

***Kew East Financial Services Limited***

ACN 096 301 058

**Kew East  
COMMUNITY BANK® BRANCH OF BENDIGO BANK LIMITED**

**INFORMATION MEMORANDUM**

**for an application for admission to the Official List  
of the Bendigo Stock Exchange**

**IMPORTANT NOTICE**

This Information Memorandum, dated 6 February 2006 has been prepared by Kew East Financial Services Limited ACN 096 301 058 in connection with its application for listing and quotation of its shares on the Bendigo Stock Exchange. This document is not a prospectus and it will not be lodged with the Australian Securities and Investments Commission under the Corporations Act. It does not constitute or contain any offer of shares for subscription or purchase or any invitation to subscribe for or buy shares.

Bendigo Stock Exchange does not take any responsibility for the contents of this Information Memorandum. The fact that Bendigo Stock Exchange may admit Kew East Financial Services Limited to the official list is not to be taken in any way as an indication of the merits of Kew East Financial Services Limited.

Shareholders with enquiries about this information should contact Kew East Financial Services Limited on (03) 9859 7699.

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**KEW EAST FINANCIAL SERVICES LIMITED**

**(ACN 096 301 058)**

This Information Memorandum outlines the existing operations of the Company. The Company operates the Kew East Community Bank<sup>®</sup> Branch of Bendigo Bank. The branch was established as part of the Bendigo Bank Community Banking<sup>™</sup> project, the terms of which are outlined in this document.

I encourage you to read this Information Memorandum closely, so that you understand the nature and prospects of the business.

The Directors will lodge this Information Memorandum with the Bendigo Stock Exchange in connection with the Company's application for listing and quotation of Shares on the Bendigo Stock Exchange. This application is being made in order to facilitate a secondary market for the trade of Shares (subject to the rules regarding share ownership described in the Company's Constitution and this Information Memorandum). Further details are set out in this Information Memorandum.

Our decision to proceed with this application was based on the Directors' belief that the trading of Shares in the Company should take place in an open and transparent market, and that it is in the best interests of the Company to do so.

Yours sincerely,

**John Roland McConnell**

**Chairman, Kew East Financial Services Limited**

## 1. Overview

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### 1.1 Purpose of the Information Memorandum

This Information Memorandum has been prepared by the Company in connection with its application for listing, and quotation of its Shares, on the Bendigo Stock Exchange.

Under a Franchise Agreement with Bendigo Bank, the Company has established and manages the Kew East Community Bank<sup>®</sup> Branch of Bendigo Bank as a "franchise" of Bendigo Bank. The franchise arrangements and the business of the Company are described in detail in this Information Memorandum, especially Sections 3 and 6.

**Please Note: This document is not a prospectus lodged with the Australian Securities and Investments Commission under the Corporations Act. It does not contain any offer of Shares for subscription or purchase or any invitation to subscribe for or buy Shares. This document relates to the proposed listing of the Company – not Bendigo Bank.**

### 1.2 Description of the Listing Process

Under the BSX Listing Rules, each company applying for listing and quotation of its shares must either issue a prospectus or it must provide to the BSX a listing memorandum containing the information required by the BSX Listing Rules.

### 1.3 Capital Structure

There are currently 482,510 ordinary shares in the Company on issue. Of these, 482,501 were issued on 6 July 2001 under the Prospectus at an issue price of \$1.00 per Share.

The Company has not raised any capital for the three months before the date of this Information Memorandum and does not need to raise any capital for three months after the date of this Information Memorandum.

The capital structure of the Company is as follows:

	Ordinary Shares
Initial subscriber shares issued to the directors	<b>9</b>
Shares issued pursuant to the Company's Prospectus	<b>482,501</b>
TOTAL	<b>482,510</b>

It should be noted that, pursuant to the Constitution of the Company, each shareholder is entitled to only one vote, regardless of the number of Shares held. The Constitution also prohibits a shareholder from controlling or owning 10% or more of the Company.

The voting rights attaching to Shares and the ownership restrictions are discussed in Sections 7.2(a) and 7.3 below.

The amount of dividends and other distributions to shareholders that the Company may make in any 12-month period is limited by the terms of the Franchise Agreement with Bendigo Bank. You should refer to Section 5.2 of this Information Memorandum for a description of this limit.

#### **1.4 Listing on the Bendigo Stock Exchange**

Application will be made for listing of the Company and quotation of the Shares on the Bendigo Stock Exchange. Please see Section 5 of this Information Memorandum for a discussion of the risk factors relevant to quotation of the Shares and Section 7.7 for a discussion of the waivers and confirmations the Company requires from the Bendigo Stock Exchange. Admission to listing, quotation of the Shares and the granting of the necessary waivers and confirmations sought is at the absolute discretion of the Bendigo Stock Exchange, and so there is no guarantee that they will occur. Other risks associated with acquiring Shares in the Company are discussed in Section 5.

#### **1.5 Supplementary Information Memorandum**

A Supplementary Information Memorandum will be issued if, between the issue of this Information Memorandum and the date the Shares are quoted, the Company becomes aware that:

- a material statement in this Information Memorandum is false or misleading;
- there is a material omission from this Information Memorandum;
- there has been a significant change affecting a matter included in this Information Memorandum; or
- a significant new matter has arisen and it would have been required to be included in this Information Memorandum.

## 2. Directors

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Details of the Directors of the Company are as follows:

<b>Name</b>	John Roland McConnell (Chairman)
<b>Date of Birth</b>	2 August 1939
<b>Occupation</b>	Company Director
<b>Background Information</b>	Former Bank Executive and currently serves on a not-for profit board.
<b>Resides</b>	7A Marshall Avenue, Kew, Vic 3101

<b>Name</b>	John Roderick Albury
<b>Date of Birth</b>	7 December 1944
<b>Occupation</b>	Retired
<b>Background Information</b>	Former school principal. Currently serves on the Kew Community Festival Inc.
<b>Resides</b>	77 Gladstone Street, Kew, Vic 3101

<b>Name</b>	Susan Joan Allen
<b>Date of Birth</b>	15 January 1952
<b>Occupation</b>	Financial Planner
<b>Background Information</b>	Currently runs own financial planning business and also serves on a not-for profit board.
<b>Resides</b>	24 Inverness Way, Balwyn North, Vic 3104

<b>Name</b>	Robert Hamilton Ball
<b>Date of Birth</b>	11 December 1946
<b>Occupation</b>	Solicitor
<b>Background Information</b>	Practising Solicitor
<b>Resides</b>	Unit 1, 32 Ridgeway Avenue, Kew, Vic 3101

<b>Name</b>	Allen William Borella
<b>Date of Birth</b>	26 June 1947
<b>Occupation</b>	Automotive Engineer
<b>Background Information</b>	Runs own automotive business.
<b>Resides</b>	55 Oakland Drive, Warrandyte, Vic 3113

<b>Name</b>	Kenneth George Franks
<b>Date of Birth</b>	26 March 1932
<b>Occupation</b>	Retired
<b>Background Information</b>	Property investor and retired land surveyor.
<b>Resides</b>	197A Springfield Road, Blackburn North, Vic 3130

<b>Name</b>	Shane Pappas
<b>Date of Birth</b>	3 August 1966
<b>Occupation</b>	Operations Manager
<b>Background Information</b>	Operations Manager of a multinational company. Previously owned and operated own business.
<b>Resides</b>	47 Birdwood Street, Balwyn, Vic 3103

<b>Name</b>	Eric Arthur Thomas
<b>Date of Birth</b>	21 December 1938
<b>Occupation</b>	Chartered Accountant
<b>Background Information</b>	Practising Chartered Accountant
<b>Resides</b>	12 Tallent Street, Croydon, Vic 3136

<b>Name</b>	Geoffrey Bruce Thomas
<b>Date of Birth</b>	8 June 1946
<b>Occupation</b>	Funds Management
<b>Background Information</b>	Funds Manager.
<b>Resides</b>	30 Carson Street, Kew, Vic 3101

### 3. Bendigo Bank Franchise

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#### 3.1 Bendigo Bank

Bendigo Bank had its origins on the Bendigo goldfield in 1858 when the settlement comprised thousands of makeshift tents and humpies clustered along the gold bearing gullies. Disturbed by the temporary and unsightly nature of these dwellings, a group of prominent citizens banded together to foster a sense of civic pride by providing finance for miners wishing to own their own homes. Thus was born the Bendigo Land and Building Society, which immediately began financing humble miners' cottages, some of which remain in the city today.

Within 30 years, Bendigo had established itself as one of the most gracious Victorian era cities in the world, its grand public buildings a monument to the vast riches produced by the deep reef miners.

As Bendigo prospered, so did its building society, which rapidly established a reputation for prudent financial management and ethical dealing. While other societies came and went, the Bendigo Land and Building Society grew steadily, declaring a profit in each year of its operation, even through the crises of the 1890s and 1930s Depressions.

Bendigo Bank converted to a bank on 1 July 1995, at which time it was Australia's oldest and Victoria's largest building society.

