

2006 annual report

Yarraman Financial
Services Limited
ABN 57 113 889 768



Yarraman & District **Community Bank**[®] Branch
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Franchisee: Yarraman Financial Services Limited
23 Toomey Street, Yarraman, QLD 4614
ABN 57 113 889 768

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Bendigo Bank Limited, Fountain Court, Bendigo, VIC 3550
ABN 11 068 049 178. AFSL 237879 (KKQ1003) (08/06)

Yarraman & District
Community Bank[®] Branch **Bendigo Bank**



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Chairperson's report

For year ending 30 June 2006

I am delighted to have the opportunity to present this first Annual Report to the Shareholders of Yarraman Financial Services Limited.

Since opening the doors of your Yarraman & District **Community Bank**[®] Branch of Bendigo Bank just 10 short months ago, our business has continued to enjoy strong growth.

Shareholders will recall that when we opened our **Community Bank**[®] branch, we purchased the Bendigo Bank Agency business which had been operating in the town of Yarraman for some years. At that time our total financial retail base stood at \$14.36 million with a customer base of 1,340 accounts. Since this time our retail business has grown to \$21.8 million – an increase of over 51%. Similarly our customer accounts have increased to 1,599 representing growth of over 19%.

Accordingly, I would like to express my sincere appreciation to the Board of Management in setting a sound strategic direction for our business and for ensuring that we continue to operate within a sound corporate governance framework.

As your Directors, we are extremely mindful of our responsibility to plan the growth of our business in a management environment which seeks to protect the investments of our shareholders at all times. This is seen as paramount, especially at this critical stage as we continue to grow steadily towards profitability.

As we progress down the path towards this goal we see a range of responsibilities before us; opportunities to grow the business, opportunities to support our community - it's clubs and organisations, protection of our **Community Bank**[®] Company assets and of course, providing a timely return on the investment made by our Shareholders. As a Board we will continue to work hard to ensure that we get this balance right.

The results to date reflect the hard work undertaken by our Branch Manager, Anne Woodrow and her staff, and the Board thanks each one for their efforts.

Finally, without the vision, generosity and confidence of our Shareholders, we would simply not have our **Community Bank**[®] branch and I would like to thank you all for your continued support. I think this is an excellent opportunity for Shareholders who are not currently banking with our **Community Bank**[®] branch to give strong consideration to doing so. This all helps towards our goal of reaching profitability and then returning dividends to you as soon as possible.



Wayne Emms
Chairman

Manager's report

For year ending 30 June 2006

The Yarraman & District **Community Bank**[®] Branch of Bendigo Bank was launched on 29 August 2005. Our fledgling branch is robust, and rapidly growing beyond a \$20 million dollar venture. From a management perspective it has been both pleasing and encouraging, and reflects on the hard work that my staff and I have put into growing the branch over the past 10 months.

We continue to seek and identify good opportunities to grow our business and we will be exploring these avenues with further intensity this coming year.

We have been fortunate to be able to retain our original staff members who have proven to be a great asset to the Company. I am confident that we can continue to deliver the exceptional customer service that Yarraman & District **Community Bank**[®] Branch has become renowned for.

As Shareholders you have a vested interest in your Company and should be advocates for it. Should you not currently be a customer of our branch I encourage you to do so. The greater your support the greater our growth and profitability will be, and the sooner we will be in a position to declare a maiden dividend and return grants to our worthwhile community projects.

To those Shareholders and Directors who have also become our customers, I thank you, as this is the greatest compliment a manager can receive. Not only is it an indication of your commitment to the Company, but also an indication that you have confidence in my staff and I.

Lastly I would like to thank my fantastic and enthusiastic staff, June Dugdell, Lorraine Wyvill, Lindy Lynch and Deanne Frohloff for their wholehearted support during the year and also to the Chairman and Board for their contribution.



Anne Woodrow
Branch Manager

Bendigo Bank Ltd report

For year ending 30 June 2006

What a brilliant year for our **Community Bank**[®] network.

