

Sarina & District Community
Financial Services Ltd
ABN 28 112 407 182

2006
annual report



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Chairman's report

For year ending 30 June 2006

This report for the financial year 2005/2006 outlines our first 12 months in business, as our doors opened for business on 8 June 2005.

As you would be aware, we opened on schedule with Bendigo Bank's Donna Draper stepping in as our temporary Manager while we continued our recruitment campaign for a permanent Manager. In our first two months in business, Donna and Customer Service Officers Mary Blinco, Heather Baker, Kylie Schulz and Rowena Robertson worked very hard to process enquiries and open accounts.

We were very pleased to secure the services of Bill Paton who took up duty as Manager in August 2005. Bill came to us from a position with HTM Wilson in Dalby and had previously been Branch Manager at a number of ANZ branches. This prior financial experience, coupled with his enthusiasm for the "Bendigo way of banking", has proven to be a successful combination in helping our business to grow. The commitment, enthusiasm and friendly, professional approach of Bill, and his team, has been highly commendable and the subject of countless compliments from their customers.

Our Company, Sarina and District Community Financial Services Ltd, was formed in January 2005 and listed on the Bendigo Stock Exchange. The Directors were chosen from the steering committee that had been active in promoting the formation of the Company. At last year's Annual General Meeting all Directors continued in their roles, as there was no necessity in law for any Directors to stand down or to conduct elections. The advantage of this arrangement, of course, was the continuity of purpose and vision that this allowed from a hard working and committed team.

I would like to pay tribute to my fellow Directors' enthusiasm and unwavering support for the success of our company. Unfortunately, Gloria Johns was forced to resign early in 2006 because of prolonged ill health. We will miss her courage, cheerfulness, optimism and energy. Our Directors are volunteers – they do not receive any payment for their services. Our Company has been fortunate to benefit from more than 1000 hours of voluntary effort in serving and promoting our Company and your **Community Bank**[®] branch.

We have had to adjust the focus of our efforts according to each stage of our development and maintain sight of our targets at all times. The last 12 months has seen steady growth in our business, all in line with, or exceeding, prospectus projections. Business volume in excess of \$22 million by the end of the financial year is encouraging although it is wise to note that some expenses, notably staff costs, rent and electricity exceeded projections and are likely to continue to grow.

Directors and staff have been engaged in a number of initiatives that should assist business growth. They have manned an information booth at each of the monthly Sarina Markets and at the Annual Sarina Show. These have generated enquiries and contacts that have translated into business as well as raising the level of awareness in the general community. Various smaller sponsorships along with our support for SIDS car rally and the Motorworks program at Sarina High School have helped elevate our profile.

Directors and staff have conducted evening "wine and cheese style" information sessions for Shareholders, customers and the public at Koumala, Carmilla and Louisa Creek. Although numbers in attendance were small, the contacts were valuable and a message about our commitment was relayed to each of those communities by those in attendance.

Chairman's report continued

The mail-out of a newsletter to Shareholders stimulated an encouraging lift in enquiries to the branch. I would like to encourage Shareholders to further support the Company they have a personal interest in by exploring all of the products and services on offer at your **Community Bank**[®] branch. It is the job of our staff to make the transferring of banking business to your **Community Bank**[®] branch hassle free.

We will reach profitability more quickly if every single one of our Shareholders have one, and preferably more than one, account with the branch. Increasing the number of products and services that each customer has benefits our major growth targets along with increasing the number of customers.

This year a third of our Directors will stand down from the board. They have a choice to re-nominate and stand for re-election. This is also an opportunity for other members of our community to nominate and stand for election. The maximum number of Directors permitted on our board is 10.

I would again like to thank our business partner, Bendigo Bank for their expertise and helpfulness. A recent restructure of Bendigo Bank's retail network has seen the appointment of Mark Lally as Regional Manager in our district. This will ensure easier access to support and advice for both the Board and our Manager Bill Paton when he has operational queries.

Thank you for a year of sustained support. General word of mouth is our most effective form of advertising and every Shareholder and customer can help in this regard by referring someone new to branch staff. When our staff explains the benefits of **Community Bank**[®] concept, it generally helps people make up their mind positively, more so than any discussions and comparisons centred purely on percentages and rates.

We need to vigorously pursue the goal of profitability by maintaining and extending strategies already in place and by developing new strategies. I wish the Board every success in this endeavour.



