

INDEPENDENT AUDIT REPORT

To the members of Sarina & District Community Financial Services Limited

Scope

We have audited the financial report of Sarina & District Community Financial Services Limited for the financial year ended 30 June 2005 including the Directors' Declaration. The company's Directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it 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. 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. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements and statutory requirements in Australia, so as to present a view which is consistent with our understanding of the company's financial position and performance as presented by the results of its operations and cash flows.

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

AUDIT OPINION

In our opinion the financial report of Sarina & District Community Financial Services Limited is in accordance with:

- (a) the Corporations Act 2001 including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2005 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations; and
- (b) other mandatory professional reporting requirements.



DAVID HUTCHINGS
ANDREW FREWIN & STEWART
61-65 Bull Street, Bendigo, 3550

Dated this 15th day of September 2005

Your Directors submit the financial report of the company for the financial year ended 30 June 2005.

Directors

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

Ralph Godschall Johnson
Chairman, Director
Age: 50
Occupation Deputy Principal Sarina State High School
Has resided in Sarina since 1991. Extensive involvement with the community through Rotary and other organisations.

Lesley Christine Ward
Director & Company Secretary
Age: 55
Occupation Business Owner
Owner manager of a local Jewellery business. Resident of Sarina more than 10 years with extensive community voluntary work.

Joseph David Bartolo
Director
Age: 65
Occupation Account Manager
Lived and worked in Sarina for 37 years. Extensive experience in business and agriculture. Broad community involvement through Lions.

Rodney David Nunn
Director & Company Treasurer
Age: 60
Occupation Retired ex Queensland Public Service
Extensive experience in Public Service in the area of commercial law and accounting.

Robin Pitcher
Director
Age: 66
Occupation Retired/ Overseer Sarina Shire Council
Life long resident of Sarina. Local government overseer of works and works manager.

Bruce McDonald Fitzgerald
Director
Age: 63
Occupation Train Driver for Queensland Rail
Resident of Sarina 34 years. Construction industry experience. Broad community involvement.

Peter John Smith
Director
Age: 69
Occupation Retired / Retail Operator
Life long resident of Sarina. Forty years in retail business. Extensive personal links in local business community.

Kenneth John Wedel
Director
Age: 41
Occupation Former Business Proprietor
Fifteen years rural business management. Broad community involvement. Resident of district for thirty years.

Gloria Jean Johns
Director
Age: 65
Occupation Home Duties
Resident of Sarina 20 years. Extensive community involvement.

Gerard Stanley (Resigned 10 May 2005)
Director
Age: 26
Occupation Property Investor
Editor of local paper and property investor.

Director resigned 10 May 2005.

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

The company secretary is Lesley Christine Ward. She was appointed to the position of secretary on 14 January 2005. Lesley has extensive experience in retail management

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

The company commenced trading during the year. The loss of the company for the financial year after provision for income tax was \$46,520. This predominantly represents the incurring of start up costs.

Remuneration Report

All Directors are acting in a voluntary capacity and have received no remuneration.

The branch opened with a management loan from Bendigo Bank and no substantive manager position had been filled at 30 June 2005.

Dividends

No dividends were declared or paid during the year and the directors recommend that no dividends 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.

Significant events after the balance date

The company opened its Community Bank branch of Bendigo Bank on 8 June 2005.

Business continues to grow in line with expectations.

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.

Indemnification and Insurance of Directors and Officers

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

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

Directors Meetings

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

	<u>Number of Board Meetings eligible to attend</u>	<u>Number attended</u>
Ralph Godschall Johnson	21	19
Lesley Christine Ward	21	19
Rodney David Nunn	21	20
Joseph David Bartolo	21	15
Bruce McDonald Fitzgerald	21	20
Robin Pitcher	21	18
Peter John Smith	21	21
Kenneth John Wedel	21	17
Gloria Jean Johns	21	10
Gerard Stanley (Resigned 10 May 2005)	14	5

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 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.