During 2005/06, we increased the number of **Community Bank**[®] branches across Australia by 27 and continued to inject vital funds back into local communities.

And demand for the **Community Bank**[®] model across all states and territories across Australia has not wavered – we are currently working with dozens of rural, regional and suburban communities to bring the success of **Community Bank**[®] to their towns.

It is just over eight years since the **Community Bank**[®] network began as a pilot in the Victorian towns of Rupanyup and Minyip, and we now have 182 **Community Bank**[®] branches.

Those branches have:

- Returned more than \$6 million to local communities and projects;
- Paid almost \$4.5 million in dividends to more than 14,000 local Shareholders;
- Received more than \$220 million from Bendigo Bank, including \$76 million in the past year;
- Spent almost \$36 million in their local communities on salaries, rent, cleaning and other operating costs;
- Service more than 480,000 accounts; and
- Have almost \$8 billion of banking business

A renewed focus on community engagement has also played a huge part in the **Community Bank**[®] network during the past year.

As part of an internal Bendigo Bank re-structure, thirteen regions became 27 and, more importantly to your community, our **Community Bank**[®] branches were brought in under our Regional Managers, who now have total responsibility for staff, sales and service for the Bank's complete suite of products. It means we are having more conversations about adding value for customers and we are becoming even more closely aligned with the aspirations of the communities we serve.

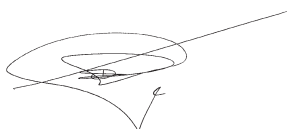
Many **Community Bank**[®] Boards are looking to implement community telco solutions to retain even more local capital in their own regions for local projects.

And, in Victoria, two communities that have already succeeded by opening and operating **Community Bank**[®] branches, have now formed Community Enterprise™ steering committees to pilot bio-diesel distribution models, with the ultimate view of operating local bio-diesel production plants.

Eight years after the inception of **Community Bank**[®] Bendigo Bank is still as proud as ever to partner local communities just like yours.

Congratulations go to the Yarraman community Board for their hard work and dedication over the past year; and also to your dedicated team of branch Staff for providing the highest level of customer service.

Thanks also go to you, the hundreds of Shareholders and Customers of the Yarraman & District **Community Bank**[®] Branch, for making this exciting community partnership possible.



Paul O'Keeffe
South West Queensland Regional Manager
Bendigo Bank

Directors' report

For year ending 30 June 2006

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

Directors

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

David Wayne Emms

Chairman

Age: 61

Manufacturer

Building construction/product design

Chairman, Marketing & Sponsorship Committee

Interests in shares: 1,001

Ross Christopher Begent

Secretary

Age: 53

Economic Development Officer

Business Management & Counselling/Business

Programs/Economic Development

Company Secretary, Chairman: Corporate Governance

Interests in shares: 2,001

Jennifer Eileen Hunter

Treasurer (Appointed 7 February 2006)

Age: 46

Primary Producer/Business Tutor

Bookkeeping & Administration

Chairperson: Budget

Interests in shares: 1,000

Cr Noel Leslie Strohfeld

Director

Age: 65

Grazier & Agricultural Supplier

Mayor, Council/Business Proprietor/Importer

Chairman: Projects

Interests in shares: 501

Gunter Nehring

Director

Age: 50

Design Engineer

Small Business Proprietor/Building Design

Vice Chairman

Interests in shares: 2,001

Leslie Walter Schloss

Director

Age: 55

Primary Producer

Farming/Community Organisations

Chairman: Property

Interests in shares: 2,001

Terrence Edward Dhann

Director

Age: 61

Councillor

Business Management/Police Force

Chairman: Business Development & HR

Interests in shares: 501

John Henry Harwood

Director (Appointed 6 December 2005)

Age: 69

Retiree

Corporate Administration

Chairman: Audit Committee

Interests in shares: 1,500

Directors' report continued

Keith Roy Carroll

Director

Age: 72

Retiree

Banking & Finance

Past Treasurer/Assists Chairman

Interests in shares: 1,501

Dawn Margaret Plumridge

Director (Resigned 6 December 2005)

Age: 67

Retiree

Interests in shares: 501

Alexander Cyril Brown

Director (Resigned 11 August 2005)

Age: 63

Agriculturalist

Interests in shares: 1

Lorraine Helen Wyvill

Director (Resigned 11 August 2005)

Age: 43

Retail Salesperson

Interests in shares: 1,001

Directors were in office for this entire year unless otherwise stated.

