began with the distribution and collection of the feasibility study results from July to August in 2005. The results were presented to the Steering Committee in September 2005. The launch of the prospectus was deferred until 2006 to avoid the Christmas holidays and in early 2006, the Board was convened from the Steering Committee.

The task of finalising the prospectus and arranging the launch kept the Board busy through January to March.

Our prospectus launch at the Boat Club in April was a great success. We would like to thank those members of the public who attended that function. There have been more inquiries made to Bendigo Bank in Victoria about the float of this **Community Bank®** company than any other in Australia. My congratulations go to the Board for their untiring efforts in getting the prospectus off the ground in such a successful manner.

We set a minimum float capital of \$610,000. This figure was realised in record time and currently, the shares sold are more than \$775,000. The prospectus was issued with a maximum capital subscription of \$810,000. There are now less than 35,000 shares remaining as part of the float.

We opened our doors on 15 June at shop 9/55 Main St, Pialba and commenced trading on 22 June.

Natalia Vadillo was the successful applicant for the position of manager and she is supported by a wonderful team both within the **Community Bank®** branch and from Bendigo Bank, our franchise partner in this venture. The staff has successfully seen through the initial rush of account openings and are looking forward to assisting you and your friends and colleagues in opening new accounts.

This AGM covers a very small timeframe since opening, so financial performance figures are minimal to report.

The Board convenes monthly to review the **Community Bank®** Company's performance and to form strategies on how to grow the business and eventually achieve those profit dollars that will assure you a dividend and provide grants for our community groups.

To assist with the future profitability of the **Community Bank®** branch, the board urges all the shareholders to approach their neighbours, friends, business associates, colleagues and community organisations to change their banking over.

We need to convert the interest that was evident at the float into banking business.

If you haven't opened an account yourself, we urge you to consider the benefits of an account with your **Community Bank®** branch. The benefit to your community in the future will be considerable. This better community environment will be thanks to the community minded people that bought shares in this **Community Bank®** Company.

I look forward to the commencement of the profitable years for the Company, when the fruits of labour will be available for distribution to both you, the shareholders, and to the community of Hervey Bay.



With thanks,
Rod Cullen
Chairman

Manager's report

For year ending 30 June 2006

Without the commitment from you, the shareholders we would not be here today.

The support that we have received to date from the shareholders is a measure of your commitment to the future of our **Community Bank®** branch.

As shareholders, you are an integral part of our strategy to grow our customer base by recommending us to your family, friends, neighbours, colleagues and business partners.

The team at Hervey Bay & District Financial Services Limited are committed and passionate about service and the success of the **Community Bank®** branch.

I would like to introduce myself and staff at Hervey Bay **Community Bank®** Branch.

Natalia Vadillo	Branch Manager
Linda Brown	Senior Customer Service Officer
Cassandra Veale	Customer Service Officer
Brooke Hill	Customer Service Officer
Anita Ellery	Customer Service Officer

On behalf of the team I would like to thank you, for your ongoing support and we look forward to being of assistance to you in reaching your financial goals.



Natalia Vadillo

Message from Bendigo Bank Group Managing Director

For year ending 30 June 2006

Eleven years since bank conversion (and eight years since introducing **Community Bank®**) it has been extremely pleasing to announce a further improvement in our profit performance – and to demonstrate how we are able to focus on enhancing the prospects for all stakeholders and produce solid returns for shareholders.

It has taken considerable commitment and effort by the Bank and its partners, but we have built a credible Australian banking alternative which is now producing improved outcomes for customers, for communities, and for other stakeholders associated with the Bendigo Group.

Our F06 result has shown the market that we have been able to sustainably improve profit performance while also undertaking substantial investments over the past eleven years. We have done so with a consistent strategy – and, while the \$100 million net profit is a milestone for us, the market continues to remind us that this is well under that being produced by the majors. We accept this, but we are making good progress.

Our ROE (excluding significant item) was 14.2% – where the majors are currently delivering higher returns. However, we are producing improved results year-on-year, and the prospects for our Group and our partners are even greater than when we started the strategy. Therefore we have not used up our credits, taken customers and communities for granted, or cut our cost base to produce our improved shareholder returns. This gives us greater opportunity to continue our progress.

The **Community Bank®** contribution has steadily improved. It is also helping to convince the financial markets that the model has merit, and that communities across Australia are able to respond to the challenge our model ascribes to our local partners. I have maintained my consistent message – that we have great partners and have never doubted the ability of communities to respond to this difficult task.