The past 20 years have seen Bendigo Land and Building Society, now Bendigo Bank, grow quickly and in the process merge with a number of other firms and building societies: the Bendigo and Eaglehawk Star (1978), Sandhurst (1983), Sunraysia (1985), Capital (1992) and Compass (1992), trustee company Sandhurst Trustees (1991), mortgage securitisation firm National Mortgage Market Corporation (1995) and Monte Paschi Australia Limited (1997). Sandhurst Trustees, National Mortgage Market Corporation and Monte Paschi (now Cassa Commerciale) are wholly-owned subsidiaries of Bendigo Bank. Bendigo Bank also operates a joint venture, with Elders Limited, called Elders Rural Bank. This joint venture is aimed at bringing banking services to farmers throughout Australia. In October 2000, Bendigo Bank acquired the Queensland-based First Australian Building Society.



The Bendigo Group now operates (itself and through franchises) approximately 327 branches and has assets of around \$9 billion. It is listed on the Australian Stock Exchange and is the only Australian bank with headquarters outside a capital city. Through Bendigo Bank and its subsidiary companies, the Bendigo Group provides a wide range of products including commercial mortgages and unsecured loans, investment products insurance and superannuation.

### **3.2 Community Banking™ Project**

Bendigo Bank developed its Community Bank® project in response to the continuing closure of bank branches across Australia, and the subsequent effects on disenfranchised communities.

Community Bank® is a means by which communities with the will and enthusiasm can enhance their future prospects by securing a conduit to the finance system.

The aims of the Community Bank® project are threefold:

- to secure branch banking services for participating communities;
- to help these communities better manage locally-generated capital, and so provide them with a better return on their capital; and
- to enable participating communities to share in revenues generated from their Community Banking™ enterprise.

Community Bank® draws on the greatest strength communities possess – their parochialism.

Through the potential to share in branch revenues, communities have the opportunity to generate profits which can be returned to support and develop the community via dividends to participating shareholders and through projects identified and agreed to by the community.

The Community Bank® project does this by providing communities with the opportunity to manage a community-owned branch of Bendigo Bank. It supposes that ownership of this management right provides local residents and businesses with a powerful incentive to conduct their financial affairs through their own local bank branch, thereby maximising revenue potential for the local enterprise.

Each branch operates as a franchise of Bendigo Bank, using the name, logo and system of operations of Bendigo Bank. The franchisees manage the Community Bank® Branches on behalf of Bendigo Bank, however all transactions with customers conducted through the Community Bank® Branches are effectively conducted between the customers and Bendigo Bank.

To date, Bendigo Bank has granted 173 to Community Bank® Branches, located in places such as Avoca, Bayswater, Bellarine Peninsula, Carrum Downs, Coleambally, East Gosford, East Malvern, Elwood, Goomalling, Henty, Kulin, Laverton, Maldon, Minyip and Rupanyup (combined franchise), Nathalia, Neerim South, Parkdale, Tambellup and Cranbrook (combined franchise), Toodyay, Toora, Upwey, Virginia, Warburton and Wentworth. Bendigo Bank has also granted a number of commercial franchises.

### 3.3 Community Interest (Our Beginnings)

A significant amount of work and public consultation was undertaken in relation to the feasibility of establishing the Kew East Community Bank<sup>®</sup> Branch of Bendigo Bank.

Following initial community interest in 2000, an original community company entered into arrangements with members of the Bendigo Group pursuant to which it acquired rights to manage a Community Bank<sup>®</sup> Branch of Bendigo Bank at Kew East. On 3 December 2001, the Kew East Community Bank<sup>®</sup> Branch of Bendigo Bank was opened.

#### Regulation of Franchising

The relationship between Bendigo Bank and the Company as franchisor and franchisee is governed by the Franchising Code of Conduct (**Franchising Code**).

The Franchising Code is a mandatory industry code of conduct for the purposes of Section 51ACA of the *Trade Practices Act 1974 (Cth)* (**TPA**). Section 51AD of the TPA makes a contravention of the Franchising Code a contravention of Part IVB of the TPA.

The Franchising Code requires a franchisor to provide a prospective franchisee with a disclosure document, to enable the prospective franchisee to make a reasonably informed decision about entering into the franchise. The Franchising Code prescribes the information that must be included in the disclosure document. Such a disclosure document was provided by Bendigo Bank to the Company.

The Franchising Code requires that, prior to entering into a franchise agreement with the Company, Bendigo Bank must have obtained from the Company a statement that the Company has received, read and had a reasonable opportunity to understand the Disclosure Document and the Franchising Code and statements as to whether the Company has obtained independent legal, accounting and business advice. The relevant statements were provided to Bendigo Bank by the Company, before the Franchise Agreement was entered into.

#### Franchise Arrangements

As noted, the Company has entered into a Franchise Agreement with Bendigo Bank that governs the management and operation by the Company of the Kew East Community Bank<sup>®</sup> Branch of Bendigo Bank.

The key features of the Franchise Agreement between the Company and Bendigo Bank are described below and in Section 6 of this Information Memorandum.

### 3.4 Activities of Company

#### Branch

The Company operates the Kew East Community Bank® Branch at 661A High Street, Kew East VIC.

Kew East Community Bank® Branch is open from Monday to Friday 9.00 a.m. – 5.00 p.m. and Saturday 9.00 a.m. – 12.00 p.m.

#### Manager and Employees

The Company employs a Branch Manager and 5 other staff. Each of these staff members has received Bendigo Bank training.

#### Products and Services

The Company provides a core range of products and services at the Branch, as determined by Bendigo Bank from time to time.

The products and services include the following:

- *deposit business*, for example, ultimate accounts, term deposits, "Money Extra", classic accounts, investment accounts and specialised rural accounts;
- *personal bank products and services*, for example, credit and debit cards, insurance and financial planning;
- *loans and lending products*, for example, home loans, investment loans, home equity loans, leasing, commercial loans, farm loans and personal loans;
- *investment products*, such as superannuation, Sandhurst Select products and common fund and tax-based savings products; and
- *cash and cheque facilities*, delivered through electronic means and ATM services.

All deposits are made with Bendigo Bank, and all personal and investment products are products of Bendigo Bank, with the Company facilitating the provision of those products.

All loans, leases or hire purchase transactions, issues of new credit or debit cards, temporary or bridging finance and any other transaction that involves creating a new debt, or increasing or changing the terms of an existing debt owed to Bendigo Bank, must be approved by Bendigo Bank. All credit transactions are made with Bendigo Bank, and all credit products are products of Bendigo Bank.

The products and services available to be offered through the Kew East Community Bank® Branch by the Company are not necessarily the same and may not be the same as those offered by other Bendigo Bank branches or franchises. However, the Company endeavours to ensure that the products and services offered will be appropriate for the requirements of its customers.

The Franchise Agreement provides for three types of revenue that may be earned by the Company.

First, the Company is entitled to 50% of the monthly gross margin earned by Bendigo Bank on products and services provided through the Company that are regarded as "day to day" banking business (ie 'margin business'). This arrangement also means that if the gross margin reflects a loss (that is, the gross margin is a negative amount), the Company effectively incurs 50% of that loss.

The second source of revenue for the Company is commission paid by Bendigo Bank on the other products and services provided through the Company (ie 'commission business').

The third source of revenue is that the Company may be entitled to a proportion of the fees and charges (that is, what are commonly referred to as 'bank fees and charges') charged to customers. This proportion (if any) is determined by Bendigo Bank, may vary between products and services and may be amended by Bendigo Bank from time to time.

### **3.5 Benefits of Franchise Arrangements**

#### Name, Logo and Systems

As part of the franchise arrangements with Bendigo Bank, Bendigo Bank grants the Company the right to use its name, logo and system of operations and other relevant intellectual property rights including the trademarks "Community Bank" and "Community Banking" for the purpose of managing the Community Bank<sup>®</sup> Branch of Bendigo Bank. To the extent that it is able, Bendigo Bank also gives the Company reasonable access to all information and technology created or obtained by Bendigo Bank in connection with other franchises.

The Company has the benefit of all general advertising and promotions undertaken by Bendigo Bank, in addition to the local promotional activities undertaken by the Company itself (in accordance with the controls set out in the Franchise Agreement).

#### Assistance and Advice

Bendigo Bank provided significant assistance to the Company in establishing and maintaining the Community Bank<sup>®</sup> Branch. Bendigo Bank will continue to provide ongoing management operation and support, and other assistance and guidance in relation to all aspects of these Branches, including advice in relation to:

- methods and procedures for the sale of products and provision of services;
- security and cash logistic controls;
- the formulation and implementation of advertising and promotional programs; and
- sales techniques and proper customer relations.

#### Non-exclusive Franchise

The franchise granted under the Franchise Agreement is a non-exclusive franchise. That is, any member of the Bendigo Group is able to carry on any business (including the granting of franchises) anywhere. Further, Bendigo Bank (for example, through branches), any related body corporate of Bendigo Bank

and any Bendigo Bank franchise are entitled to be located anywhere and to market to, or deal with, persons located anywhere.

