

ADELONG & DISTRICT FINANCIAL SERVICES LIMITED
ABN 39 107 620 137

Annual Report



Adelong & District
Community Bank® Branch



Bendigo Bank

Contents

Chairperson's report

Treasurer's report

Manager's report

Directors' report

Auditor's independence declaration

Financial statements

Notes to financial statements

Directors' declaration

Independent audit report

Chairperson's report for the year ended 30th June 2007

Adelong & District Community Bank® Branch

It is hard to believe your bank has been open for 3 years as this goes to print.

I'm sure all shareholders will be very pleased and proud to see the gains that this community owned enterprise has achieved in these 3 years.

This would not have been possible without the support of our shareholders, the Adelong and district community, our fantastic staff and the dedication of the board.

At this stage we are proud to announce a portfolio of funds under management of thirty six million dollars. We are also proud to tell you that we are now operating on a profit basis and with further community support we will be able to begin fulfilling our original goals of paying dividends to shareholders and becoming a financial force in our community.

Obviously your bank's main goals are to return profits to our community and shareholders. I also believe we should be very proud as a community that we have put great support behind re-instating such an essential service to our town. I don't need to point out the services we have lost over the years and I believe by working as a community we can encourage more businesses/essential services back, even through community ownership. I encourage Adelong residents to be proactive in supporting your own community, we, as well as our children, will be the great beneficiaries.

In the Chairpersons report last year, it was mentioned that we were showing interest in expansion into Gundagai as we have a very good support base there. This is still a work in progress as a feasibility study is yet to be conducted.

Through the last year we have supported our community with donations and support for Adelong Lifestyle Expo, Adelong Library, Adelong/Gundagai Race Club, Tumut and District Community Radio, Adelong Golf Club, Adelong Show and Gundagai Golf Club with a total of \$5,755 donated.

It is obvious that as your bank becomes more profitable, more financial help can be put back into our community. Please support your local bank and therefore support your local community, remember you and your children will be the great beneficiaries.

THINK LOCAL, BANK LOCAL

Stewart Smith
Chairperson



Treasurer's Report for year end 2007

Adelong & District Community Bank ® Branch

Last year I said we hoped to make a very modest profit for the financial year. Instead we made a very small loss – some twelve thousand dollars. We were still losing money at the start of the last financial year, but in the last months we were definitely profitable. It should also be noted that this loss was less than the depreciation expense for the year, so that we have actually been cash positive for some time – the money in our bank account finally started to rise. All that bodes well for the 2007-08 financial year – in our fourth year of operation we have been profitable from the start, and we would expect that to continue.

So when will we pay dividends, you may well ask? The answer to that is, maybe this time next year. When we have been profitable for a year, the board will look at the financial situation and make a decision on whether we can make our first payments to shareholders. You can be certain that reaching the point where we are able to pay a dividend remains a priority for the board.

People still occasionally ask about selling shares. I will repeat what I have said before, you are free to sell your shares to, or to purchase more shares from, someone else, at whatever price you wish. The bank does need to be informed of the transaction so we can amend the share registry. It is illegal for the bank itself to buy back shares from shareholders, (except under certain very strict conditions). We could, however, put people who wished to buy or sell shares in touch with each other so they could work out an acceptable arrangement.

We continue to work with the Gundagai community to open another branch of our bank there. Things are progressing steadily and we are ready to conduct a feasibility study to determine viability. If and when this goes ahead, it is likely we will issue more shares in the company to Gundagai residents to fund the costs of opening the new branch. We will keep you informed of progress in this area.

To conclude, we have brought you a bank to town, and now that we have reached profitability, you can be sure we are going to stay. So it is time for the next step – the one where we start making significant contributions to the community. And it is up to you how big that contribution will be. If all our shareholders would shift ALL their business from other institutions – loans, term deposits, farm management deposits – it would be a truly amazing contribution, one that would impact on the life of every resident of our town. We have climbed the first hill together. It is your choice whether we stand here and admire the view, or set off to scale the mountain together.



Tim Quilty
Treasurer

Manager's Report for year end 2007

Adelong & District Community Bank ® Branch

At the end of our third year of trading it is pleasing to be able to advise our Shareholders that our portfolio of funds under management, as forecast in the share prospectus all those years ago, has been achieved.