Community Bank® branches have now produced 27% of the Group's business footings and are contributing around 13% of our profit. As individual sites mature, I would expect the profit contribution to move closer to the overall business volumes serviced through the **Community Bank®** network.

In the past year Bendigo Bank has paid \$76 million to **Community Bank®** sites as their share in revenue, and the majority of this revenue now stays in the local community and its economy.

Many earlier **Community Bank®** sites are now generating solid surpluses and making distributions – not only to local shareholders but to local community projects and support services. We are now also able to leverage the sustainable revenue these communities are generating to multiply the money available for community activities.

Our Community Enterprise Foundation enables gifting to be undertaken tax-effectively, and the work we have been undertaking with the various governments is also enabling us to assist in seeking match-funding to further improve the amount of money available to direct to local projects. It is most pleasing to see this occur, and I expect many new strategic initiatives and projects will be undertaken in the coming decade.

I am extremely proud of all of the communities who have undertaken the difficult task of launching their own **Community Bank®** branch. I also fully understand the contribution made by the local leaders who are involved in the **Community Bank®** network for and on behalf of their communities.

It is particularly pleasing that the market is now acknowledging the strength of this model – although they are still expressing some doubt concerning our joint ability to remain united as a strong collaborative force – or whether the model will be as effective if we experience less buoyant economic times. Of course, we believe

Message from Bendigo Bank Group Managing Director continued

we will be able to maintain our joint commitment in whatever economic environment emerges.

We are convinced – even if this model is not being used anywhere else in the world – that the benefits for all stakeholders will be substantial and that the relationships developed in this Business & Community Partnership will be enduring.

I am confident we can remain united and committed to improve the prospects of communities – and this in turn will improve the local support for each **Community Bank®** site and strengthen the connection we have with customers and communities around Australia. This has to be good for our business – and I think the recent result is proving this.

At the Bendigo we are convinced it is possible to produce Triple Bottom Line outcomes on a sustainable basis – if the outcomes for the broader stakeholder base are a result of the particular strategy and business model rather than something pursued independently.

As our **Community Bank®** partners – and as representatives for your local communities – you are truly the local champions who are making this happen. I know how difficult it is to create a new business of any kind – let alone a new publicly-owned business shaped like the Community Enterprise that is **Community Bank®**.

I can confirm that Bendigo Bank, your business partner, is committed to the building of more prosperous local economies. If together we can build a sustainable local enterprise, we will have built a source of reliable local revenue that can be directed to the ongoing improvement of your local marketplace for many years to come.

When we built the **Community Bank®** business model we did so with great faith in community and its role in the future marketplace. Today we hold that same view – but also an ever-increasing belief that community has so much to offer in the development of the communities of the future.

We also believe that many of the things that challenge us can be addressed at the local level. I understand there is still much to be done to improve the financial outcomes for communities and for the Bendigo Group and we look forward to working with you on activities to secure our respective futures.

We will continue our efforts to identify and assist you to address many of these challenges and – on behalf of the Board and Management at Bendigo Bank – I thank you for the effort you have expended over the years on behalf of your community. We feel confident your community will profit from this effort for many years to come.

We have always held the belief that banks were originally formed (back in the 1400s) to help build a more prosperous village. We are confident our **Community Bank®** Business & Community Partnership is working to that same objective and that we will all benefit greatly from this joint commitment.

I wish you well in the future and pledge our ongoing support to help ensure your Community Enterprise develops into a sustainable entity and a lasting contributor to your local market.

Thanks for your efforts in F06 and for your ongoing commitment.

Rob Hunt
Managing Director
Bendigo Bank Group
18 August 2006

Directors' report

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

Directors

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

Rodney Mark CULLEN

Chairman

Age: 49

Self employed Town Planner/Surveyor

Bachelor degree in Surveying and started own business in Surveying Consultancy. Graduate Diploma in Urban and Regional Planning and is now the senior partner in a multi-disciplinary consulting practice. A member of Hervey Bay Apex Club.

Chairman; Member, Due Diligence, Governance, Human Resource & Strategic Growth and Risk Management.

Margaret Elizabeth BUTLER

Secretary

Age: 59

Retired

Bachelor of Arts Degree. Owned and co-managed farming business, Manager Community Development Department with Hervey Bay City Council, Relationship Counsellor with Relationships Australia, executive member of numerous community organisations in the past. Company Secretary; Member, Governance & Strategic Growth and Risk Management.