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

Company Secretary

Ross Begent has been the Company Secretary of Yarraman Financial Services Limited since its establishment.

His qualifications and experience include being the voluntary Secretary of a major employment organisation,

Director of a State Government small business agency and adviser on business policy and support programmes.

He is currently the Economic Development Officer for Rosalie Shire Council.

Principal activities

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

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

Operating Results

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

Year ended
30 June 2006
\$
(130,526)

Directors' report continued

Remuneration report

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

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

There are therefore no specified Executives whose remuneration requires disclosure.

The Branch Manager commenced employment on 20 June 2005. She is employed on a contract which is in line with the standards and remuneration levels applicable to Bendigo Bank staff in similar roles.

Dividends

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

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

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

Likely developments

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

Environmental regulation

The Company is not subject to any significant environmental regulation.

Directors' benefits

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

Directors' report continued

Indemnification and Insurance of Directors and Officers

The Company has indemnified all Directors and the Manager in respect of liabilities to other persons (other than the Company or related body corporate) that may arise from their position as Directors or Managers of the Company except where the liability arises out of conduct involving the lack of good faith. The premium paid in respect to this policy is \$2,860.

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

Directors Meetings

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

| | Number of Board Meetings eligible to attend | Number attended |
|--|--|-----------------|
| David Wayne Emms | 10 | 10 |
| Ross Christopher Begent | 10 | 9 |
| Jennifer Eileen Hunter (Appointed 7 February 2006) | 4 | 3 |
| Cr Noel Leslie Strohfeld | 10 | 6 |
| Gunter Nehring | 10 | 10 |
| Leslie Walter Schloss | 10 | 5 |
| Terrence Edward Dhann | 10 | 8 |
| John Henry Harwood (Appointed 6 December 2005) | 5 | 5 |
| Keith Roy Carroll | 10 | 9 |
| Dawn Margaret Plumridge (Resigned 6 December 2005) | 5 | 5 |
| Alexander Cyril Brown (Resigned 11 August 2005) | 1 | 1 |
| Lorraine Helen Wyvill (Resigned 11 August 2005) | 1 | - |

Directors' report continued

Non Audit Services

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

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

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

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

none of the services undermine the general principles relating to Auditor independence as set out in Professional Statement F1, including reviewing or auditing the Auditor's own work, acting in a management or a decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

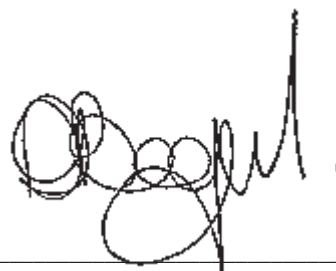
Auditors' independence declaration

A copy of the Auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 10.

Signed in accordance with a resolution of the Board of Directors at Yarraman, Queensland on 14 August 2006.



David Wayne Emms, Chairman



Ross Christopher Begent, Director

Directors' report continued

Auditor's Independence Declaration

As lead Auditor for the audit of Yarraman Financial Services Limited for the year ended 30 June 2006, I declare that, to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Yarraman Financial Services Limited.



David Hutchings
Auditor Partner

Andrew Frewin & Stewart
Bendigo

14 August 2006

Financial statements

Statement of financial performance

For year ending 30 June 2006

| | Note | 2006 \$ |
|--|------|------------------|
| Revenues from ordinary activities | 3 | 169,355 |
| Salaries and employee benefits expense | | (202,894) |
| Advertising and promotion expenses | | (791) |
| Occupancy and associated costs | | (31,289) |
| Depreciation and amortisation expense | 4 | (14,353) |
| General administration expenses | | (95,793) |
| Loss from ordinary activities before income tax credit | | (175,765) |
| Income tax credit | 5 | 45,239 |
| Loss from ordinary activities after income tax credit | | (130,526) |
| Loss attributable to members of Yarraman Financial Services Limited | | (130,526) |
| Earnings per share (cents per share) | | |
| - basic for profit for the half year | | (30.71) |
| - diluted for profit for the half year | | (30.71) |

The accompanying notes form part of these financial statements.