The forecast presented in the prospectus was for a total portfolio of \$33,440,603 at the end of the third year of trading.

It is pleasing to see our total portfolio standing at \$36,256,000 as at 31st August 2007.

This has been achieved despite the terrible climatic conditions that have prevailed over the last three years and also the serious downturn in the property market being experienced.

I would like to offer my thanks to each and every one of our 1,723 customers who have chosen to Bank the Bendigo Community Bank® way. Each of you are to be congratulated on your choice of bank and your obvious desire to contribute to your community through the Community Bank® distribution of profits to local shareholders and by community grants.

It is interesting to note that about 35% of our customers come from outside of Adelong. Many Batlow, Tumut and Gundagai residents choose to Bank at Adelong Community Bank®. There must be reasons for these people to travel for their banking needs, we do sincerely hope that we fulfil their needs in every way. Whilst Tumut is obviously a large centre with a plethora of services available, it is also obvious that we should look to Batlow and Gundagai as a source of growth and we should be looking at these centres as areas where the Community Bank® can provide community support.

We have had some staff changes in the last year. Stephanie Smyth is now our full time supervisor and has taken over some of the lending duties. Kathy Knight has left us to move to Mt Gambier. Jacqui Ford has taken over from Kathy. Jacqui would be well known to Adelong residents as she is a local girl who has spent most of her life here. We have also been joined by Noelene Davison whose role is not that of permanent staff member but she is a permanent fixture. Noelene's role is to fill in "on call" to cover holidays, sickness and other absences. Noelene and her husband Steve have owned a farm in Adelong for many years, although they were not resident here. But that has changed as they have bought a house in Adelong.

I must thank our staff for the great work they do. I have not received any complaints about our staff but have received many compliments for the standard of service, their happy, cheerful and helpful attitudes. I also thank your Board for their help, support and co-operation. Whilst not directly involved in customer contact or marketing, your Board is always willing and able to help us in growing the bank and providing the highest standard of environment and service.

We look forward to another successful year.

If you as a shareholder and a customer, have found Banking at your own bank a satisfying experience, then please bring another customer to your bank and help us grow which in turn, will mean better dividends to you and more support to our community.

And finally, we all pray for rain.

A handwritten signature in black ink, appearing to read 'Peter Watson', written in a cursive style.

Peter Watson
Manager

Adelong & District Financial Services Limited
ABN 39 107 620 137
Directors' Report

Your Directors submit the financial report of the company for the financial year ended 30 June 2007.

Directors

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

Stewart MacDonald Smith
Chairman
Age: 59
Beef Producer

Timothy Jamin Quilty
Treasurer
Age: 34
Beef & Lamb Producer

Heather Rae Hindmarsh
Secretary
Age: 45
Officer Administrator

Wendy Ann Miller
Director
Age: 47
Retail Manager

Ian Phillip Nuss
Director
Age: 53
Company Director

Geraldine Ann Radley
Director
Age: 44
Owner/Manager Post Office

Ian David Gowanloch (*Resigned 7 March 2007*)
Director
Age: 54
Grazier/Importer

Leslie Ronald Mitchell (*Resigned 7 March 2007*)
Director
Age: 67
Retired Businessman

Peter Watson (*Appointed 7 March 2007*)
Director
Age: 61
Bank Manager

Olga Apalnova (*Appointed 7 March 2007*)
Director
Age: 27
Accountant

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

No Directors have material interests in contracts or proposed contracts with the company, except for Peter Watson who is the branch manager; and Olga Apalnova who provides accounting services to the company.

Company Secretary

The company secretary is Heather Hindmarsh. He took over as Secretary upon the resignation of Leslie Ronald Mitchell on 7 March 2007.

Principal activities

The principal activities of the company during the course of the financial year were in facilitating 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 2007 | Year ended 30 June 2006 |
|----------------------------|----------------------------|
| \$ | \$ |
| (14,299) | (57,348) |

Adelong & District Financial Services Limited
ABN 39 107 620 137
Directors' Report

Remuneration Report

Director Peter Watson is employed by Adelong & District Financial Services Limited as the branch manager for the bank. Peter receives a gross salary of \$57,574, a uniform allowance of \$130 and employer sponsored superannuation of \$5,182.