Ralph Johnson
Chairman

Manager's report

For year ending 30 June 2006

"Successful customers and successful communities create a successful bank - in that order." I wonder how many times you have heard this. If you have heard it many times over then hopefully you are seeing the proof of this philosophy here in Sarina and our surrounding areas. If this is the first time you have heard this statement, then I am happy to say this is the cornerstone of our business. Helping people achieve their goals, no matter what those goals are, is the reason we open the doors every day. I am pleased to say it is a culture that is alive and well within our branch and indeed the national Bendigo Bank network. Let's say, "It's the Bendigo Way"

Reflecting on the 2005 - 2006 year gives me pride and satisfaction that we are practising this very culture and heading in the right direction with your Sarina **Community Bank**[®] Branch.

The year ending 30 June 2006 showed solid growth for Sarina **Community Bank**[®] Branch. With a combined book of \$22 million in banking business, we have only to look forward to continued growth in the years ahead. The last 12 months of growth sees our **Community Bank**[®] branch above the projected target line which is very pleasing indeed.

As we sit above budget now, after only a short period since opening, our Shareholders can only benefit. We need to continue from this momentum, with the help of our Shareholders. We are asking all Shareholders to become ambassadors for their **Community Bank**[®] company, to spread the **Community Bank**[®] word and the benefits of banking with your **Community Bank**[®] branch.

Bendigo Bank's **Community Bank**[®] model is unique, in that it is a win-win for everyone in the communities in which these businesses operate.

What other banking institution is dedicated to return a percentage its profits back to the community?

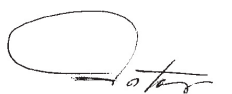
The success of your branch is dependent on the banking support of the Sarina & Districts community and you, our valued Shareholders.

I urge you all to get behind your bank branch and conduct as much of your banking, insurance and financial business with Sarina **Community Bank**[®] Branch today. The sooner we reach the point of profitability, the sooner the Board of Directors can begin the process of distributing profits to Shareholders and our community.

I thank you, our Shareholders, for your faith in establishing Sarina **Community Bank**[®] Branch, and I thank all those Shareholders who have made the banking move to Bendigo and have contributed to the short-term success that is currently evident.

I would like to thank our Board Members for their continued support and dedication to their roles as Directors. I remind you, that your Board of Directors are all volunteers.

Finally, a very big thank you to the branch team, Mary, Heather, Kylie and Rowena for the valuable contribution they continue to make in delivering the high level of service that our customers not only expect, but deserve.



Bill Paton
Branch Manager

Sarina **Community Bank**[®] Branch

Annual report Sarina & District Community Financial Services Limited

Message from Bendigo Bank Group Managing Director

For year ending 30 June 2006

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

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

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

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

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

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

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

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

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

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

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

Message from Bendigo Bank Group Managing Director continued

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

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

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

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

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

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

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

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

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

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

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

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

Rob Hunt
Managing Director
Bendigo Bank Group

18 August 2006

Directors' report

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

Directors

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

Ralph Godschall Johnson

Chairman

Age: 51

Deputy Principal

Has resided in Sarina since 1991. Extensive involvement with community through Rotary and other organisations.

Interests in shares: 16,001

Rodney David Nunn

Treasurer

Age: 61

Retired ex-Queensland Public Service

Extensive experience in Public Service in the area of commercial law and accounting.

Interests in shares: 1,251

Robin Pitcher

Director

Age: 69

Retired Council Overseer

Life long resident of Sarina. Local Government overseer of works and works manager.

Interests in shares: 1,001

Peter John Smith

Director

Age: 70

Retired Retail Operator

Life long resident of Sarina. Forty years in retail business. Extensive personal links in local business community.

Interests in shares: 5,001

Lesley Christine Ward

Secretary

Age: 56

Business Owner

Owner manager of a local jewellery business.

Resident of Sarina more than ten years with extensive community voluntary work.

Interests in shares: 1,001

Joseph David Bartolo

Director

Age: 56

Account Manager

Lived and worked in Sarina for 37 years. Extensive experience in business and agriculture. Broad community involvement through Lions.

Interests in shares: 10,001

Bruce McDonald Fitzgerald

Director

Age: 59

Train Driver

Resident of Sarina for 34 years. Construction industry experience. Broad community involvement.