Financial statements continued

Statement of financial performance

For year ending 30 June 2006

| | Note | 2006 \$ |
|---------------------------------------|------|----------------|
| Current assets | | |
| Cash assets | 6 | 93,146 |
| Trade and other receivables | 7 | 19,696 |
| Total current assets | | 112,842 |
| Non-current assets | | |
| Property, plant and equipment | 8 | 28,598 |
| Intangibles | 9 | 118,274 |
| Deferred tax assets | 10 | 45,239 |
| Total non-current assets | | 192,111 |
| Total assets | | 304,953 |
| Current liabilities | | |
| Trade and other payables | 11 | 20,046 |
| Provisions | 12 | 14,141 |
| Total current liabilities | | 34,187 |
| Total liabilities | | 34,187 |
| Net assets | | 270,766 |
| Equity | | |
| Contributed equity | 13 | 401,292 |
| Retained profits/(Accumulated losses) | 14 | (130,526) |
| Total equity | | 270,766 |

The accompanying notes form part of these financial statements.

Financial statements continued

Statement of financial performance

For year ending 30 June 2006

| | 2006 \$ |
|--|----------------|
| Total equity at the beginning of the financial year | - |
| Net profit/(loss) for the year | (130,526) |
| Net income/expense recognised directly in equity | - |
| Dividends provided for or paid | - |
| Shares issued during period | 425,000 |
| Costs in raising equity | (23,708) |
| Total equity at the end of the financial year | 270,766 |

| | Note | 2006 \$ |
|---|--------------|------------------|
| Cash flows from operating activities | | |
| Cash received from customers | | 159,637 |
| Cash paid to suppliers and employees | | (310,499) |
| Interest received | | 3,941 |
| Net outflows from operating activities | 15(b) | (146,921) |
| Cash Flows From Investing Activities | | |
| Payment for intangible assets | | (60,000) |
| Payment for purchase of business | | (70,274) |
| Payments for property plant and equipment | | (30,951) |
| Net cash outflows investing activities | | (161,225) |

The accompanying notes form part of these financial statements.

Financial statements continued

Statement of financial performance

For year ending 30 June 2006

| | Note | 2006 \$ |
|--|--------------|----------------|
| Cash Flows From Financing Activities | | |
| Proceeds of share issues | | 425,000 |
| Payment of share issue costs | | (23,708) |
| Net cash inflows financing activities | | 401,292 |
| Net increase in cash held | | 93,146 |
| Cash at the beginning of the financial year | | - |
| Cash at the end of the financial year | 15(a) | 93,146 |

The accompanying notes form part of these financial statements.

Notes to the financial statements

Statement of cash flows

For year ending 30 June 2006

1. Summary of significant accounting policies

Basis of preparation

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

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

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

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

Revenue

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

Income tax

Current tax

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

Notes to the financial statements continued

1. Summary of significant accounting policies (continued)

Income tax (continued)

Deferred tax

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

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

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

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

Current and deferred tax for the period

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

Goods and services tax

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

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

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

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

Notes to the financial statements continued

1. Summary of significant accounting policies (continued)

Employee entitlements

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

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

Intangibles

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

Cash

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

Comparative figures

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

Property, plant and equipment

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

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

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

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

Notes to the financial statements continued

1. Summary of significant accounting policies (continued)

Impairment of assets

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

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

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

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

Payment terms

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

Receivables and payables

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

Borrowings

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

Notes to the financial statements continued

1. Summary of significant accounting policies (continued)

Provisions

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

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

Contributed Capital

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

2. Financial risk management

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

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

(i) Market risk

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

(ii) Price risk

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

(iii) Credit risk

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

(iv) Liquidity risk

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

Notes to the financial statements continued

(v) Cash flow and fair value interest rate risk

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

| | 2006 \$ |
|--|----------------|
| 3. Revenue from ordinary activities | |
| Operating activities: | |
| - services commissions | 165,414 |
| Total revenue from operating activities | 165,414 |
| Non-operating activities: | |
| - interest received | 3,941 |
| Total revenue from non-operating activities | 3,941 |
| Total revenues from ordinary activities | 169,355 |