Similarly, although the Community Bank Branch<sup>®</sup> can only be carried on by the Company from a location or locations approved by Bendigo Bank, the Company is entitled to market to, or deal with, persons located anywhere.

### **3.6 Duration of Franchise**

Bendigo Bank granted the Company the franchise in respect of the Kew East Community Bank<sup>®</sup> Branch. Of these initial terms, 10 months remain in relation to the Kew East Community Bank<sup>®</sup> Branch. Pursuant to the Franchise Agreement, the Company may seek to extend the term of each franchise for (in total) two additional five year terms. A request to extend the term of a franchise must be made between 3 and 6 months prior to the end of the then existing term.

Bendigo Bank must agree to extend the term provided that the Company:

- is not in breach of the Franchise Agreement;
- secures continued rights to possession and use of each location from which the Branch is being conducted for the renewal period, and refurbishes each such location to the then current standards of Bendigo Bank franchises;
- provides the relevant statement required under the Franchising Code; and
- pays the Renewal Fee under the Franchise Agreement and Bendigo Bank's costs of renewing the Franchise Agreement.

Bendigo Bank has the ability to assign or novate its rights and obligations under the Franchise Agreement at any time. However, Bendigo Bank must not assign its obligations (without the consent of the Franchisee) unless the proposed assignee is either a related body corporate of Bendigo Bank, a person whose business includes the provision of financial services (and it is reasonable to expect that the person will be able to comply with its obligations under the Franchise Agreement) or a person who has entered into arrangements with Bendigo Bank and/or any of the foregoing, so as to enable that person to comply with its obligations under the Franchise Agreement. In any event, any assignee would have to continue to perform Bendigo Bank's obligations under the Agreement.

The Company may only dispose (in any way) of, or otherwise effect or permit a change of control or ownership of, the franchise, the Company or the Company's interest in the franchise, the Franchise Agreement, a franchise or the branch location with the prior written consent of Bendigo Bank and with the payment of a Transfer Fee to Bendigo Bank.

Bendigo Bank also has a pre-emptive right over the sale, transfer or disposal of the Company's interest in the franchise, or a Branch location.

The consequences of the termination of the franchise are discussed in Section 5.2 below.

### **3.7 Restrictions on Operations**

#### Sole Purpose Company

The Franchise Agreement provides that, subject to the ability to provide ancillary services (see below), the Company must not carry on any business other than managing and operating the Kew East Community Bank<sup>®</sup> Branch of Bendigo Bank and it must not own or use any assets, or incur any liabilities, other than those directly associated with the franchise operation.

#### Competition Restrictions

The Company is also subject to covenants that restrict its activities both during the term of the franchise, and for a further three years after the franchise has terminated.

Pursuant to these covenants (contained in the Franchise Agreement), the Company must not (except in managing and operating the Community Bank<sup>®</sup> Branches under the Franchise Agreement):

- have any interest in an entity carrying on business that is substantially the same as that conducted by Bendigo Bank through its franchises, or is in competition with Bendigo Bank in relation to that business;
- seek to attract any customers or employees from Bendigo Bank or any of its franchisees; or
- otherwise interfere with the business being conducted by Bendigo Bank.

Similar restrictions apply to the Directors of the Company.

#### Bendigo Bank Involvement

Bendigo Bank retains a tight control over the day to day operations of the Company, including the provision by the Company to Bendigo Bank of regular and detailed reports. Bendigo Bank also has the right to inspect or audit the franchise records.

In particular, as noted above, the products and services supplied through the Company are determined by Bendigo Bank. As described in Section 3.4 above, all credit transactions must be approved by Bendigo Bank.

Further, the Company must only use Bendigo Bank's intellectual property (including its trademarks) licensed to the Company under the Franchise Agreement in accordance with the guidelines provided by Bendigo Bank.

### **3.8 The Company's Board of Directors**

The management and control of the business and affairs of the Company is the responsibility of the Board of Directors. Under the terms of the Constitution, one third of the Directors (other than an 'exempt' Managing Director – if any) are required to retire at each annual general meeting (other than the Company's first annual general meeting). A retiring Director is eligible for re-election.

## **4. Financial information**

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The accounts attached at the back of this Information Memorandum are an extract of the Company's audited financial reports for the year ended 30 June 2005. This historical financial information is included for information purposes only. Past performance is not an indicator of future performance. No assurance or representation is given in relation to the future performance of the Company.

## **5. Risk factors**

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### **5.1 Introduction**

There are a number of factors, which might have a significant impact on the future performance of the Company. An investment in the Company is not guaranteed by Bendigo Bank.

Particular investment risks arise due to the specific purpose for which the Company was established, that is, to manage a Community Bank<sup>®</sup> Branch of Bendigo Bank pursuant to a Franchise Agreement with Bendigo Bank.

An investment in the Company is also affected by the business risks to which the Company will be subject, which may affect the success of the Company and, accordingly, its ability to pay dividends and its ongoing operation.

The following Sections highlight some of the key risks associated with an investment in the Company. There may also be other risks.

### **5.2 Investment Risk**

#### Dividends

The Directors intend that any profits of the Company will, as a general rule, be applied at the discretion of the Directors in one or more of the following ways:

- in payment of dividends to shareholders (subject to the limit described below);
- towards community or charitable projects as determined by the Directors from time to time; or
- as working capital.

The timing and payment of dividends is dependent on many factors, which affect future profits and the financial position of the Company. Dividends will be determined by the Directors according to actual results, financial position, capital requirements, operating costs and economic conditions at the time. There will also be an assessment by the Directors of the needs of any worthwhile community or charitable projects. Further, in recognition of the aims of the Company to deliver social and economic benefits to the community (in addition to, if possible, a return to shareholders), the Company has agreed that in any 12 month period, the aggregate of the profits or funds of the Company distributed to shareholders (whether by way of dividends, bonus shares or otherwise) must

not, except in the case of a winding up, exceed the Distribution Limit. The Distribution Limit is the greater of:

- (a) 20% of the profit or funds of the Company otherwise available for distribution to shareholders in that 12 month period; and
- (b) subject to the availability of distributable profits, the Relevant Rate of Return multiplied by the average level of share capital over that 12 month period (as determined by Bendigo Bank in consultation with the Company). The Relevant Rate of Return is equal to the weighted average interest rate on 90 day bank bills over that 12 month period (as determined by Bendigo Bank) plus 5%.

Of course, the actual amounts distributed to shareholders may be less than the Distribution Limit.

To date, the company has paid dividends as follows:

- ❖ Financial Year ended 30/06/05: an interim unfranked dividend of 2 cents per share paid on 15 April 2005.
- ❖ Financial Year ended 30/06/05: a final unfranked dividend of 3 cents per share paid on 15 November 2005.

Past performance is not an indicator of future performance. There is no guarantee that any dividends will be paid in the future.

#### Trading in Shares

The Company was established to provide community members with the opportunity to contribute to the establishment and ongoing operations of a Community Bank<sup>®</sup> Branch of Bendigo Bank. The community nature of the Company is reflected in the provisions of its Constitution relating to voting rights and limits on shareholding interests (see Sections 7.1 to 7.3 below).

Because of the community based nature of the Company, it is not envisaged that there will be significant trade in shares in the Company. Accordingly, there may be limited opportunities for members to recoup their investment in the Company by disposing of their Shares.

In particular, while the Directors intend to apply for listing, and quotation of the Shares, on the Bendigo Stock Exchange, granting of these applications (and of the waivers and confirmations required by the Company, as discussed in Section 7.7 below) is at the discretion of the Bendigo Stock Exchange. They may either not be granted at all or alternatively may be granted subject to conditions that are not satisfactory to the Company. In either case, listing and quotation may not proceed. Further, as listing and quotation impose additional obligations and costs on the Company, it is possible that in the future, the Directors will form the view that listing and quotation is no longer in the best interests of the Company.



Even if listing and quotation occur, it is not anticipated that an active market for trading of the Shares will develop. If the market for the Shares is not liquid, it is possible that the market price of the Shares may not reflect the true underlying value of the Company.

Further, the market price of the Shares will fluctuate due to various factors, including general movements in the Australian equity market (which, in turn, is influenced by the international equity markets), investor perceptions, local and worldwide economic conditions, movements in interest rates and specific factors affecting the performance and financial position of the Company and its business.

In addition, in the case of many companies listed on a stock market, it is possible that their share price may include a “control premium” to reflect the fact that a person may wish to acquire sufficient shares in the company to gain control of the company and, to do so, the acquirer would need to pay a premium above the underlying share price. It is unlikely that such a premium will be present in the case of the Shares (or will be paid by an acquirer), given the restrictions on share ownership in the Constitution and the fact that a change of control of the Company may trigger a termination of the Franchise Agreement.

It is possible that the market price of the Shares may be lower than the issue price under the Offer or otherwise may not reflect the true underlying value of the Company or its performance. Whilst this risk applies to all investments in any securities on any stock market, it applies particularly so here given the community nature of the Company (for example, the restriction on dividend payments), the limitations on share ownership, the restrictions on the business activities of the Company and the likelihood of an illiquid market.