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

The Directors have resolved to under take a feasibility study in relation to the possibility of opening a further branch in Gundagai.

Likely Developments

The company will continue its policy of facilitating 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 except as disclosed in note 17 to the financial statements. 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 Manager 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.

Adelong & District Financial Services Limited
ABN 39 107 620 137
Directors' Report

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 |
|--|--|------------------------|
| Stewart MacDonald Smith | 11 | 10 |
| Timothy Jamin Quilty | 11 | 9 |
| Heather Rae Hindmarsh | 11 | 10 |
| Wendy Ann Miller | 11 | 9 |
| Ian Phillip Nuss | 11 | 9 |
| Geraldine Ann Radley | 11 | 9 |
| Ian David Gowanloch (Resigned 7 March 2007) | 8 | 5 |
| Leslie Ronald Mitchell (Resigned 7 March 2007) | 8 | 5 |
| Peter Watson (Appointed 7 March 2007) | 3 | 3 |
| Olga Apalnova (Appointed 7 March 2007) | 3 | 3 |

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 4.

Signed in accordance with a resolution of the Board of Directors at Adelong, New South Wales
on 26 September 2007.



Stewart MacDonald Smith, Chairman



Timothy Jamin Quilty, Treasurer

Auditor's Independence Declaration

As lead auditor for the audit of the financial statements of Adelong & District Financial Services Limited the year ended 30 June 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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



David Hutchings
Auditor
Andrew Frewin & Stewart

Bendigo
26 September 2007

**Adelong & District
Financial Services Limited**

Financial Statements

as at

30 June 2007

Adelong & District Financial Services Limited
ABN 39 107 620 137
Income Statement
for the year ended 30 June 2007

| | <u>Notes</u> | 2007 \$ | 2006 \$ |
|---|---------------------|--------------------|--------------------|
| Revenues from ordinary operations | 3 | 302,902 | 198,139 |
| Salaries and employee benefits expense | | (173,159) | (137,368) |
| Advertising and promotion expenses | | (10,131) | (9,959) |
| Systems costs | | (19,088) | (17,010) |
| Occupancy and associated costs | | (19,361) | (17,312) |
| Depreciation and amortisation expense | 4 | (22,163) | (33,551) |
| General administration expenses | | (74,746) | (58,706) |
| Loss before income tax expense/credit | | (15,746) | (75,767) |
| Income tax credit | 5 | 1,447 | 18,419 |
| Loss for the period | | (14,299) | (57,348) |
| Loss attributable to members of the entity | | (14,299) | (57,348) |
| Earnings per share (cents per share) | | c | c |
| - basic for profit for the year | 19 | (2.35) | (9.45) |

Adelong & District Financial Services Limited
ABN 39 107 620 137
Balance Sheet
as at 30 June 2007

| | <u>Notes</u> | 2007 \$ | 2006 \$ |
|----------------------------------|--------------|--------------------------|--------------------------|
| Current Assets | | | |
| Cash assets | 6 | 42,793 | 63,491 |
| Trade and other receivables | 7 | 31,896 | 24,531 |
| Total Current Assets | | 74,689 | 88,022 |
| Non-Current Assets | | | |
| Property, plant and equipment | 8 | 167,472 | 176,364 |
| Intangibles | 9 | 26,000 | 38,000 |
| Deferred tax assets | 10 | 92,539 | 91,092 |
| Total Non-Current Assets | | 286,011 | 305,456 |
| Total Assets | | 360,700 | 393,478 |
| Current Liabilities | | | |
| Trade and other payables | 11 | 23,112 | 45,332 |
| Provisions | 12 | 20,148 | 16,407 |
| Total Current Liabilities | | 43,260 | 61,739 |
| Total Liabilities | | 43,260 | 61,739 |
| Net Assets | | 317,440 | 331,739 |
| Equity | | | |
| Contributed equity | 13 | 580,118 | 580,118 |
| Accumulated losses | 14 | (262,678) | (248,379) |
| Total Equity | | 317,440 | 331,739 |