Interests in shares: 4,001

Kenneth John Wedel

Director

Age: 42

Self Employed

Fifteen years rural business management. Broad community involvement. Resident for thirty years.

Interests in shares: 5,001

Directors' report continued

Gloria Jean Johns

Director (Resigned 26 April 2006)

Age: 56

Home Duties

Resident of Sarina for 20 years. Extensive community involvement.

Interests in shares: 101

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

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	Year ended
30 June 2006	30 June 2005
\$	\$
(178,435)	(48,355)

Remuneration Report

No Director of the Company receives any remuneration for services as a Company Director or receives any remuneration directly or indirectly for any other purpose associated with the Company.

The Branch Manager attends all Board meetings and presents a full report to the Board of Directors.

The Branch Manager advises the Directors on a number of issues but does not have any voting rights.

He is a member of the Marketing/Sponsorship sub-committee.

It is Board Policy that all staff are seconded from Bendigo Bank. As such, the Company is guided by Bendigo Bank in determining the remuneration payable to their own employees. The Branch Manager is subject to a Company performance bonus system based on key performance indicators relating to business growth. Up to 10% of salary per annum is achievable as a bonus. No payment was made during the year ended 30 June 2006.

Directors' report continued

During the year ended 30 June 2006 the Branch Manager Mr Bill Paton (commenced 1 August 2005) was paid a base salary plus superannuation support in the reportable salary range \$60,000 to \$70,000 per annum.

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.

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' report continued

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
Ralph Godschall Johnson	14	14
Lesley Christine Ward	14	14
Rodney David Nunn	14	13
Joseph David Bartolo	14	12
Robin Pitcher	14	13
Bruce McDonald Fitzgerald	14	11
Peter John Smith	14	13
Kenneth John Wedel	14	12
Gloria Jean Johns (Resigned 26 April 2006)	14	8

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.

Directors' report continued

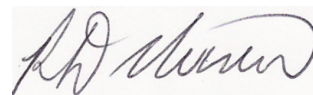
Auditors' independence declaration

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

Signed in accordance with a resolution of the Board of Directors at Sarina, Queensland on 23 August 2006.



Ralph Godschall Johnson, Chairman



Rodney David Nunn, Director

Auditor's Declaration

Auditor's Independence Declaration

As lead Auditor for the audit of Sarina and District Community 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 Sarina and District Community Financial Services Limited.



David Hutchings
Auditor Partner

Andrew Frewin & Stewart
Bendigo

28 August 2006

Financial statements

Statement of financial performance

For year ending 30 June 2006

	Notes	2006 \$	2005 \$
Revenues from ordinary activities	3	151,528	1,582
Salaries and employee benefits expense		(228,701)	(51,283)
Advertising and promotion expenses		(2,462)	-
Systems costs		(26,084)	(1,728)
Occupancy and associated costs		(46,034)	(1,958)
Depreciation and amortisation expense	4	(27,714)	(1,370)
General administration expenses		(73,751)	(14,618)
Loss from ordinary activities before income tax credit		(253,218)	(69,375)
Income tax credit	5	74,783	21,020
Loss from ordinary activities after income tax credit		(178,435)	(48,355)
Loss attributable to members of Sarina and District Community Financial Services Limited		(178,435)	(48,355)
Earnings per share (cents per share)			
- basic for profit for the year		(24.78)	(7.61)
- diluted for profit for the year		(26.18)	(7.61)

The accompanying notes form part of these financial statements.

Financial statements continued

Statement of financial position

For year ending 30 June 2006

	Notes	2006 \$	2005 \$
Current Assets			
Cash assets	6	132,805	263,993
Trade and other receivables	7	28,352	65,486
Total Current Assets		161,157	329,479
Non-Current Assets			
Property, plant and equipment	8	172,608	184,692
Intangibles	9	47,310	59,310
Deferred tax assets	10	95,803	21,020
Total Non-Current Assets		315,721	265,022
Total Assets		476,878	594,501
Current Liabilities			
Trade and other payables	11	9,934	28,006
Interest bearing liabilities	12	5,716	11,432
Total Current Liabilities		15,650	39,438
Total Liabilities		15,650	39,438
Net Assets		461,228	555,063
Equity			
Contributed equity	13	688,018	603,418
Accumulated losses	14	(226,790)	(48,355)
Total Equity		461,228	555,063

The accompanying notes form part of these financial statements.