#### Termination of Franchise

The Franchise Agreement provides for a maximum possible term for each franchise of 15 years (see Section 3.6 above), after which the continued operation of each Community Bank<sup>®</sup> Branch will be subject to further negotiations with Bendigo Bank. Bendigo Bank also has broad rights to terminate the Franchise Agreement or a franchise (see Section 6 below), in particular, if a Community Bank<sup>®</sup> Branch is not profitable. If the Franchise Agreement itself is terminated, the franchise would also terminate.

The Company is not entitled to any payment upon termination of the Franchise Agreement or of any franchise, though it would be entitled to the net proceeds of the sale or transfer of a franchise if, at its discretion, Bendigo Bank proceeded with such a sale or transfer after termination (see Section 6 below).

There are no restrictions on where Bendigo Bank (or any of its related bodies corporate or other Bendigo Bank franchisees) may carry on business or be located (either before, during or after the term of the Franchise Agreement – see Section 3.7 above).

On the expiration or earlier termination of the Franchise Agreement, the Company is prohibited from carrying on a substantially similar business for three years.

There are also restrictions on the ability of the Company to dispose of its rights in the franchise, the Franchise Agreement or a branch location (see Section 3.6 above).

### **5.3 Business Risks**

#### Sole Purpose Company

The Company is essentially a sole purpose company.

Subject to the ability to provide ancillary services that have been approved by Bendigo Bank, the Company's only business is managing a Community Bank<sup>®</sup> Branch of Bendigo Bank.

#### Level of Banking Business

Although all transactions conducted through the Branch are conducted with Bendigo Bank, the effect of the gross margin sharing arrangement (as described in Section 3.4) is that the Company bears the risk of generating sufficient income from the banking business to derive a profit.

The ability of the Company to generate new business is subject to factors beyond the control of the Company.

The level of banking business conducted through the Kew East Community Bank<sup>®</sup> Branch is affected by general economic conditions, in particular, the effect of interest rate movements on the interest rates offered by Bendigo Bank.

As part of the Community Bank<sup>®</sup> concept, the Kew East Community Bank<sup>®</sup> Branch was established, in part, given the level of banking facilities then available. It should be recognised that the Company faces competition from other financial service providers (including, possibly, other branches and franchises of Bendigo Bank) whether located in Kew East or in nearby communities or that are able to deliver such services remotely (for example, through the internet or over the phone). It is also possible that, in the future, other financial service outlets could seek to open in Kew East.

#### Branch Operations

Like any small business, the Branch Manager and employees have a key role in the success of the Community Bank<sup>®</sup> Branch. The Manager and employees are responsible for promoting the Branch, and providing a level of service and support that will engender ongoing relationships with customers. The ability of the Manager to communicate effectively with representatives of Bendigo Bank, and represent the interests of the Branch, is critical to the smooth operation of the Branch.

Although all deposits made through the Kew East Community Bank<sup>®</sup> Branch are transferred to Bendigo Bank, the Company bears the risk of implementing procedures for handling and transferring such deposits.

## **5.4 Relationship with Bendigo Bank**

### Success of Bendigo Bank

The Kew East Community Bank<sup>®</sup> Branch operates under the Bendigo Bank name and (subject to any ancillary services that may be approved by Bendigo Bank) only provide Bendigo Bank products and services.

Accordingly, the success of the Company is, to a significant degree, dependent on the standing and success of Bendigo Bank.

The products and services provided through the Company, and the income that Bendigo Bank (and, accordingly, the Company) is able to earn on those products and services, will be subject to the competitive pressures facing Bendigo Bank generally and the impact of economic conditions and other factors on the business of Bendigo Bank.

### Approvals

As described in Section 3.7 above, many of the Company's business decisions (including the products and services made available, the annual budgets and the credit business generated through the branch) are subject to the approval of Bendigo Bank.

It is clear that the Company and Bendigo Bank have a common interest in the success of the Company. However, as noted above, communication between the Company and Bendigo Bank will be critical to ensuring that Bendigo Bank understands the particular requirements of each Community Bank<sup>®</sup> Branch and decisions in respect of the branch operations are made accordingly.

### Bendigo Bank Claims

Pursuant to a broad indemnity in the Franchise Agreement, the Company is responsible for certain claims made against Bendigo Bank in connection with the operation of the Community Bank<sup>®</sup> Branch (see Section 6).

## **5.5 Other Factors**

### Regulatory Environment

Although the Company does not carry on banking business, by managing a Community Bank<sup>®</sup> Branch of Bendigo Bank it effectively is subject to the regulatory environment in which Bendigo Bank operates. In particular, decisions of APRA that affect Bendigo Bank may also have an impact on the business conducted by the Company.

### Economic Conditions

As noted above, the Company's business will be affected by changes in economic conditions both directly and indirectly through the effect such changes may have on Bendigo Bank. Relevant factors include market growth, inflation, movements in interest rates and exchange rates and the level of loan defaults.

### Government Policies and Legislation

The Company's business may be affected by changes to government policies, including those relating to prudential supervision, taxation and regulation of financial services industries. Again, such changes may affect the Company directly or indirectly as a result of their impact on Bendigo Bank.

## **6. Franchise Agreement**

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The Franchise Agreement establishes the relationship between the Company and Bendigo Bank, and sets out the parameters within which the Company must operate. The Franchise Agreement defines the business conducted by the Company and, accordingly, is critical to an assessment of the Company.

The provisions of the Franchise Agreement have been described in detail in Sections 3 and 5 of this Information Memorandum.

The following is a brief summary of the key provisions of the Franchise Agreement.

### Grant of Rights

Bendigo Bank grants the Company the right to use Bendigo Bank's system of operations and certain intellectual property rights to manage and operate the Kew East Community Bank<sup>®</sup> Branch.

### Term

The initial term of the Franchise in respect of the Kew East Community Bank<sup>®</sup> Branch is five years (see Section 3.6). In respect of each Franchise, provided certain conditions are met at the end of each five year term, at the request of the Company, Bendigo Bank will extend the term of the Franchise for a maximum of two further five year terms (see Section 3.6).

### Branch Operations

There are strict controls on the Company in relation to the operations of the Community Bank<sup>®</sup> Branch. In particular, the Company must only offer the products and services specified by Bendigo Bank, it must comply with Bendigo Bank's promotions, it (and its staff) must comply with the operating manuals supplied by Bendigo Bank, it must seek the prior approval of Bendigo Bank to its promotional activities and material, public communications, signs and stationery, and there are tight controls over the use of Bendigo Bank's intellectual property.

### Payments/Receipts

The Company is responsible for all ongoing costs in relation to the Branch and the Branch location (including, for example, all staff costs, rent, outgoings and insurance).

For each Franchise, or each additional five year period, the Company must pay a Renewal Fee, the reasonable costs of training to be provided by Bendigo Bank to the Company's employees and the costs of Bendigo Bank of renewing the Franchise (including legal fees).

The revenue the Company is entitled to receive is described in Section 3.4 above.

You should refer also to Section 5.2 of this Information Memorandum or a description of the limit, contained in the Franchise Agreement, on distributions by the Company to its shareholders.

#### Indemnity

The Company indemnifies Bendigo Bank against all third party claims that may be brought against Bendigo Bank in connection with the conduct of the franchise or the franchise operations (ie the management of the Community Bank<sup>®</sup> Branch), the activities of the Company or its employees at or near the Community Bank<sup>®</sup> Branch premises and any other unauthorised act, default, dishonesty, negligent act or omission or fraudulent conduct of the Company or any of its officers, employees or agents.

Bendigo Bank indemnifies the Company against all third party claims that may be brought against the Company to the extent that such claims result from a misleading or deceptive statement in, or a misleading or deceptive omission from, the products or services specified by Bendigo Bank to be offered to customers, certain actions by employees of Bendigo Bank or any related promotional materials or manuals supplied by Bendigo Bank. Other potential liability on Bendigo Bank is, to the extent permitted, excluded.

#### Termination

Bendigo Bank may terminate the Franchise Agreement in various circumstances, including if:

- the Company breaches the Franchise Agreement;
- the Company engages in fraudulent or dangerous conduct, becomes insolvent or fails to pay its debts on time;
- the Company is convicted of a “serious offence” (as defined under the Franchising Code) or, without limiting the foregoing, the Company or any member of Staff, is convicted of an offence where, in the reasonable opinion of Bendigo Bank, that conviction materially and adversely affects Bendigo Bank and/or the name, goodwill or good reputation of the franchise, Bendigo Bank’s system of operations or other Bendigo Bank franchises;
- the Company carries on the franchise in a manner that harms or adversely affects, or may harm or adversely affect materially, the good name, goodwill or good reputation of Bendigo Bank, Bendigo Bank’s business, the franchise, Bendigo Bank’s system of operations or other Bendigo Bank franchises, including if the Company (or its staff) engage in misleading or deceptive conduct;
- the Company takes (or omits) to take an action that, under the Franchising Code, permits Bendigo Bank to immediately terminate the Franchise Agreement (eg the Company abandons the branch, carries it

on in a way that endangers public health or safety or agrees to terminate the Franchise Agreement);

- the Company operates the business from a location not previously approved by Bendigo Bank;
- there is, without Bendigo Bank's prior written consent, a change in the underlying ownership or control of the Company, the franchise, or the Company's interest in the Franchise Agreement or a Branch location (this can be deemed to occur for certain changes to the Directors of the Company or if the Company's control/ownership limit is breached - see Section 7.3 below);
- the Manager of a Community Bank<sup>®</sup> Branch becomes unable to perform his or her duties for an extended period, without suitable replacement;
- a Community Bank<sup>®</sup> Branch is not profitable; or
- there is an amendment to, renewal of, or alteration of the effect of, a rule or clause of the Company's constituent documents, without the approval of Bendigo Bank.