4. Expenses

| | |
|-------------------------------------|---------------|
| Depreciation of non-current assets: | |
| - plant and equipment | 928 |
| - leasehold improvements | 1,425 |
| Amortisation of non-current assets: | |
| - franchise agreement | 12,000 |
| | 14,353 |

5. Income tax expense

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

| | |
|---|-----------------|
| Operating loss | (175,765) |
| Prima facie tax on loss from ordinary activities at 30% | (52,730) |
| Add tax effect of: | |
| - non-deductible expenses | 7,491 |
| Income tax expense on operating loss | (45,239) |

Notes to the financial statements continued

| | 2006 \$ |
|---|---------------|
| 6. Cash assets | |
| Cash at bank and on hand | 27,263 |
| Term Deposits | 65,883 |
| | 93,146 |
| 7. Trade and other receivables | |
| Trade receivables | 16,257 |
| Prepayments | 3,439 |
| | 19,696 |
| 8. Property, plant and equipment | |
| Plant and equipment | |
| At cost | 6,688 |
| Less accumulated depreciation | (928) |
| | 5,760 |
| Leasehold improvements | |
| At cost | 24,263 |
| Less accumulated depreciation | (1,425) |
| | 22,838 |
| Total written down amount | 28,598 |

Notes to the financial statements continued

| | 2006 \$ |
|--|------------|
|--|------------|

8. Property, plant and equipment (continued)

Movements in carrying amounts:

Plant and equipment

| | |
|-------------------------------|--------------|
| Carrying amount at beginning | - |
| Additions | 6,688 |
| Disposals | - |
| Less: depreciation expense | (928) |
| Carrying amount at end | 5,760 |

Leasehold improvements

| | |
|----------------------------------|---------------|
| Carrying amount at beginning | - |
| Additions | 24,263 |
| Disposals | - |
| Less: depreciation expense | (1,425) |
| Carrying amount at end | 22,838 |
| Total written down amount | 28,598 |

9. Intangible assets

Franchise Fee

| | |
|--------------------------------|----------------|
| At cost | 60,000 |
| Less: accumulated amortisation | (12,000) |
| Goodwill - Business | 70,274 |
| | 118,274 |

10. Deferred Tax Benefit

Future income tax benefit

| | |
|-----------------------------|---------------|
| Tax losses - revenue | 45,239 |
|-----------------------------|---------------|

Notes to the financial statements continued

| | 2006 \$ |
|--|------------------|
| 11. Trade and other payables | |
| Trade creditors | 17,646 |
| Other creditors & accruals | 2,400 |
| | 20,046 |
| 12. Provisions | |
| Employee provisions | 14,141 |
| Number of employees at year end | 4 |
| 13. Contributed equity | |
| 425,000 Ordinary shares fully paid of \$1 each | 425,000 |
| Less: equity raising expenses | (23,708) |
| | 401,292 |
| 14. Retained Earnings/Accumulated Losses | |
| Balance at the beginning of the financial year | - |
| Net loss from ordinary activities after income tax | (130,526) |
| Dividends Paid | - |
| Balance at the end of the financial year | (130,526) |

Notes to the financial statements continued

2006
\$

15. Statement of cashflows

(a) Reconciliation of cash

| | |
|--------------------------|--------|
| Cash at bank and on hand | 27,263 |
| Term deposit | 65,883 |
| | 93,146 |