The accompanying notes form part of these financial statements

Adelong & District Financial Services Limited**ABN 39 107 620 137****Statement of changes in equity
for the year ended 30 June 2007**

| | 2007 | 2006 |
|---|-----------------------|-----------------------|
| | \$ | \$ |
| Total equity at the beginning of the financial year | 331,739 | 389,078 |
| Net income/expense recognised directly in equity | - | - |
| Net loss for the year | (14,299) | (57,348) |
| Total recognised income & expenses for the year | <u>317,440</u> | <u>331,730</u> |
| Shares issued during period | - | 9 |
| Costs of issuing shares | - | - |
| Dividends provided for or paid | - | - |
| Total equity at the end of the financial year | <u><u>317,440</u></u> | <u><u>331,739</u></u> |

The accompanying notes form part of these financial statements

Adelong & District Financial Services Limited
ABN 39 107 620 137
Statement of Cashflows
for the year ended 30 June 2007

| | <u>Notes</u> | 2007 \$ | 2006 \$ |
|--|--------------|----------------------|----------------------|
| Cash flows from operating activities | | | |
| Receipts from customers | | 298,597 | 201,750 |
| Payments to suppliers and employees | | (318,512) | (259,387) |
| Interest received | | 489 | 3,614 |
| Net outflows from operating activities | 15 | <u>(19,426)</u> | <u>(54,023)</u> |
| Cash Flows From Investing Activities | | | |
| Payments for property plant and equipment | | (1,272) | - |
| Net cash outflows from investing activities | | <u>(1,272)</u> | <u>-</u> |
| Net decrease in cash held | | (20,698) | (54,023) |
| Cash at the beginning of the financial year | | 63,491 | 117,514 |
| Cash at the end of the financial year | 6(a) | <u><u>42,793</u></u> | <u><u>63,491</u></u> |

1. Summary of significant accounting policies

Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial statements and notes comply with International Financial Reporting Standards (IFRS). These financial statements and notes comply with IFRS.

Historical cost convention

The financial report has been prepared under the historical cost conventions on an accruals basis as modified by the revaluation of financial assets and liabilities at fair value through profit or loss and where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

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.

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.

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).

1. Summary of significant accounting policies (continued)

Income tax (continued)

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method on 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 there is a legally enforceable right to offset current tax and when the balances relate to taxes levied by the same taxation authority and the company/consolidated entity intends to settle its 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.

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. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Comparative figures

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

Adelong & District Financial Services Limited
ABN 39 107 620 137
Notes to the Financial Statements
for the year ended 30 June 2007

1. Summary of significant accounting policies (continued)

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 |

Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

There are no estimates or assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Payment terms

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

Trade 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 initially 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 Equity

Ordinary shares are 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.

Adelong & District Financial Services Limited

ABN 39 107 620 137

**Notes to the Financial Statements
for the year ended 30 June 2007**

1. Summary of significant accounting policies (continued)

Earnings per Share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

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.

(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.

3. Revenue from ordinary activities

| | 2007 | 2006 |
|---|-----------------------|-----------------------|
| | \$ | \$ |
| Operating activities: | | |
| - services commissions | 302,414 | 194,525 |
| Total revenue from operating activities | <u>302,414</u> | <u>194,525</u> |
| Non-operating activities: | | |
| - interest received | 489 | 3,614 |
| Total revenue from non-operating activities | <u>489</u> | <u>3,614</u> |
| Total revenues from ordinary activities | <u><u>302,903</u></u> | <u><u>198,139</u></u> |

Adelong & District Financial Services Limited

ABN 39 107 620 137

**Notes to the Financial Statements
for the year ended 30 June 2007**

4. Expenses

| | 2007 | 2006 |
|-------------------------------------|---------------|---------------|
| | \$ | \$ |
| Depreciation of non-current assets: | | |
| - plant and equipment | 2,869 | 816 |
| - leasehold improvements | 7,294 | 20,735 |
| Amortisation of non-current assets: | | |
| - franchise agreement | 12,000 | 12,000 |
| | <u>22,163</u> | <u>33,551</u> |
| Bad debts | <u>419</u> | <u>1,404</u> |

5. Income tax expense

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

| | | |
|---|----------------|-----------------|
| Operating loss | (15,746) | (75,767) |
| Prima facie tax on loss from ordinary operations at 30% | (4,724) | (22,730) |
| Add tax effect of: | | |
| - non-deductible expenses | 3,600 | 3,600 |
| - origination or timing differences | 1,300 | 711 |
| - balackhole expenditure | (1,623) | - |
| Income tax expense on operating loss | <u>(1,447)</u> | <u>(18,419)</u> |