The Company may terminate the Franchise Agreement if Bendigo Bank materially breaches the Franchise Agreement.

The procedures for termination (either by Bendigo Bank or by the Company) are set out in the Franchise Agreement.

In certain circumstances, where there has been a breach of the Franchise Agreement by the Company, the right to carry on the franchise is suspended until the breach is rectified or the Franchise Agreement is terminated.

Upon termination of the Franchise Agreement, there is no obligation on Bendigo Bank to sell or transfer the franchise. However, if such a sale or transfer did proceed, the Company would be entitled to the proceeds received (less the costs of the sale or transfer and certain debts owed by the Company, if any).

## **7. Additional Information**

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### **7.1 Constitution**

The rights attaching to Shares (Section 7.2) and the prohibition on shareholding interest (Section 7.3) set out in the Company's Constitution are summarised below.

### **7.2 Rights Attaching to Shares**

The Shares are fully paid ordinary shares.

Set out below is a summary of the principal rights attaching to the Shares.

#### **(a) Voting rights**

Subject to some limited exceptions, each member has the right to vote at a general meeting. On a show of hands or a poll, each person present

as a member, attorney, corporate representative or by proxy, has one vote, regardless of the number of Shares held.

The purpose of the limitation on voting rights is to reflect the nature of the Company as a community based company, by providing that all members of the community who have contributed to the establishment and ongoing operation of the Community Bank<sup>®</sup> Branch have the same ability to influence the operation of the Company.

(b) Dividends

Generally, dividends are payable to members in proportion to the amount of the share capital paid up on the shares held by them, subject to any special rights and restrictions for the time being attaching to shares. The Franchise Agreement with Bendigo Bank contains a limit on the level of profits or funds that may be distributed to shareholders. You should refer to Section 5.2 of this Information Memorandum for a description of this limit. There is also a restriction on the payment of dividends to certain shareholders if they breach the 10% share owning limit (see Section 7.3 below).

(c) Transfer

Generally, ordinary shares are freely transferable. However, the Directors have a discretion to refuse to register a transfer of shares. For example, the Directors may refuse to register a transfer that would result in a shareholder holding a prohibited shareholding interest (see Section 7.3 below). Subject to the foregoing, shareholders may transfer shares by a proper transfer effected in accordance with the Company's Constitution, the Corporations Act and the rules of the Bendigo Stock Exchange.

The Directors understand that, if the Shares are quoted on the Bendigo Stock Exchange, it is likely that brokers may require a statutory declaration from the transferee confirming that the transfer will not breach any of the shareholding ownership restrictions that apply (see Section 7.3 below).

(d) Winding up

If the Company is wound up, then subject to any special or preferential rights attaching to any class of shares, shareholders will be entitled to participate in any surplus assets of the Company in proportion to the capital paid up on their shares when the winding up begins.

If the assets available for distribution amongst shareholders are insufficient to repay the whole of the paid up capital, then those assets will be distributed in proportion to the capital paid up on shares when the winding up begins.

Notwithstanding the above, if the Company is wound up, the liquidator has the discretion to divide among all or any of the shareholders in specie or in kind any part of the Company's assets. The division may be carried

out as the liquidator thinks fit, subject to the right of any shareholder prejudiced by the division to dissent. Any dissenting shareholder has ancillary rights as if the determination made by the liquidator were a special resolution passed under the Corporations Act relating to the transfer of the Company's assets by a liquidator in a voluntary winding up (see, in particular, Chapter 5 of the Corporations Act, especially section 507).

### **7.3 Prohibited Shareholding Interest**

A member is prohibited from controlling or owning 10% or more of the shares in the Company (a "prohibited shareholding interest").

Similarly to the voting rights, the purpose of this shareholding limit is to reflect the community based nature of the Company, by ensuring that the Board can prevent ownership of the Company being concentrated in the hands of a small number of community members.

In summary, a person will be deemed to own the shares in the Company in which the person has a relevant interest and the shares in which the person's associates have a relevant interest. (The terms 'relevant interest' and 'associate' have the same meaning as in the Corporations Act, subject to some modifications as set out in the Company's Constitution). Also, a person is deemed to control the votes that the person, and the person's associates, can cast or control the casting of on a resolution to elect a director of the Company.

The effect of these definitions is that, for example, if the aggregate of the shares owned (legally or beneficially) by a person plus the shares owned (legally or beneficially) by members of the person's immediate family, equal or exceed 10% of the shares in the Company, the person has a prohibited shareholding interest. Similarly, if the votes a person can control the casting of on a resolution to elect a director, plus the votes that members of the person's immediate family can control the casting of on such a resolution, equal or exceed 10% of the votes that could be cast by all shareholders on such a resolution, that person has a prohibited shareholding interest. A person's "immediate family" includes a person's spouse, defacto spouse, parent, son, daughter, brother or sister or a spouse or defacto spouse of any of the preceding persons.

Where a person has a prohibited shareholding interest, the voting and dividend rights attaching to the shares in which the person (and his or her associates) have a relevant interest in excess of 10% of the Company, are suspended.

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



Shares on behalf of that person. The holder will be entitled to the consideration from the sale of the Shares, less any expenses incurred by the Board in selling or otherwise dealing with those shares.

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

#### **7.4 Taxation Implications**

The following is intended only as a general summary and does not purport to be a complete statement of all tax consequences that may be relevant to the issue of ordinary shares in the Company. The taxation implications of investing in the Company may vary depending on the individual circumstances of investors. The information provided is a brief explanation of the potential taxation implications for Australian resident investors.

All investors should consult their adviser about the taxation implications of investing in the Company relevant to their own particular circumstances.

An acquisition of ordinary shares by a resident of Australia will be an acquisition for capital gains tax (**CGT**) purposes.

A resident of Australia may be assessed in respect of a net capital gain for CGT purposes on disposal of their ordinary shares.

Generally, a net capital gain is determined by reference to the excess (if any) of the consideration received for the ordinary shares over the cost base of the ordinary shares. The amount of the excess will constitute the amount of capital gain unless the investor is entitled to a CGT discount, which is only available to individuals, superannuation funds and, in certain situations, trust investors. The CGT discount is calculated as follows. In the case of an investor who holds their shares for at least 12 months after the date of acquisition of the shares, the capital gain will be reduced by 50% (where the investor is an individual) or 33<sup>1</sup>/<sub>3</sub>% (where the investor is a superannuation fund) in the hands of the investor. In the case of trust investors, the calculation of the CGT discount is complex, and specific advice should be obtained.

Any capital loss (namely the excess of the cost base of the ordinary shares over the consideration received for those shares) with respect to the shares can generally be offset against capital gains realised by the investor in the same year or in later years. However, if there are net capital gains to which the investor is entitled to a CGT discount, any capital losses must be offset against the net capital gains realised by the investor before the CGT discount is applied to the net capital gains

Certain investors, for example those who carry on business of share trading, may be liable to tax in respect of any profit on the disposal of ordinary shares as ordinary income.

Investors who are resident individual shareholders (or a resident superannuation fund) and who receive dividends from the Company must include in their assessable income the amount of the dividend together with any franking credits

attached to the dividend. Income tax is calculated on this total amount and investors will generally be entitled to claim a rebate equal to any franking credits attaching to the dividend. Any excess rebate over and above the total tax payable can be refunded to investors.

A resident corporate shareholder that is:

- a public company for tax purposes – is entitled to a rebate of tax only to the extent of the franked portion (if any) of any dividends received; and
- a private company for tax purposes - is entitled to a rebate only to the extent of the franked portion (if any) of any dividends received.

Companies are generally entitled to credit their franking account for the franked amount of any dividend.

## 7.5 Directors' Interests

Other than as set out below, no Director has, or has held at any time during the last two years, any interest in the formation or promotion of the Company or in property acquired or proposed to be acquired by the Company.

### *Shares*

The Directors of the Company and their interests in the share capital of the Company as at the date of this Information Memorandum are set out below.