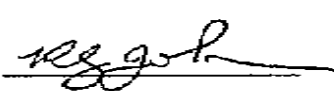
The directors are satisfied that the provision of non-audit services by the auditor, as set out in the notes, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

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

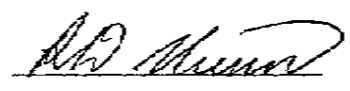
none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing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

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 44.

Signed in accordance with a resolution of the Board of Directors at *Sarina* on 15th September 2005.



Ralph Godschall Johnson, Chairman



Rodney David Nunn, Director



61-65 Bell Street
Bendigo VIC 3550
Phone (03) 5443 0344
Fax (03) 5443 5304
afs@afsbendigo.com.au
www.afsbendigo.com.au
ABN 51 061 795 357

15 September 2005

Auditor's Independence Declaration

As lead auditor for the audit of Sarina & District Community Financial Services Limited for the year ended 30 June 2005, 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 Sarina & District Community Financial Services Limited

David Hutchings
Auditor

Andrew Frewin & Stewart
Bendigo
VIC 3550

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FROM

Statement of Financial Performance
for the year ended 30 June 2005

	<u>Notes</u>	2005 £
Revenues from ordinary activities	2	1,532
General administration expenses		(14,616)
Salaries and employee benefits expense		(51,233)
Occupancy and associated costs		(1,958)
Systems costs		(1,728)
Depreciation and amortisation expense	3	(1,370)
Borrowing cost expense	3	-
Loss from ordinary activities before income tax credit		(69,375)
Income tax credit relating to ordinary activities	4	21,020
Loss from ordinary activities after income tax credit		(48,355)
Total changes in equity other than those resulting from transactions with owners as owners		(48,355)

The accompanying notes form part of these financial statements

Statement of Financial Position
as at 30 June 2006

	<u>Notes</u>	2005 \$
Current Assets		
Cash assets	5	263,933
Receivables	6	65,486
Total Current Assets		<u>329,419</u>
Non-Current Assets		
Property, plant and equipment	7	164,892
Intangibles	8	59,310
Deferred tax assets	9	21,020
Total Non-Current Assets		<u>245,222</u>
Total Assets		<u>574,641</u>
Current Liabilities		
Payables	10	28,006
Total Current Liabilities		<u>28,006</u>
Non Current Liabilities		
Non interest bearing liabilities	11	11,432
Total Non Current Liabilities		<u>11,432</u>
Total Liabilities		<u>39,438</u>
Net Assets		<u>535,203</u>
Equity		
Contributed equity	13	603,418
Accumulated losses	14	(48,355)
Total Equity		<u>555,063</u>

The accompanying notes form part of these financial statements

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FROM

Statement of Cash Flows
for the year ended 30 June 2005

	<u>Notes</u>	2005 £
Cash Flows From Operating Activities		
Cash received in the course of operations		1,181
Cash paid in the course of operations		(95,635)
Interest received		401
Interest paid		
Net cash provided by/(used in) operating activities	15(a)	(94,053)
Cash Flows From Investing Activities		
Payment for intangible assets		(30,000)
Payment for property plant & equipment		(185,372)
Net cash provided by/(used in) investing activities		(215,372)
Cash Flows From Financing Activities		
Proceeds of share issues		635,509
Payment of share issue costs		(32,091)
Net cash provided by financing activities		603,418
Net Increase/(decrease) in cash held		263,993
Cash at the beginning of the financial year		-
Cash at the end of the financial year	15(a)	263,993

The accompanying notes form part of these financial statements

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1. Summary of significant accounting policies

Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 including applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

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.

Comparatives have not been provided as the company was incorporated during the financial year.

Income tax

Income tax has been brought to account using the liability method of tax effect accounting whereby income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expenses are included in the determination of accounting profit and taxable income are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period 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 reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised.

Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the 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 statement of financial position. 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 operating cash flows.

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.