Financial statements continued

Statement of financial position

For year ending 30 June 2006

	2006	2005
	\$	\$
Total equity at the beginning of the financial year	555,063	-
Net loss for the year	(178,435)	(48,355)
Net income/expense recognised directly in equity	-	-
Dividends provided for or paid	-	-
Shares issued during period	84,600	635,509
Costs in raising equity	-	(32,091)
Total equity at the end of the financial year	461,228	555,063

The accompanying notes form part of these financial statements.

Financial statements continued

Statement of cash flow

For year ending 30 June 2006

	Notes	2006 \$	2005 \$
Cash flows from operating activities			
Cash received from customers		139,255	1,181
Cash paid to suppliers and employees		(349,239)	(95,635)
Interest received		7,070	401
Net outflows from operating activities	15(b)	(202,914)	(94,053)
Cash Flows From Investing Activities			
Payment for intangible assets		-	(60,000)
Refund from fit out		955	-
Payments for property plant and equipment		(13,829)	(185,372)
Net cash outflows investing activities		(12,874)	(245,372)
Cash Flows From Financing Activities			
Proceeds of share issues		84,600	635,509
Payment of share issue costs		-	(32,091)
Net cash inflows financing activities		84,600	603,418
Net increase in cash held		(131,188)	263,993
Cash at the beginning of the financial year		263,993	-
Cash at the end of the financial year	15(a)	132,805	263,993

The accompanying notes form part of these financial statements.

Notes to the financial statements

1. Summary of significant accounting policies

Basis of preparation

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

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

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

These Financial Statements are the first Sarina and District Community Financial Services Limited financial statements 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.

The Financial Statements of Sarina and District Community Financial Services Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing Sarina and District Community Financial Services Limited's 2006 financial statements, management amended certain accounting and valuation methods that are applied in the AGAAP financial statements to comply with AIFRS.

Reconciliations and descriptions of the effect of the transition from previous AGAAP to AIFRSs on the Company equity and its net income are given in note 19.

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

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

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 \$	2005 \$
3. Revenue from ordinary activities		
Operating activities:		
- services commissions	142,671	943
- other revenue	147	238
Total revenue from operating activities	142,818	1,181
Non-operating activities:		
- interest received	8,710	401
Total revenue from non-operating activities	8,710	401
Total revenues from ordinary activities	151,528	1,582

4. Expenses

Depreciation of non-current assets:		
- plant and equipment	6,350	208
- leasehold improvements	9,364	472
Amortisation of non-current assets:		
- franchise agreement	12,000	690
	27,714	1,370

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	(253,218)	(69,375)
Prima facie tax on loss from ordinary activities at 30%	(75,966)	(20,813)
Add tax effect of:		
- non-deductible expenses	1,183	(207)
Income tax expense on operating loss	(74,783)	(21,020)

Notes to the financial statements continued

	2006 \$	2005 \$
6. Cash assets		
Cash at bank and on hand	5,704	263,993
Term Deposits	127,101	-
	132,805	263,993
7. Trade and other receivables		
Trade receivables	4,852	35,986
Prepayments	23,500	29,500
	28,352	65,486
8. Property, plant and equipment		
Plant and equipment		
At cost	34,137	41,047
Less accumulated depreciation	(6,822)	(472)
	27,315	40,575
Leasehold improvements		
At cost	154,865	144,325
Less accumulated depreciation	(9,572)	(208)
	145,293	144,117
Total written down amount	172,608	184,692

Notes to the financial statements continued

	2006 \$	2005 \$
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8. Property, plant and equipment (continued)

Movements in carrying amounts:

Plant and equipment

Carrying amount at beginning	40,575	-
Reclassification	(6,910)	-
Additions	-	41,047
Disposals	-	-
Less: depreciation expense	(6,350)	(472)
Carrying amount at end	27,315	40,575

Leasehold improvements

Carrying amount at beginning	144,117	-
Additions	10,540	144,325
Disposals	-	-
Less: depreciation expense	(9,364)	(208)
Carrying amount at end	145,293	144,117
Total written down amount	172,608	184,692

9. Intangible assets

Franchise Fee

At cost	60,000	60,000
Less: accumulated amortisation	(12,690)	(690)
	47,310	59,310