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

| | |
|---|------------------|
| Loss from ordinary activities after income tax | (130,526) |
| Non cash items: | |
| - depreciation | 2,353 |
| - amortisation | 12,000 |
| Changes in assets and liabilities: | |
| - (increase)/decrease in receivables | (19,696) |
| - (increase)/decrease in other assets | (45,239) |
| - increase/(decrease) in payables | 20,046 |
| - increase/(decrease) in liabilities | 14,141 |
| Net cashflows used in operating activities | (146,921) |

16. Auditors' remuneration

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

| | |
|---|-------|
| - audit & review services | 3,300 |
| - other services in relation to the Company | 450 |
| | 3,750 |

Notes to the financial statements continued

17. Director and related party disclosures

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

David Wayne Emms
Ross Christopher Begent
Jennifer Eileen Hunter (Appointed 7 February 2006)
Cr Noel Leslie Strohfeld
Gunter Nehring
Leslie Walter Schloss
Terrence Edward Dhann
John Henry Harwood (Appointed 6 December 2005)
Keith Roy Carroll
Dawn Margaret Plumridge (Resigned 6 December 2005)
Alexander Cyril Brown (Resigned 11 August 2005)

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

| Directors shareholdings | 2006 |
|--|-------------|
| David Wayne Emms | 1,001 |
| Ross Christopher Begent | 2,001 |
| Jennifer Eileen Hunter (Appointed 7 February 2006) | 1,000 |
| Cr Noel Leslie Strohfeld | 501 |
| Gunter Nehring | 2,001 |
| Leslie Walter Schloss | 2,001 |
| Terrence Edward Dhann | 501 |
| John Henry Harwood (Appointed 6 December 2005) | 1,500 |
| Keith Roy Carroll | 1,501 |
| Dawn Margaret Plumridge (Resigned 6 December 2005) | 501 |
| Alexander Cyril Brown (Resigned 11 August 2005) | 1 |

There was no movement in Directors shareholdings during the year. Each share held is valued at \$1 and is fully paid.

Notes to the financial statements continued

18. Earnings per Share

| | |
|---|------|
| | c |
| Losses per share for the financial year were: | (31) |

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

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

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

Impact on the income statement

Nil

Impact on the balance sheet

Nil

20. Subsequent events

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

21. Contingent liabilities

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

22. Segment reporting

The economic entity operates in the financial services sector where it provides banking services to its clients. The economic entity operates in one geographic area being Yarraman district, Queensland.

23. Registered office/Principal place of business

The registered office and principal place of business is:

Registered office

23 Toomey Street
Yarraman, QLD 4614

Principal place of business

23 Toomey Street
Yarraman, QLD 4614

Notes to the financial statements continued

24. Financial Instruments

Net fair values

The net fair values of financial assets and liabilities approximate the carrying values as disclosed in the Statement of Financial Position. The Company does not have any unrecognised financial instruments at the year end.

Credit risk

The maximum exposure to credit risk at balance date to recognised financial assets is the carrying amount of those assets as disclosed in the Statement of Financial Position and notes to the financial statements.

There are no material credit risk exposures to any single debtor or group of debtors under financial instruments entered into by the economic entity.

Interest rate risk

Fixed interest rate maturing in

| Financial instrument | Floating interest rate | 1 year or less | Over 1 to 5 years | Over 5 years | Non interest bearing | Weighted average effective interest rate |
|------------------------------|------------------------|----------------|-------------------|--------------|----------------------|--|
| For year ending 30 June 2006 | | | | | | |
| | \$ | \$ | \$ | \$ | \$ | % |

Financial assets

| | | | | | | |
|--------------|--------|--------|---|---|--------|-----|
| Cash assets | 27,263 | - | - | - | - | .05 |
| Term Deposit | - | 65,883 | - | - | - | 5.5 |
| Receivables | - | - | - | - | 19,696 | N/A |

Financial liabilities

| | | | | | | |
|----------|---|---|---|---|--------|-----|
| Payables | - | - | - | - | 20,046 | N/A |
|----------|---|---|---|---|--------|-----|

Directors' declaration

In accordance with a resolution of the Directors of Yarraman Financial Services Limited, we state that:

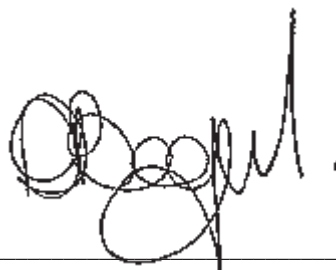
In the opinion of the Directors:

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

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



David Wayne Emms, Chairman



Ross Christopher Begent, Director

Signed on the 14th of August 2006.