Douglas Shayne KUHN

Director

Age: 48

Real Estate Agent

Self employed for over 25 years and has been in retail menswear business, primary production, property development and is now in the real estate industry. Has been involved in community groups and sporting organisations such as P & C, Apex, Rugby League & Hockey. Publicity Officer; Member, Governance.

Allan Robert TREUEL

Director

Age: 52

Operations Manager

Worked in banking, hospitality and youth work. Trainer at TAFE and Hospitality Training Company. Operations Manager for JobSmart involving training people in Education, Business Administration and Retail Industries. Member of various community organisations and elected Convenor of Fraser Coast Greens. Chair, Business Development; Member, Strategic Growth and Risk Management.

Robin St John FARRINGTON

Director

Age: 77

Retired

Diploma of Teaching TAFE. Worked in photography and was Chief Photographer for the Government Aircraft Factories. Teacher at Hobart Technical College and coordinator of all photographic courses. Currently President of Australian Pensioners and Superannuants League in Hervey Bay. Member, Marketing and Sponsorship.

Trevor Ian McDONALD

Director

Age: 56

Hervey Bay City Council Councillor

Diploma of Physical Education and a Bachelor of Education Studies. 37 years with Education Queensland and Deputy Principal at Pialba State School for approximately ten years. Member of various sporting organisations. Member, Business Development.

Directors' report continued

Dawn Patricia DWYER

Director

Age: 69

Property Development Consultant

Owner/operator of various businesses in many retail outlets. Manager and Licensee of Motel and established and operated Natureworld Hervey Bay. Councillor with Hervey Bay City Council, member and office bearer of community organisations.
Chair, Marketing and Sponsorship.

Nina Jay MOLINA

Director

Age: 26

Food and Beverage service

Studied Business and Marketing. Rotary Exchange Student in Japan. Supervisor and Manager in International Hotels and Casinos. Involved in numerous community organisations and projects
Member, Marketing and Sponsorship, Human Resource.

Gregory Ronald SCOTT

Director

Age: 58

Mediator for the Justice Department

Postgraduate qualifications in Public Sector Management. Manager with Queensland Health of various hospitals and community based health services. Treasurer and Director of Hervey Bay Boat Club and member of other organisations.
Treasurer; Chair, Audit.

Raymond John FORREST

Director

Age: 76

Retired

Operated and managed own business and then worked in textile industry. Involved in community and church organisations.
Member, Human Resource.

Geoffrey Noel ROSE

Director

Age: 66

Farming & Property Investment

Managing Director of family company which operates farming and property investment. Involved in various school and community organisations.
Member, Audit.

David WISKAR

Director (Resigned 9 January 2006)

Age: 37

Executive Manager Business Development

Directors were in office from 17 October 2005 unless otherwise stated.

No Directors have material interests in contracts or proposed contracts with the company.

Company Secretary

The Company Secretary is Margaret Elizabeth Butler. Margaret Butler was appointed to the position of Secretary on 27 September 2005. She has a Bachelor of Arts Degree and has owned and co-managed the family farming business, was Manager of the Community Development Department with Hervey Bay City Council, was a Relationship Counsellor with Relationships Australia, and has been a member of the executive boards of numerous organisations in the past.

Directors' report continued

Principal activities

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

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

Operating Results

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

Year ended
30 June 2006
\$
(106,619)

Remuneration

No Director receives remuneration for services as a Company Director or Committee Member.

There are no employees who are directly accountable and have responsibility for the strategic direction and operational management of the entity.

There are therefore no specified Executives whose remuneration requires disclosure.

The Branch Manager commenced employment on 20 May 2006. She is employed on a contract which is in line with the standards and remuneration levels applicable to Bendigo Bank staff in similar roles.

Dividends

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

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

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

Likely Developments

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

Environmental Regulation

The company is not subject to any significant environmental regulation.

Directors' report continued

Directors' Benefits

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

Indemnification and Insurance of Directors and Officers

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

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

Directors Meetings

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

	Number of Board Meetings eligible to attend	Number attended
Rodney Mark Cullen	22	22
Margaret Elizabeth Butler	22	17
Douglas Shayne Kuhn	22	19
Allan Robert Treuel	22	21
Robin St John Farrington	22	22
Trevor Ian McDonald	22	13
Dawn Patricia Dwyer	22	16
Nina Jay Molina	22	10
Gregory Ronald Scott	22	15
Raymond John Forrest	22	14
Geoffrey Noel Rose	22	14
David Wiskar (Resigned 9 January 2006)	8	-

Directors' report continued

Non Audit Services

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

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

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

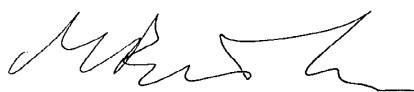
- all non-audit services have been reviewed by the audit committee to ensure they do not impact on the impartiality and objectivity of the Auditor;
- none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 11.