Name of Director	Number of Shares	Subscriber Shares	Nature of Interest
John R McConnell	-	-	
John R Albury	-	-	
Susan J Allen	5,000	-	Legal and Beneficial
Robert H Ball	2,000	1	Legal and Beneficial
Allen W Borella	500	1	Legal and Beneficial
Kenneth G Franks	5,000	1	Legal and Beneficial
Shane Pappas	-	-	
Eric A Thomas	1,001#	-	Legal and Beneficial
Geoffrey B Thomas	14,001*	-	Legal and Beneficial

\* 5,001 held jointly with spouse & 9,000 held by Longbourne Pty Ltd of which G B Thomas is a director.

# Held in Self Managed Superannuation Fund.

No Director holds shares in any related body corporate of the Company.

### *Indemnity*

Under the Company's Constitution, the Company:

- indemnifies its current and former officers against liability to third parties incurred arising out of the conduct of the business of the Company or in the discharge of their duties as officers; and
- is permitted to pay premiums for insurance policies insuring its Directors and officers against liability to third parties incurred arising out of the conduct of the business of the Company or in the discharge of their duties as officers.

### *Other Interests*

An entity associated with Director Sue Allen receives professional fees for Accounting Services rendered on commercial terms and conditions.

### *Other benefits*

No amounts have been paid or agreed to be paid (and no benefits have been given or agreed to be given) to a Director (or a proposed Director) to induce them to become, or to qualify as, a director of the Company.

## **7.6 Disclosure of Interests**

Other than as set out below, no person (referred to as a **Relevant Person**) named in this Information Memorandum as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Information Memorandum, no promoter of the Company and no stockbroker or underwriter has, or has held at any time during the last two years, any interest in the formation or promotion of the Company or in property acquired or proposed to be acquired by the Company.

The amounts paid, or agreed to be paid, and the nature and value of any benefits given or agreed to be given, to a Relevant Person or such a promoter, stockbroker or underwriter, for services provided in connection with the application for listing of the Company, and quotation of the Shares, on the Bendigo Stock Exchange (including preparation of this Information Memorandum) are as follows:

Nil

## **7.7 BSX Waivers**

In connection with the proposal for the listing of the Company, and the quotation of the Shares, on the Bendigo Stock Exchange, it is anticipated that the Company will require a number of waivers and confirmations from the Bendigo Stock Exchange. (These are in addition to the other requirements for listing and quotation that must be satisfied).

The Directors have had discussions of a preliminary nature with the Bendigo Stock Exchange about the waivers and confirmations required. However, the granting of these waivers and confirmations is at the absolute discretion of the Bendigo Stock Exchange and, if given, may be given subject to conditions. The main waivers and confirmations to be sought are as follows.

(a) Company's Constitution

The Company intends to seek confirmation that, for the purposes of BSX Listing Rule 1.2(b), the Company's Constitution is consistent with the BSX Listing Rules (as modified by the waivers and confirmations referred to in this Section). Further, the Company intends to request a waiver from the requirement in BSX Listing Rule 11.14 that its Constitution must contain certain provisions relating to restricted securities.

(b) Voting Rights

The Company intends to request a waiver from the requirement in BSX Listing Rule 4.3(b) that, on a poll, each shareholder must have one vote for each fully paid share held. As noted above (see Section 7.2(a)), each shareholder in the Company will have only one vote, regardless of the number of shares held.

(c) Suspension of Dividend & Voting Rights

The Company intends to seek confirmation that the provisions in the Company's Constitution that suspend the rights of a shareholder to receive dividends or vote if they have a prescribed shareholding interest (see Section 7.3 above) are "appropriate and equitable" for the purposes of the BSX Listing Rule 4.4(g).

(d) Divestment of shares

The Company intends to seek confirmation that the provisions in the Company's Constitution that permit a divestment of shares if a shareholder has a prescribed shareholding interest (see Section 7.3 above) are "appropriate and equitable" for the purposes of the BSX Listing Rule 4.6(d).

(e) Tests for listing

In order to list, among other things, a company must satisfy the "spread test" (ie it must have a certain specified number of shareholders each holding at least a certain specified value of shares) and it must satisfy either the "profits test" (ie among other things, it must have earned a certain level of profits over the past three years) or the "assets test" (ie it must have assets of a certain value): see BSX Listing Rules 1.1 to 1.7. It is not expected that the Company will be able to satisfy any of these tests. Accordingly, the Company intends to request a waiver from the requirement to comply with each test.

(f) Ongoing Operations

Under the BSX Listing Rules, there is a requirement for a listed entity to maintain a level of operations and financial stability that, in the BSX's opinion, is sufficient for the entity to remain on the BSX official list (see BSX Listing Rule 9.1). There is also a requirement to maintain a spread of security holders in a company's main class of securities which, in the BSX's opinion, is sufficient to ensure that there is an orderly market in securities (see BSX Listing Rule 9.2). The Company intends to seek confirmation from the BSX that the level of business contemplated by the Company, and the expected shareholder spread, will be sufficient for the purposes of these rules.

(g) Rights attaching to shares

The Company intends to seek confirmation from the BSX that, for the purposes of BSX Listing Rule 2.1(a), the rights attaching to the Shares satisfy the requirements of chapter 4 of the BSX Listing Rules (as modified by the waivers and confirmations described in this Section) and that, for the purposes of BSX Listing Rule 4.1, the rights attaching to the Shares are "appropriate and equitable".

(h) Limit on New Shares Issues

The Company intends to seek confirmation that, to the extent that the limit on new share issues in BSX Listing Rule 5.2 applies to the issue of Shares under the Prospectus, the issue is approved by the BSX for the purposes of that rule.

(i) Registration of share transfers

The Company intends to request a waiver from BSX Listing Rule 6.3 in order to permit the Directors of the Company to prevent a share transfer at their discretion.

(j) Rotation of directors

The Company intends to request a waiver from BSX Listing Rule 11.20 (which requires the retirement by rotation of Directors) but only to the extent that the Company complies with the Directors' retirement by rotation procedures set out in the Company's Constitution.

## 7.8 Consents

- (a) **Bendigo Bank** has given and has not, before the issue of this Information Memorandum withdrawn its written consent to be named in this Information Memorandum in the form and context in which it is named. It has not authorised or caused the issue of this Information Memorandum.

## 8. Definitions

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<b>APRA</b>	Australian Prudential and Regulatory Authority.
<b>Bendigo Bank</b>	Bendigo Bank Limited (ABN 11 068 049 178).
<b>Bendigo Group</b>	Bendigo Bank and its related bodies corporate.
<b>Bendigo Stock Exchange or BSX</b>	BSX Limited (ACN 087 708 898).
<b>BSX Listing Rules</b>	Listing rules of the BSX.
<b>Company</b>	Kew East Financial Services Limited ACN 096 301 058
<b>Corporations Act</b>	Corporations Act 2001 (Cth).
<b>Disclosure Document</b>	The disclosure document provided to the Company by Bendigo Bank under the Franchising Code.
<b>Franchise</b>	The rights granted to the Company under the Franchise Agreement.
<b>Franchise Agreement</b>	The agreement dated 3 December 2001, between Bendigo Bank and the Company (and the Directors) under which the Company was granted the rights to manage and operate the Community Bank® Branch of Bendigo Bank, subject to the terms and conditions of the agreement.
<b>Franchise</b>	Has the meaning given in Section 3.5.
<b>Franchising Code</b>	Franchising Code of Conduct.
<b>Prospectus</b>	The prospectus dated 6 July 2001, issued by the Company.
<b>Shares</b>	Ordinary shares in the Company

Each Director of the Company has consented to the lodgement of this Information Memorandum with the Bendigo Stock Exchange.

Signed for and on behalf of the Company by each Director:

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**John Roland McConnell**

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**John Roderick Albury**

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**Susan Joan Allen**

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**Robert Hamilton Ball**

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**Allen William Borella**

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**Kenneth George Franks**

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**Shane Pappas**

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**Eric Arthur Thomas**

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**Geoffrey Bruce Thomas**



## **DIRECTORY**

### **Directors**

John Roland McConnell (Chairman)

John Roderick Albury

Susan Joan Allen

Robert Hamilton Ball

Allen William Borella

Kenneth George Franks

Shane Pappas

Eric Arthur Thomas

Geoffrey Bruce Thomas

### **Company Secretary**

Robert Hamilton Ball

### **Registered Office**

661A High Street,

Kew East, Vic. 3102

**KEW EAST FINANCIAL SERVICES LIMITED**  
**ABN: 91 096 301 058**

**FINANCIAL REPORT FOR THE YEAR ENDED**  
**30 JUNE 2005**

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# Directors' report 30 June 2005

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The Directors present their report together with the accounts of Kew East Financial Services Ltd ("the Company") for the year ended 30 June 2005 and the auditor's report thereon.

## 1. Directors in office -

The Directors in office at any time during or since the end of the period are:

John McConnell	Board Chair Company Director, former bank executive, serves on a not-for-profit Board.
Sue Allen	Chair of Treasury & Compliance Committee Runs own financial planning business, serves on a not-for-profit Board.
Shane Pappas	Chair of Marketing & Promotions Committee Operations Manager
Rod Albury	Retired, former school principal, serves on Community Festival (appointed 18.10.04)
Robert Ball	Company Secretary Practising solicitor
Allan Barnes	Runs own IT training business (resigned 25.8.04)
Allen Borella	Runs own automotive business
Ken Franks	Property investor, retired land surveyor
Geoff Thomas	Funds management (appointed 8.9.04)
Eric Thomas	Chartered Accountant

Directors have been in office since the start of the year unless otherwise stated.