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 that will be received from the assets 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 straight line basis over their estimated useful lives to the entity 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 or estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

<u>Class of fixed assets</u>	<u>Depreciation rate (%)</u>
Plant and equipment	2.5 - 25
Furniture and fittings	2.5 - 25

Comparative figures

Comparatives have not been provided as the company was incorporated during the financial year.

Revenue

Interest and fee revenue is recognised when earned. All revenue is stated net of the amount of Goods and Services Tax (GST).

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1. Summary of significant accounting policies (continued)

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.

Interest Bearing Liabilities

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

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.

	2005 \$
2. Revenue from ordinary activities	
Operating activities:	
- margin income	335
- commissions	628
- other revenue	238
Total revenue from operating activities	<u>1,131</u>
Non-operating activities:	
- interest received	401
Total revenue from non-operating activities	<u>401</u>
Total revenues from ordinary activities	<u><u>1,582</u></u>

2005
\$**3. Expenses**

Depreciation of non-current assets:

- leasehold improvements	206
- plant & equipment	472

Amortisation of non-current assets:

- intangibles	690
	<u>1,370</u>

Borrowing expenses:

- interest paid	-
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4. Income tax expense

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

Operating Profit/(Loss)	(69,375)
Prima facie tax on profit/(loss) from ordinary activities at 30%	20,813
Add tax effect of:	
- Non-deductible expenses	207
Income tax expense on operating profit/(loss)	<u>21,020</u>

5. Cash assets

Cash at bank and on hand	<u>263,993</u>
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6. Receivables

Trade receivables	35,956
Prepayments	29,500
	<u>65,436</u>

7. Property, plant and equipment*Office furniture and equipment*

At cost	41,047
Less accumulated depreciation	(472)
	<u>40,575</u>

Leasehold improvements

At cost	144,325
Less accumulated depreciation	(208)
	<u>144,117</u>

Total written down amount

184,692

	2005
	\$
7. Property, plant and equipment (continued)	
Movements in carrying amounts:	
<i>Office furniture and equipment</i>	
Carrying amount at beginning of year	-
Additions	41,047
Disposals	-
Less depreciation expense	<u>(472)</u>
Carrying amount at end of year	<u>40,575</u>
<i>Leasehold improvements</i>	
Carrying amount at beginning of year	-
Additions	144,325
Disposals	-
Less depreciation expense	<u>(208)</u>
Carrying amount at end of year	<u>144,117</u>
8. Intangible assets	
<i>Franchise Fee</i>	
At cost	60,000
Less: accumulated amortisation	<u>(90)</u>
	<u>59,910</u>
9. Deferred Tax Benefit	
Future income tax benefit	
Tax losses - revenue	<u>21,020</u>
10. Payables	
Trade Creditors	<u>28,006</u>
Other creditors & accruals	<u>-</u>
	<u>28,006</u>
11. Non Current Liabilities	
Interest Free loan	<u>11,432</u>
	<u>11,432</u>
13. Contributed equity	
635,600 Ordinary shares fully paid of \$1 each	635,509
Less preliminary expenses	<u>(32,091)</u>
	<u>603,418</u>

14. Retained Earnings / Accumulated Losses	2005
	£
Balance at the beginning of the financial year	-
Net profit/(loss) from ordinary activities after income tax	(43,355)
Balance at the end of the financial year	<u>(43,355)</u>

15. Statement of cashflows

(a) Reconciliation of cash

Cash at bank and on hand	263,993
	<u>263,993</u>

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

Profit/(Loss) from ordinary activities after income tax	(43,356)
Non cash items:	
- depreciation	660
- amortisation	690
Changes in assets and liabilities:	
- (increase)/decrease in receivables	(65,466)
- (increase)/decrease in other assets	(21,020)
- increase/(decrease) in payables	39,438
Net cashflows provided by/(used in) operating activities	<u>(94,053)</u>

16. Auditors' remuneration

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

- audit & review services	1,800
- other services in relation to the company	2,800
	<u>4,600</u>

17. Director and Related party disclosures

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

Ralph Godschall Johnson
 Lesley Christine Ward
 Rodney David Nunn
 Joseph David Bartolo
 Bruce McDonald Fitzgerald
 Robin Pitcher
 Peter John Smith
 Kenneth John Wedel
 Gloria Jean Johns
 Gerard Stanley (Resigned 10 May 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.