Independent audit report



PO Box 454
Bendigo VIC 3552
61-65 Bull Street
Bendigo VIC 3550
Phone (03) 5443 0344
Fax (03) 5443 5304
afs@afsbendigo.com.au
www.afsbendigo.com.au
ABN 51 061 795 337

INDEPENDENT AUDIT REPORT

To the members of Yarraman Financial Services Limited

Scope

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

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

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

Audit approach

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

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

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

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

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

Audit Opinion

In our opinion:

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

DAVID HUTCHINGS

ANDREW FREWIN & STEWART

61-65 Bull Street, Bendigo, VIC 3550
Dated this 17th day of August 2006

Yarraman Financial Services Limited

BSX Additional Information

as at

30 June 2006

***Note: This information is included
in the Annual Report sent to shareholders
under the requirements for listed companies
on the Bendigo Stock Exchange (BSX)***

Yarraman Financial Services Limited
ABN 57 113 889 768
Additional Annual Report Information

Share Information

In accordance with Bendigo Stock Exchange listing rules the company provides the following information as at 30 August 2006, which is within 6 weeks of this report being sent to shareholders.

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

| <u>Number of Shares Held</u> | <u>Number of Shareholders</u> |
|---|--|
| 1 to 1,000 | 174 |
| 1,001 to 5,000 | 44 |
| 5,001 to 10,000 | 12 |
| 10,001 to 100,000 | 3 |
| 100,001 and over | nil |
| Total Shareholders | <u>233</u> |

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

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

There is one shareholder holding less than a marketable parcel of shares.

There are no restricted securities on issue.

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

The following table shows the 10 largest shareholders.

| <u>Shareholder</u> | <u>Number of Shares</u> | <u>Percentage of Capital</u> |
|------------------------------------|------------------------------------|---|
| John B Adams | 27,000 | 6.35% |
| Nathan G Daley | 20,000 | 4.70% |
| Rosalie Shire Council | 20,000 | 4.70% |
| Paul B & Janice M Charlton | 10,000 | 2.35% |
| James N & Elizabeth A Fowler | 10,000 | 2.35% |
| Graeme A & Elizabeth A Hanisch | 10,000 | 2.35% |
| John Hyslop | 10,000 | 2.35% |
| James A & Robin K Morrison | 10,000 | 2.35% |
| Kerry C Wyvill | 10,000 | 2.35% |
| Malcolm, Skene & Michael Finlayson | 10,000 | 2.35% |
| | <u>137,000</u> | <u>0</u> |

Yarraman Financial Services Limited
ABN 57 113 889 768
Additional Annual Report Information

Registered Office and Principal Administrative Office

The registered office of the company is located at:

23 Toomey Street
Yarraman Queensland 4614
Phone: 07 4163 8162

The principal administrative office of the company is located at:

23 Toomey Street
Yarraman Queensland 4614
Phone: 07 4163 8162

Security Register

The security register (share register) is kept at:

Bendigo Bank Share Registry
Fountain Court (PO Box 480) Bendigo Victoria 3552
Phone: 03 5433 9339

Other Information

Please refer to the directors report, within the annual report, for details of the company secretary and main corporate governance practices of the entity.

There are no material differences between the information in the company's Annexure 3A and the information in the financial documents in its annual report.

Yarraman Financial Services Limited
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| | <u>137,000</u> | <u>0</u> |

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Fountain Court (PO Box 480) Bendigo Victoria 3552
Phone: 03 5433 9339

Other Information

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There are no material differences between the information in the company's Annexure 3A and the information in the financial documents in its annual report.