10. Deferred Tax Benefit

Future income tax benefit

Tax losses - revenue	95,803	21,020
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Notes to the financial statements continued

	2006 \$	2005 \$
11. Trade and other payables		
Trade Creditors	8,134	28,006
Other creditors & accruals	1,800	-
	9,934	28,006

12. Interest bearing liabilities

Interest free loan	5,716	11,432
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13. Contributed equity

720,109 Ordinary shares fully paid of \$1 each (2005: 635,509)	720,109	635,509
Less: equity raising expenses	(32,091)	(32,091)
	688,018	603,418

14. Retained Earnings/Accumulated Losses

Balance at the beginning of the financial year	(48,355)	-
Net loss from ordinary activities after income tax	(178,435)	(48,355)
Dividends Paid	-	-
Balance at the end of the financial year	(226,790)	(48,355)

Notes to the financial statements continued

	2006 \$	2005 \$
15. Statement of cashflows		
(a) Reconciliation of cash		
Cash at bank and on hand	5,704	263,993
Term deposit	127,101	-
	132,805	263,993
(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	(178,435)	(48,355)
Non cash items:		
- depreciation	15,714	680
- amortisation	12,000	690
- assets previously capitalised written down	9,244	-
Changes in assets and liabilities:		
- (increase)/decrease in receivables	37,134	(65,486)
- (increase)/decrease in other assets	(74,783)	(21,020)
- increase/(decrease) in payables	(18,072)	28,006
- increase/(decrease) in liabilities	(5,716)	11,432
Net cashflows used in operating activities	(202,914)	(94,053)

16. Auditors' remuneration

Amounts received or due and receivable by the

Auditor of the Company for:

- audit & review services	2,700	1,800
- other services in relation to the Company	850	2,800
	3,550	4,600

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:

Ralph Godschall Johnson

Lesley Christine Ward

Rodney David Nunn

Joseph David Bartolo

Robin Pitcher

Bruce McDonald Fitzgerald

Peter John Smith

Kenneth John Wedel

Gloria Jean Johns (Resigned 26 April 2006)

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	2005
Ralph Godschall Johnson	16,001	16,001
Lesley Christine Ward	1,001	1,001
Rodney David Nunn	1,251	1,251
Joseph David Bartolo	10,001	10,001
Robin Pitcher	1,001	1,001
Bruce McDonald Fitzgerald	4,001	4,001
Peter John Smith	5,001	5,001
Kenneth John Wedel	5,001	5,001
Gloria Jean Johns (Resigned 26 April 2006)	101	101

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

	c	c
Losses per share for the financial year were:	(25)	(8)

Notes to the financial statements continued

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 Sarina and surrounding district of Queensland.

23. Registered office/Principal place of business

The registered office and principal place of business is:

Registered office

37 Broad Street
Sarina, QLD 4737

Principal place of business

37 Broad Street
Sarina, QLD 4737

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	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
Financial assets												
Cash assets	5,704	263,993	-	-	-	-	-	-	-	-	0.05	0.05
Term deposit	-	-	127,101	-	-	-	-	-	-	-	4.74	N/A
Receivables	-	-	-	-	-	-	-	-	28,352	65,272	N/A	N/A
Financial liabilities												
Payables	-	-	-	-	-	-	-	-	9,934	28,006	Nil	N/A
Interest bearing liabilities	-	-	-	-	-	-	-	-	5,716	11,432	N/A	N/A

Directors' declaration

In accordance with a resolution of the Directors of Sarina and District Community 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.



Ralph Godschall Johnson, Chairman

Signed on the 23rd of August 2006.



Rodney David Nunn, Director

Independent audit report



Chartered Accountants & Business Advisors

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61-65 Bull Street
Bendigo VIC 3550
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ABN 51 061 795 337

INDEPENDENT AUDIT REPORT

To the members of Sarina and District Community 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 Sarina and District Community 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 Sarina and District Community 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 28th day of August 2006

BSX report

In accordance with Bendigo Stock Exchange listing rules the Company provides the following additional information as at 20 September 2006, which is within 6 weeks of this report being sent to Shareholders.