17. Director and Related party disclosures (continued)

Directors shareholdings	2005
Ralph Godschall Johnson	16,001
Lesley Christine Ward	1,001
Rodney David Nunn	1,251
Joseph David Bartolo	10,001
Bruce McDonald Fitzgerald	4,001
Robin Fitcher	1,001
Peter John Smith	5,001
Kenneth John Wadel	5,001
Gloria Jean Johns	101
Gerard Stanley (Resigned 10 May 2005)	-

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

18. Earnings per Share

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Earnings per share for the financial year have not been calculated as the company did not commence trading until near the end of the financial year.

19. International Financial Reporting Standards - Impact of adopting Australian equivalents to IFRS

Entities complying with AIFRS for the first time will be 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 will be made, retrospectively, against opening retained earnings as at 1 July 2004.

The Company has established a project team to manage the transition to AIFRS, including training of staff and internal control changes necessary to gather all the required financial information. The transition is currently on schedule.

In the Company's opinion, no material impacts are expected in relation to the financial report for the year ended 30 June 2005. There are no impacts to be disclosed.

Impact on the statements of financial performance

Nil

Impact on the statements of financial position

Nil

Note explaining the impacts on the statements of financial performance and statements of financial position.

19 (a) Income Tax

Under AASB 112 *Income Taxes*, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

19. International Financial Reporting Standards - Impact of adopting Australian equivalents to IFRS (Continued...)

This will result in a change to the current accounting policy, under which deferred tax balances are determined using the income statement method, items are only tax-effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes cannot be recognised directly in equity.

If the policy required by AASB 112 had been applied during the year ended 30 June 2005, there would have been no impact on the value of deferred tax assets or liabilities.

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 the Sarina District of Queensland.

23. Registered office/Principal place of business

The registered office and principal place of business is 37 Broad Street Sarina Qld 4737

Sarina District Community Financial Services Limited
ABN 28 112 407 182
Notes to the Financial Statements for the year ended 30 June 2005

24. Financial Instruments

Net fair values

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

Credit risk

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

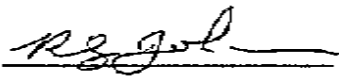
There are no material credit risk exposures to any single debtor or group of debtors under financial instruments entered into by the economic entity.

Interest rate risk

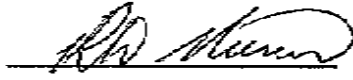
Financial Instrument	Floating interest rate	Fixed Interest rate maturing in						Non interest bearing		Weighted average effective Interest Rate 2005 2004 %		
		2005	2004	1 year or less 2005 2004	Over 1 to 5 years 2005 2004	Over 5 years 2005 2004	2005	2004				
Financial assets												
Cash assets	263,993	N/A		N/A	-	N/A	-	N/A	-	N/A	5.50	N/A
Receivables	-	N/A	-	N/A	-	N/A	-	N/A	65,272	N/A	-	N/A
Financial liabilities												
Interest bearing liabilities	-	N/A	-	N/A	-	N/A	-	N/A	11,492	N/A	-	N/A
Payables	-	N/A	-	N/A	-	N/A	-	N/A	28,006	N/A	-	N/A

In the Directors opinion:

- (1) the financial statements and notes of the company are in accordance with the Corporations Act 2001, including:
 - (i) complying with Accounting Standards the Corporations Regulations 2001; and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the company's financial position as at 30 June 2005 and of its performance as represented by the results of its operations and its cash flows for the financial year ended on that date; and
- (2) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.



Ralph Godschall Johnson, Chairman



Rodney David Nunn, Director

Signed on ~~15~~ 16 September 2005.