## 2. Principal activities of the Company

The Company is engaged in operating a banking franchise in Kew East. It provides retail and commercial banking and financial services, including deposit taking, lending, financing, insurance and financial planning facilities.

# Directors' report continued

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## **3. Results**

The profit of the Company, after providing for income tax, amounted to \$127,821 (2004: \$57,368).

## **4. Dividends Paid or Recommended**

An interim dividend for 2005 of two cents per share, totalling \$9,650, has been paid during the year.

A final dividend for 2005 of three cents per share, totalling \$14,475 is proposed for payment.

Both dividends are unfranked.

## **5. Review of Operations**

The Company continued its banking operations for the year ended 30 June 2005. Business is still growing and profits are steadily increasing. The outlook is for continued growth, with a view to paying regular dividends to shareholders and making greater contributions to the local community.

## **6. Events Subsequent to Balance Date**

There has not arisen in the interval between the end of the financial year and the date of this report any other matter or circumstance, in the opinion of the Directors of the Company, that has 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 the subsequent financial year.

## **7. Future developments**

The Company expects to continue offering banking and financial services to the community in Kew East and surrounding areas. The Directors are not aware of any specific developments which are likely to have a significant effect on the operations of the Company or the expected results of those operations.

## **8. Directors' insurance**

During the year, the Company has paid premiums to insure the Directors and officers of the Company in respect of liabilities to other persons that may arise as a result of their position as Directors or officers of the Company. The amount of the premiums and nature of the liabilities are subject to a confidentiality clause in the insurance policy.

## **9. Directors' Benefits**

An entity associated with Sue Allen has received payments of \$9,900 (2004: \$0) during the financial period for accounting services rendered on commercial terms and conditions.

No other Director has received a benefit from the Company.

## Directors' report continued

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### 10. Directors Meetings

Number of meetings held 10.

#### Number of meetings attended

	No. attended	
John McConnell	9	
Sue Allen	10	
Shane Pappas	9	
Robert Ball	10	
Rod Albury	5	(eligible to attend 6)
Allan Barnes	2	(eligible to attend 2)
Allen Borella	10	
Ken Franks	8	
Geoff Thomas	6	(eligible to attend 7)
Eric Thomas	8	

#### Proceedings on behalf of the Company

No person has applied for leave of a court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Dated at Melbourne, Victoria on 29 August 2005.

Signed in accordance with a resolution of the Directors:



**John McConnell**  
**Director**



**Robert Ball**  
**Director**

# Financial statements

## Statement of financial performance

For year ending 30 June 2005

	Note	2005 \$	2004 \$
Revenue from ordinary activities	2(b)	568,393	488,793
Depreciation and amortisation	2(a)	(36,237)	(42,525)
Borrowing cost expense		(1,276)	(7,215)
Employee Costs		(261,219)	(244,643)
Other expenses from ordinary activities		(141,840)	(137,042)
<b>Profit from ordinary activities before income tax expense</b>		<b>127,821</b>	<b>57,368</b>
Income tax expense attributable to ordinary activities	3	-	-
<b>Net Profit from ordinary activities after income tax expense</b>		<b>127,821</b>	<b>57,368</b>
Total changes in equity other than those resulting from transactions with owners as owners		127,821	57,368
Diluted Earnings per share (cents)		26.5	11.9
Basic Earnings per share (cents)		26.5	11.9
Unfranked dividends per share (cents)	4	5.0	-

# Financial statements continued

## Statement of financial position

As at 30 June 2005

	Note	2005 \$	2004 \$
<b>CURRENT ASSETS</b>			
Cash	6	141,768	29,442
Receivables	7	50,386	49,122
<b>TOTAL CURRENT ASSETS</b>		<b>192,154</b>	<b>78,564</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	8	173,812	194,804
Other assets	9	20,000	35,000
<b>TOTAL NON CURRENT ASSETS</b>		<b>193,812</b>	<b>229,804</b>
<b>TOTAL ASSETS</b>		<b>385,966</b>	<b>308,368</b>
<b>CURRENT LIABILITIES</b>			
Accounts payable	10	34,225	26,654
Interest bearing liabilities	11	-	53,615
Provisions	12	29,126	23,655
<b>TOTAL CURRENT LIABILITIES</b>		<b>63,351</b>	<b>103,924</b>
<b>TOTAL LIABILITIES</b>		<b>63,351</b>	<b>103,924</b>
<b>NET ASSETS (LIABILITIES)</b>		<b>322,615</b>	<b>204,444</b>
<b>EQUITY</b>			
Issued capital	13	482,510	482,510
Retained Earnings (Losses)	5	(159,895)	(278,066)
<b>TOTAL EQUITY</b>		<b>322,615</b>	<b>204,444</b>

# Financial statements continued

## Statement of cash flows

For year ending 30 June 2005

	Note	2005 \$	2004 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		616,781	445,547
Interest received		1,468	9
Payments to suppliers & employees		(441,136)	(350,991)
Borrowing costs paid		(1,276)	(7,215)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>15(b)</b>	<b>175,837</b>	<b>87,350</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payment for property, plant & equipment		(246)	(2,129)
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>		<b>(246)</b>	<b>(2,129)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividend paid		(9,650)	-
Repayment of borrowings		(53,615)	(42,502)
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>		<b>(63,265)</b>	<b>(42,502)</b>
<b>NET INCREASE (DECREASE) IN CASH HELD</b>		<b>112,326</b>	<b>42,719</b>
Cash at beginning of period		29,442	(13,277)
<b>CASH AT END OF PERIOD</b>	<b>6, 15(a)</b>	<b>141,768</b>	<b>29,442</b>



# Notes to the financial statements

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For year ending 30 June 2005

## Note 1: Statement of significant accounting policies

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board and Corporation 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. The accounting policies have been consistently applied, unless otherwise stated.

The following is a summary of the material accounting policies adopted by the Company in the preparation of the financial report.

### **Income Tax**

The Company adopts the liability method of tax-effect accounting whereby the income tax expense is based on the operating profit adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income, are brought to account as either provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the year in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond any reasonable doubt.

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 tax 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.

### **Property, Plant and Equipment**

Property, plant and equipment are carried at cost or at independent or Directors' valuation, less where applicable any accumulated depreciation or amortisation. The carrying amount of property, plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of expected net cash flows which will be received from the asset's employment and subsequent disposal.

The depreciable amount of all fixed assets, including buildings and capitalised leased assets, but excluding freehold land, are depreciated on a diminishing value basis over their estimated useful lives to the Company commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease and estimated useful lives of the improvements.

# Notes to the financial statements continued

Depreciation rates being used are:

<b>Class of fixed asset</b>	<b>Depreciation rate 04/05</b>
Plant & Equipment	15% pa on written down value
Office Furniture & Equipment	10% pa on written down value
Fixtures & Fittings	5% pa on written down value

## **Intangibles**

The franchise fee is being written off at 30% pa on cost so that it is fully amortised when the current franchise agreement expires and before payment of any fee to renew the agreement.

## **Cash**

For the purposes 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 twelve months.

## **Employee Entitlements**

Contributions are made by the Company to an employee's superannuation fund and are charged as expenses when incurred.

Annual leave accruals have been made on the basis of the present obligation arising from service of employees up to balance date. The provision has been calculated using the rates of pay expected to be paid when the leave is taken. Provision has also been made for all appropriate oncosts.

## **Revenue Recognition**

Revenue from the provision of services to customers is recognised in the period during which the service was provided. Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

## **Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

# Notes to the financial statements continued

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## **Impact of Adoption of Australian Equivalents to International Financial Reporting Standards**

The Company is preparing and managing the transition to Australian Equivalent to International Financial reporting Standards (AIFRS) effective for the financial years commencing from 1 January 2005. The adoption of AIFRS will be reflected in the Company's financial statements for the year ended 30 June 2006. On first time adoption of AIFRS comparatives for the financial year ended 30 June 2005 are required to be restated.

The Company's management, with the assistance of external consultants, has assessed the significance of the expected changes and is preparing for their implementation. The Board of Directors is overseeing and managing the Company's transition to AIFRS. The impact of the alternative treatments and elections under AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards has been considered where applicable.

The Directors are of the opinion that the key material issues in the Company's accounting policies on conversion to AIFRS and the financial effect of these differences, where known, are as follows. Users of the financial statements should note, however, that the amounts disclosed could change if there are any amendments by standard-setters to the current AIFRS or interpretation of the AIFRS requirements changes from the continuing work of the Board of Directors.