6. Cash assets

| | | |
|--------------------------|---------------|---------------|
| Cash at bank and on hand | 42,793 | 10,053 |
| Term deposit | - | 53,438 |
| | <u>42,793</u> | <u>63,491</u> |

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cashflows as follows:

6(a) Reconciliation of cash

| | | |
|--------------------------|---------------|---------------|
| Cash at bank and on hand | 42,793 | 10,053 |
| Term deposit | - | 53,438 |
| | <u>42,793</u> | <u>63,491</u> |

7. Trade and other receivables

| | | |
|---------------------|---------------|---------------|
| Trade receivables | 27,847 | 24,031 |
| Prepayments & other | 4,049 | 500 |
| | <u>31,896</u> | <u>24,531</u> |

8. Property, plant and equipment

| | | |
|-------------------------------|----------------|----------------|
| <i>Leasehold improvements</i> | | |
| At cost | 176,587 | 176,587 |
| Less accumulated depreciation | (39,615) | (32,321) |
| | <u>136,972</u> | <u>144,266</u> |
| <i>Plant and equipment</i> | | |
| At cost | 40,728 | 39,456 |
| Less accumulated depreciation | (10,228) | (7,359) |
| | <u>30,500</u> | <u>32,097</u> |
| Total written down amount | <u>167,472</u> | <u>176,363</u> |

Adelong & District Financial Services Limited

ABN 39 107 620 137

**Notes to the Financial Statements
for the year ended 30 June 2007**

8. Property, plant and equipment (continued)

Movements in carrying amounts:

| | 2007 | 2006 |
|---------------------------------------|----------------|----------------|
| | \$ | \$ |
| <i>Leasehold improvements</i> | | |
| Carrying amount at beginning | 169,421 | 208,337 |
| Contribution to fit out by franchisor | - | (18,181) |
| Disposals | (25,155) | - |
| Less: depreciation expense | (7,294) | (20,735) |
| Carrying amount at end | <u>136,972</u> | <u>169,421</u> |
| <i>Plant and equipment</i> | | |
| Carrying amount at beginning | 6,943 | 7,759 |
| Additions | 26,426 | - |
| Less: depreciation expense | (2,869) | (816) |
| Carrying amount at end | <u>30,500</u> | <u>6,943</u> |
| Total written down amount | <u>167,472</u> | <u>176,364</u> |

9. Intangible assets

Franchise Fee

| | | |
|--------------------------------|---------------|---------------|
| At cost | 60,000 | 60,000 |
| Less: accumulated amortisation | (34,000) | (22,000) |
| | <u>26,000</u> | <u>38,000</u> |

10. Deferred Tax Benefit

| | | |
|---------------------------|---------------|---------------|
| Future income tax benefit | | |
| Tax losses - revenue | <u>92,539</u> | <u>91,092</u> |

11. Trade and other payables

| | | |
|----------------------------|---------------|---------------|
| Trade Creditors | 21,112 | 43,532 |
| Other creditors & accruals | 2,000 | 1,800 |
| | <u>23,112</u> | <u>45,332</u> |

12. Provisions

| | | |
|---------------------------------|---------------|---------------|
| Employee provisions | <u>20,148</u> | <u>16,407</u> |
| Number of employees at year end | <u>4</u> | <u>4</u> |

13. Contributed equity

| | | |
|--|----------------|----------------|
| 607,169 Ordinary shares fully paid of \$1 each (2005: 607,160) | 607,169 | 607,169 |
| Less: equity raising expenses | (27,051) | (27,051) |
| | <u>580,118</u> | <u>580,118</u> |

14. Accumulated Losses

| | | |
|--|------------------|------------------|
| Balance at the beginning of the financial year | (248,379) | (191,031) |
| Net loss from ordinary activities after income tax | (14,299) | (57,348) |
| Balance at the end of the financial year | <u>(262,678)</u> | <u>(248,379)</u> |