Signed in accordance with a resolution of the Board of Directors at Hervey Bay, Queensland on 19 September 2006.



Rodney Mark Cullen, Chairman



Margaret Elizabeth Butler, Secretary

Directors' report continued



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Auditor's Independence Declaration

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

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

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

David Hutchings
Auditor

Andrew Frewin & Stewart

Bendigo VIC 3550

Dated: 22 September 2006

Financial statements

Income statement

For year ending 30 June 2006

	Notes	2006 \$
Revenues from ordinary activities	3	82
Salaries and employee benefits expense		(134,792)
Advertising and promotion		(144)
Occupancy and associated costs		(230)
Depreciation and amortisation expense	4	(6,284)
General administration		(11,354)
Loss from ordinary activities before income tax credit		(152,722)
Income tax credit	5	46,103
Loss from ordinary activities after income tax credit		(106,619)
Loss attributable to members of Hervey Bay & Districts Financial Services Limited		(106,619)
Earnings per share (cents per share)		
- basic for profit for the year	18	(15.32)

Financial statements continued

Balance sheet

As at 30 June 2006

	Notes	2006 \$
Current Assets		
Cash assets	6	361,416
Trade and other receivables	7	32,066
Total Current Assets		393,482
Non-Current Assets		
Property, plant and equipment	8	150,684
Intangibles	9	9,667
Deferred tax assets	10	46,103
Total Non-Current Assets		206,454
Total Assets		599,936
Current Liabilities		
Trade and other payables	11	29,442
Provisions	12	1,470
Total Current Liabilities		30,912
Total Liabilities		30,912
Net Assets		569,024
Equity		
Contributed equity	13	675,643
Accumulated losses	14	(106,619)
Total Equity		569,024

Financial statements continued

Statement of changes in equity

For year ending 30 June 2006

	2006 \$
Total equity at the beginning of the financial year	-
Net profit/(loss) for the year	(106,619)
Net income/expense recognised directly in equity	-
Dividends provided for or paid	-
Shares issued during period	695,911
Costs in raising equity	(20,268)
Total equity at the end of the financial year	569,024

Financial statements continued

Statement of cash flows

For year ending 30 June 2006

	Notes	2006 \$
Cash flows from operating activities		
Cash received from customers		13
Cash paid to suppliers and employees		(159,449)
Net inflows from operating activities	15(b)	(159,436)
Cash flows from Investing Activities		
Payment for intangible assets		(10,000)
Payments for property plant and equipment		(157,501)
Net cash outflows investing activities		(167,501)
Cash Flows From Financing Activities		
Proceeds of share issues		695,911
Payment for share issue costs		(7,558)
Net cash inflows from financing activities		688,353
Net increase in cash held		361,416
Cash at the beginning of the financial year		-
Cash at the end of the financial year	15(a)	361,416

Notes to the financial statements

1. Summary of significant accounting policies

Basis of preparation

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

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

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

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

Revenue

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

Income tax

Current tax

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

Notes to the financial statements continued

1. Summary of significant accounting policies (continued)

Income tax (continued)

Deferred tax

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

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

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

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

Current and deferred tax for the period

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

Goods and services tax

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

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

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

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

Notes to the financial statements continued

1. Summary of significant accounting policies (continued)

Employee entitlements

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

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

Intangibles

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

Cash

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

Comparative figures

Comparatives have not been provided as the company had not commenced operations during the year ending 30 June 2005.

Property, plant and equipment

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

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

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

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

Notes to the financial statements continued

1. Summary of significant accounting policies (continued)

Impairment of assets

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

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

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

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

Payment terms

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

Receivables and Payables

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

Borrowings

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

Notes to the financial statements continued

1. Summary of significant accounting policies (continued)

Provisions

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

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

Contributed Capital

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

2. Financial Risk Management

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

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

(i) Market Risk

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

(ii) Price Risk

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

(iii) Credit Risk

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

(iv) Liquidity Risk

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

Notes to the financial statements continued

2. Financial Risk Management (continued)

(v) Cash flow and fair value interest rate risk

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

2006
\$

3. Revenue from ordinary activities

Operating activities:

- services commissions	82
Total revenue from operating activities	82
Total revenues from ordinary activities	82