## **Intangibles**

Under AASB :136 Impairment of assets, the franchise fee is capitalised in the statement of financial position and subjected to an annual impairment test. Amortisation of intangibles is permitted where it is deemed to have a finite life. Current accounting policy of the Company is to amortise the franchise fee on a straight line basis up to the renewal date. An impairment test of the franchise fee has been carried out and the current amortisation policy deemed acceptable and in line with current standards. No restatement is expected.

# Notes to the financial statements continued

	2005 \$	2004 \$
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## Note 2: Profit from ordinary activities

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

Charging as Expense

Borrowing costs		
- Bank	1,276	7,215
Movement in Provisions		
- Employee Provisions	5,471	21,879
- Depreciation of plant & equipment	15,150	20,433
- Depreciation of office furniture & equipment	2,358	2,816
- Depreciation of fixtures & fittings	3,729	4,276
- Amortisation of franchise fee	15,000	15,000

(b) Revenue from ordinary activities:

Included in operating profit are the following items of

Operating revenue:		
- Interest	2,033	9
- Banking Income	566,360	488,784
	<b>568,393</b>	<b>488,793</b>

## Note 3: Income tax expense

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

Prima facie tax expense on profit from ordinary activities before income tax at 30%	38,346	17,210
Add tax effect of:		
- Non-deductible items	4,500	4,500
Less tax effect of:		
- Recognition of prior years tax losses	42,846	21,710
Income tax expense attributable to profit from ordinary activities	-	-
The entity has tax losses available for use in future periods of:	120,245	263,066

# Notes to the financial statements continued

	2005 \$	2004 \$
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## Note 4: Dividends

Dividends paid or proposed on ordinary shares:

Final dividend proposed since the reporting date, but not recognised as a liability (3 cents per share) (2004 nil)	14,475	
Interim dividend paid during the financial period (2 cents per share) (2004 nil)	9,650	

All dividends were unfranked

## Note 5: Retained earnings

Retained Profits (losses) at the start of the financial year	(278,066)	(335,434)
Net Profit attributable to members of the Company	127,821	57,368
Dividend paid	(9,650)	-
<b>Retained Profits (losses) at the end of the financial year</b>	<b>(159,895)</b>	<b>(278,066)</b>

## Note 6: Cash

Cash at Bank – Operating	141,668	29,342
Cash on Hand	100	100
	<b>141,768</b>	<b>29,442</b>

## Note 7: Receivables

### CURRENT

Debtors	49,173	43,237
Prepayments	648	4,785
Deposits	-	1,100
Accrued income	565	-
<b>Total Receivables</b>	<b>50,386</b>	<b>49,122</b>

# Notes to the financial statements continued

	2005 \$	2004 \$
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## Note 8: Property, plant and equipment

Plant & Equipment, at cost	136,201	136,201
Less: Accumulated Depreciation	(50,345)	(35,194)
	85,856	101,007
Office Furniture & Equipment, at cost	26,025	25,779
Less: Accumulated Depreciation	(8,895)	(6,537)
	17,130	19,242
Fixtures & Fittings, at cost	85,504	85,504
Less: Accumulated Depreciation	(14,678)	(10,949)
	70,826	74,555
<b>Total Property, Plant and Equipment</b>	<b>173,812</b>	<b>194,804</b>

## Note 9: Other assets

### NON-CURRENT

Intangibles – Franchise Fees, at cost	50,000	50,000
Less: Accumulated Amortisation	(30,000)	(15,000)
	<b>20,000</b>	<b>35,000</b>

## Note 10: Accounts payable

### CURRENT

Creditors & Accruals	18,292	17,898
GST Payable, net	15,933	8,756
	<b>34,225</b>	<b>26,654</b>

## Note 11: Interest bearing liabilities

### CURRENT

Loan Bendigo Bank	-	53,615
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# Notes to the financial statements continued

	2005 \$	2004 \$
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## Note 12: Provisions

### CURRENT

Employee Entitlements	29,126	23,655
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## Note 13: Issued capital

482,510 fully paid ordinary shares (2004: 482,510)	482,510	482,510
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## Note 14: Auditors' remuneration

- for auditing or reviewing the financial report	5,500	5,500
- for other services	-	-
	<b>5,500</b>	<b>5,500</b>

## Note 15: Cash flow information

### (a) Components of cash

Cash on Hand	100	100
Cash at Bank	141,668	29,342
	<b>141,768</b>	<b>29,442</b>

### (b) Funds from operations

Reconciliation of Cash Flow from Operations		
With Profit from Ordinary activities after IncomeTax		
Profit from ordinary activities after income tax	127,821	57,368
Depreciation and amortisation	36,237	42,525
Change in operating assets and liabilities:		
(Increase) decrease in trade debtors	(5,936)	(43,237)
(Increase) decrease in other receivables	4,672	(3,737)
(Decrease) increase in trade creditors	394	10,600
(Decrease) increase in other creditors & provisions	12,649	23,831
<b>Net cash inflow from operating activities</b>	<b>175,837</b>	<b>87,350</b>

# Notes to the financial statements continued

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## Note 16: Capital commitments

Since the end of the financial period, an amount of \$14,135 has been committed for an upgrade to the air-conditioning system in the bank premises.

## Note 17: Contingent liabilities

There are no known contingent liabilities for Kew East Financial Services Ltd.

## Note 18: Related party transactions

An entity associated with Sue Allen has received payments of \$9,900 (2004: \$0) during the financial period for accounting services rendered on commercial terms and conditions.

## Note 19: Segment reporting

Kew East Financial Services Ltd operates in the financial services sector where it provides banking and financial services to its customers. The Company operates in the geographic area of Kew East.

## Note 20: Events after balance date

No events have occurred between the end of the financial year and the signing of this report which would have impacted on the result for the year.

## Note 21: Financial instruments

### **(a) Financial Instruments**

#### **(i) Derivative Financial Instruments:**

The Company does not utilise derivative financial instruments

#### **(ii) Unrecognised Financial Instruments**

##### **A. Forward Exchange Contracts**

The Company does not utilise forward exchange contracts

##### **B. Interest Rate Swaps**

The Company does not utilise interest rate swap contracts

### **(b) 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.



# Notes to the financial statements continued

## (c) 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 the financial instruments entered into by the Company.

## (d) Interest Rate Risk

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets & liabilities, is as follows:

	Floating Interest Rate		Fixed Interest Rate maturing in 1 year or less		Non-Interest Bearing		Weighted Average Effective Interest Rate	
	2005 \$	2004 \$	2005 \$	2004 \$	2005 \$	2004 \$	2005 %	2004 %
FINANCIAL ASSETS								
Cash assets	56,854	-	75,000	-	9,914	29,442	5.00	-
Receivables	-	-	-	-	50,386	49,122	-	-
FINANCIAL LIABILITIES								
Payables	-	-	-	-	34,225	26,654	-	-
Interest bearing liabilities	-	-	-	53,615	-	-	-	8.25

# Directors' declaration

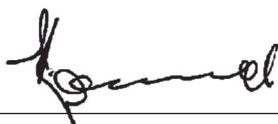
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The Directors of the Company declare that:

1. The financial statements and notes
  - (a) comply with Accounting Standards and the Corporations Act; and
  - (b) give a true and fair view of the financial position as at 30 June 2005 and performance for the year ended on that date of the Company;
2. The Chief Executive Officer and Chief Finance Officer each declare that:
  - (a) the financial records of the Company for the financial year have been properly maintained in accordance with Section 286 of the Corporations Act 2001; and
  - (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 a 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



John McConnell

Director



Robert Ball

Dated this 29th day of August, 2005

# Independent audit report

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## Armstrong Partners

CHARTERED ACCOUNTANTS

**KEW EAST FINANCIAL SERVICES LIMITED A.B.N. 91 096 301 058**

### **INDEPENDENT AUDIT REPORT TO THE MEMBERS OF KEW EAST FINANCIAL SERVICES LTD**

#### **Scope**

##### ***The financial report and directors' responsibilities***

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Kew East Financial Services Ltd for the year ended 30 June 2005.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting 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.

#### **Audit Approach**

Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an audit report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

We performed procedures to assess whether, in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and of its performance as represented by the results of its operations and cash flows.

# Independent audit report continued

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We formed our audit opinion on the basis of these procedures, which included:

- Examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- Assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of 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.

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

## **Independence**

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

## **Audit Opinion**

In our opinion the financial report of Kew East Financial Services Ltd is in accordance with:

- the *Corporations Act 2001*, including:
  - i giving a true and fair view of the financial position of Kew East Financial Services Ltd as at 30 June 2005, and of its performance for the year ended on that date; and
  - ii complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- other mandatory financial reporting requirements in Australia.

## **Armstrong Partners**



**David Armstrong**  
Principal

Dated this 8th day of September, 2005

# Auditor's declaration

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I declare that, to the best of my knowledge and belief, during the year ended 30 June 2005 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 contravention of any applicable code of professional conduct in relation to the audit.

**Armstrong Partners**

A handwritten signature in black ink, appearing to read 'David Armstrong', with a stylized, cursive script.

**David Armstrong FCA**

29 August 2005

Suite 21, Level 5  
150 Albert Road  
South Melbourne VIC 3205