A. Distribution of equity securities

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

Number of Shares Held	Number of Shareholders
1 to 1,000	301
1,001 to 5,000	113
5,001 to 10,000	10
10,001 to 100,000	6
100,001 and over	0
Total Shareholders	430

B. Ten largest shareholders

Shareholder	Number of Shares	Percentage of Capital
Ms Helen Marie Dixon	25,000	3.47
Mr Laurence Wayne Dixon	25,000	3.47
Alma Heath Tuck	20,500	2.8
Catherine Stewart Hutton	20,000	2.77
Ralph Godschall Johnson & Suzanne Mary Johnson	16,001	2.22
Joseph David Bartolo & Clare Anne Bartolo	10,001	1.4
Alexander Rodrick McFadzen	10,000	1.39
Mr Paul Martin Bennett & Mrs Francine K.A. Bennett	10,000	1.39
Shirley Callander	10,000	1.39
Mr David Dunn	10,000	1.39
Total	156,502	21.69
Total shares issued	720,109	100

BSX report continued

C. Voting rights

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 holdings more than 5% of total issued shares would create a substantial Shareholder, but this is not applicable due to the voting restrictions for the Company.

There are 182 Shareholders holding less than a marketable parcel of shares (\$500 in value). This is based on current share price of \$0.90 per share. Their holdings total 58,951 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.

D. Registered Office and Principal Administrative Office

The registered office of the Company is located at:

37 Broad Street
Sarina, Qld 4737
Phone: 07 4943 2634

The principal administrative and business office of the Company is located at:

37 Broad Street
Sarina, Qld 4737
Phone: 07 4943 2634

E. Security Register

The security register (share register) is kept at:

Computershare Investor Services Pty Ltd
Yarra Falls, 452 Johnston Street
ABBORTSFORD Vic 3067
Phone: 1300 850 505

F. Corporate governance statement

The Board guides and monitors the business and affairs on behalf of the Shareholders to whom they are accountable.

The Board has completed a set of policies and procedures that will govern our Company in the future.

The Board meets at least monthly and follows a meeting guideline. All Directors are made aware of, agenda items, and have availability to all necessary information in advance, to participate in informed discussion and decision making. An Audit Committee has been formed.

BSX report continued

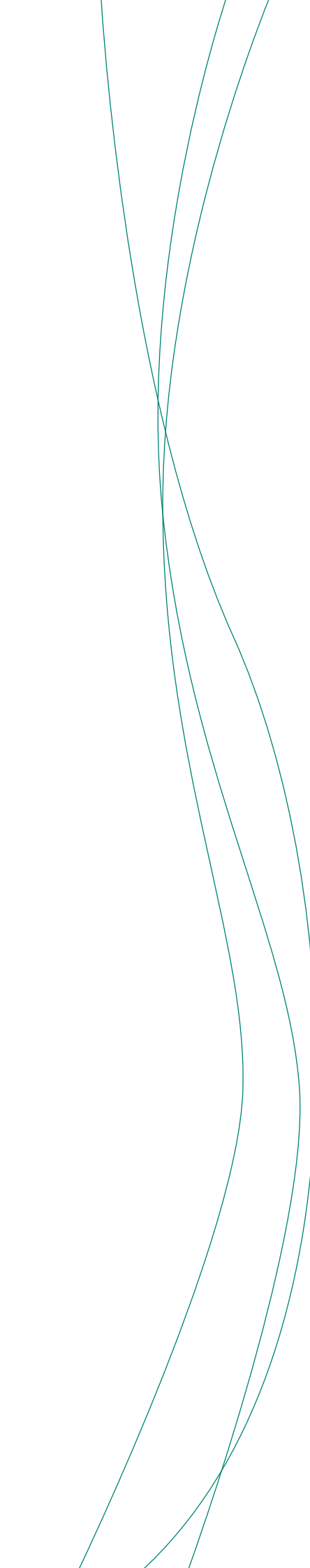
G. Other information

Please refer to the annual report, for details of the Company Secretary and Directors.

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

Vision

The vision for the Company is to provide a highly reliable, but flexible and innovate family-oriented local service. It will reinvest funds to build the economy in such a way that the whole community benefits and becomes stronger.



Sarina **Community Bank**[®] Branch
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Franchisee: Sarina and District Community Financial Services Ltd
37 Broad Street, Sarina, QLD 4737
ABN 28 112 407 182

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ABN 11 068 049 178. AFSL 237879 (KKQ1004) (08/06)