4. Expenses

Depreciation of non-current assets:

- plant and equipment	5,527
- leasehold improvements	424

Amortisation of non-current assets:

- franchise agreement	333
	6,284

5. Income tax expense

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

Operating loss	(152,722)
Prima facie tax on loss from ordinary activities at 30%	(45,817)
Add tax effect of:	
- non-deductible expenses	100
- temporary timing differences	(386)
Income tax expense on operating loss	(46,103)

Notes to the financial statements continued

	2006
	\$

6. Cash assets

Cash at bank and on hand	55,068
Trust account	306,348
	361,416

7. Trade and other receivables

Trade receivables	28,628
Prepayments	3,438
Total	32,066

8. Property, plant and equipment

Plant and equipment

At cost	58,342
Less accumulated depreciation	(5,527)
	52,815

Leasehold improvements

At cost	98,293
Less accumulated depreciation	(424)
	97,869
Total written down amount	150,684

Movements in carrying amounts:

Plant and equipment

Carrying amount at beginning	-
Additions	58,342
Disposals	-
Less: depreciation expense	(5,527)
Carrying amount at end	52,815

Notes to the financial statements continued

	2006 \$
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8. Property, plant and equipment (continued)

Leashold improvements

Carrying amount at beginning	-
Additions	98,293
Disposals	-
Less: depreciation expense	(424)
Carrying amount at end	97,869
Total amount written down	150,684

9. Intangible assets

Franchise Fee

At cost	10,000
Less: accumulated amortisation	(333)
	9,667

10. Deferred Tax Asset

Deferred tax asset

Tax losses - revenue	46,103
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11. Trade and other payables

Trade Creditors	27,042
Other creditors & accruals	2,400
	29,442

12. Provisions

Employee provisions	1,470
Number of employees at year end	5

Notes to the financial statements continued

	2006 \$
13. Contributed equity	
695,911 Ordinary shares fully paid of \$1 each	695,911
Less: equity raising expenses	(20,268)
	675,643
14. Accumulated losses	
Balance at the beginning of the financial year	-
Net loss from ordinary activities after income tax	(106,619)
Dividends Paid	-
Balance at the end of the financial year	(106,619)
15. Statement of cashflows	
(a) Reconciliation of cash	
Cash at bank and on hand	55,068
Term deposit	306,348
	361,416
(b) Reconciliation of loss from ordinary activities after tax to net cash provided by/(used in) operating activities	
Loss from ordinary activities after income tax	(106,619)
Adjustments for non cash income & expense items	
Non cash items	
- depreciation	5,951
- amortisation	333
Changes in assets and liabilities:	
- increase in receivables	(31,200)
- increase in other assets	(46,103)
- increase in payables	16,732
- increase in provisions	1,470
Net cashflows used in operating activities	(159,436)

Notes to the financial statements continued

2006
\$

16. Auditors' remuneration

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

- audit & review services	2,400
- other services in relation to the Company	3,648
	6,048

17. Director and Related party disclosures

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

Rodney Mark Cullen

Margaret Elizabeth Butler

Douglas Shayne Kuhn

Allan Robert Treuel

Robin St John Farrington

Trevor Ian McDonald

Dawn Patricia Dwyer

Nina Jay Molina

Gregory Ronald Scott

Raymond John Forrest

Geoffrey Noel Rose

David Wiskar (Resigned 9 January 2006)

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

Notes to the financial statements continued

17. Director and Related party disclosures

Directors shareholdings	2006
Rodney Mark Cullen	10,001
Margaret Elizabeth Butler	2,001
Douglas Shayne Kuhn	15,001
Allan Robert Treuel	501
Robin St John Farrington	501
Trevor Ian McDonald	1
Dawn Patricia Dwyer	501
Nina Jay Molina	1
Gregory Ronald Scott	1
Raymond John Forrest	1
Geoffrey Noel Rose	1,001
David Wiskar (Resigned 9 January 2006)	1

Each share held is valued at \$1 and is fully paid.

18. Earnings per Share

	c
Loss per share for the financial year were:	(15.32)

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

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

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

Impact on the income statement

Nil.

Impact on the balance sheet

Nil.

Notes to the financial statements continued

20. Subsequent events

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

21. Contingent liabilities

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

22. Segment reporting

The economic entity operates in the financial services sector where it provides banking services to its clients. The economic entity operates in one geographic area being Hervey Bay and surrounding districts of Queensland.

23. Registered office/Principal place of business

The registered office and principal place of business is:

Registered office	Principal place of business
Shop 9/55 Main Street Pialba, QLD 4655	Shop 9/55 Main Street Pialba, QLD 4655

Notes to the financial statements continued

24. 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	1 year or less	Over 1 to 5 years	Over 5 years	Non interest bearing	Weighted average effective interest rate
	2006	2006	2006	2006	2006	2006
	\$	\$	\$	\$	\$	%
Financial Assets						
Cash assets	55,068	-	-	-	-	0.05
Trust account	-	306,348	-	-	-	2.75
Receivables	-	-	-	-	32,066	N/A
Financial Liabilities						
Payables	-	-	-	-	29,442	N/A

Directors' declaration

In accordance with a resolution of the Directors of Hervey Bay & District Financial Services Limited, we state that:

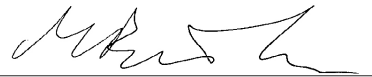
In the opinion of the Directors:

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

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



Rodney Mark Cullen, Chairman



Margaret Elizabeth Butler, Secretary

Signed on the 19th of September 2006.

Independent audit report



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INDEPENDENT AUDIT REPORT

To the members of Hervey Bay & District Financial Services Limited

Scope

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

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

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

Audit approach

We have conducted an independent audit of the financial report and compensation disclosures in order to express an opinion on them to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement and the compensation disclosures comply with AASB 124. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards in Australia and the Corporations Act 2001 so as to present a view which is consistent with our understanding of the company's financial position, and performance as represented by the results of its operations, its changes in equity and their cash flows and whether the compensation disclosures comply with AASB 124.

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

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

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

Audit Opinion

In our opinion:

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


DAVID HUTCHINGS

ANDREW FREWIN & STEWART
61-65 Bull Street, Bendigo, VIC 3550
Dated this 22nd day of September 2006

BSX report

Share Information re Hervey Bay & District Financial Services Limited

In accordance with Bendigo Stock Exchange listing rules to Company provides the following information as at 5 October 2006, which is within 6 weeks of this report being sent to shareholders.

The following table shows the number of shareholders, broken into various categories showing the total number of shares held.

Number of Shares Held	Number of Shareholders
1 to 1,000	78,909
1,001 to 5,000	279,201
5,001 to 10,000	132,001
10,001 to 100,000	286,000
100,001 and over	0
Total Shareholders	776,111

Each of the above shareholders are entitled to 1 vote, irrespective of the number of shares held.

There are no substantial Shareholders (holding more than 5% of voting rights) as each Shareholder is entitled to 1 vote. Normally holding more than 5% of total issued shares would create a substantial Shareholder, but this is not applicable due to the voting restrictions for the Company.

There are 17 Shareholders holding less than a marketable parcel of shares (\$500 in value).

There are no restricted securities on issue.

All shares on issue are ordinary shares fully paid to \$1 per share. There are no unquoted equity securities.

BSX report continued

The following table shows the 10 largest Shareholders.

Shareholder	Number of Shares	Percentage of Capital
Souvlis Properties Pty Ltd	54,000	6.96
Eluzai Investments Pty Ltd	50,000	6.44
Hervey Bay Boat Club Inc	50,000	6.44
Mrs Dorothea Jeanette Bartlett	25,000	3.22
Mr Kevin John Bartlett	25,000	3.22
Mr Terry Michael Hauritz & Ms Julie Alvena Hauritz (Super Fund A/C)	20,000	2.58
Ms Joan Lorraine Wittmann & Mr Kevin William Wittmann	20,000	2.58
Ms Tracey Cropp & Mr Steven Edwards	15,000	1.93
Thirty Second Debate Pty Ltd (Super Fund A/C)	15,000	1.93
Dr Vernon Arthur Harris & Mrs Lucy Katharine Harris	12,000	1.55
	286,000	35.30

Registered Office and Principal Administrative Office

The registered office of the Company is located at:

Shop 9, 55 Main Steet
PIALBA, HERVEY BAY QLD 4655
Phone: (07) 4124 6201

The principal administrative office of the Company is located at:

Shop 9, 55 Main Steet
PIALBA, HERVEY BAY QLD 4655
Phone: (07) 4124 6201

Security Register

The security register (share register) is kept at:

Bendigo Bank - Share Registry
Fountain Court
BENDIGO, VIC 3550

Other Information

Please refer to the Directors report, within the annual report, for details of the Company Secretary and main corporate governance practices of the entity.

There are no material differences between the information in the Company's Annexure 3A and the information in the financial documents in its Annual Report.