Adelong & District Financial Services Limited

ABN 39 107 620 137

**Notes to the Financial Statements
for the year ended 30 June 2007**

15. Statement of cashflows

| | 2007 | 2006 |
|---|-----------------|-----------------|
| | \$ | \$ |
| <i>Reconciliation of loss from ordinary activities after tax to net cash used in operating activities</i> | | |
| Loss from ordinary activities after income tax | (14,299) | (57,348) |
| Non cash items: | | |
| - depreciation | 10,163 | 21,551 |
| - amortisation | 12,000 | 12,000 |
| Changes in assets and liabilities: | | |
| - increase in receivables | (7,365) | (17,961) |
| - increase in other assets | (1,447) | (18,419) |
| - increase/(decrease) in payables | (22,219) | (789) |
| - increase in provisions | 3,741 | 6,943 |
| Net cashflows used in operating activities | <u>(19,426)</u> | <u>(54,023)</u> |

16. Auditors' remuneration

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

| | | |
|---------------------------|--------------|--------------|
| - audit & review services | 4,000 | 2,500 |
| - other services | 3,934 | 670 |
| | <u>7,934</u> | <u>3,170</u> |

17. Director and Related party disclosures

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

Stewart MacDonald Smith

Timothy Jamin Quilty

Heather Rae Hindmarsh

Wendy Ann Miller

Ian Phillip Nuss

Geraldine Ann Radley

Ian David Gowanloch (Resigned 7 March 2007)

Leslie Ronald Mitchell (Resigned 7 March 2007)

Peter Watson (Appointed 7 March 2007)

Olga Apalnova (Appointed 7 March 2007)

No director's fees have been paid as the positions are held on a voluntary basis.

Except for Peter Watson and Olga Apalnova no director or related entity has entered into a material contract with the company.

Peter Watson is employed by Adelong & District Financial Services Limited as the branch manager for the bank. Peter receives a gross salary of \$57,574, a uniform allowance of \$130 and employer sponsored superannuation of \$5,182.

Olga Apalnova provides accounting services to Adelong & District Financial Services Limited. During the financial year the total benefit Olga Apalnova received was \$360.00.

Adelong & District Financial Services Limited**ABN 39 107 620 137****Notes to the Financial Statements
for the year ended 30 June 2007****17. Director and Related party disclosures (continued)**

| Directors shareholdings | <u>2007</u> | <u>2006</u> |
|--|--------------------|--------------------|
| Stewart MacDonald Smith | 3,000 | 3,000 |
| Timothy Jamin Quilty | 1,000 | 1,000 |
| Heather Rae Hindmarsh | 4,000 | 4,000 |
| Wendy Ann Miller | 1,000 | 1,000 |
| Ian Phillip Nuss | 8,500 | 8,500 |
| Geraldine Ann Radley | 2,500 | 2,500 |
| Ian David Gowanloch (Resigned 7 March 2007) | 5,000 | 5,000 |
| Leslie Ronald Mitchell (Resigned 7 March 2007) | 500 | 500 |
| Peter Watson (Appointed 7 March 2007) | 5,000 | 5,000 |
| Olga Apalnova (Appointed 7 March 2007) | 500 | 500 |

There was no movement in directors shareholdings during the year. Each share held was issued at \$1.

18. Key management personnel disclosures

No Director of the company receives remuneration for services as a company director or Committee member.

Except for Peter Watson (See note 17 above) there are no other Executives within the company whose remuneration is required to be disclosed.

| 19. Earnings per Share | <u>2007</u> | <u>2006</u> |
|--|----------------------|----------------------|
| | <u>\$</u> | <u>\$</u> |
| (a) Profit attributable to the ordinary equity holders of the company used in calculating earnings per share | (14,299) | (57,348) |
| | <u>2007</u> | <u>2006</u> |
| | <u>Number</u> | <u>Number</u> |
| (b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 607,169 # | 607,169 |

20. Events occurring after the balance sheet date

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 service sector where it facilitates community banking services pursuant to a franchise agreement with Bendigo Bank Limited. The economic entity operates in one geographic area being Adelong and the surrounding districts of New South Wales.

23. Registered office/Principal place of business

The registered office and principal place of business is:

Registered office
62 Tumut Street
Adelong NSW 2729

Principal place of business
62 Tumut Street
Adelong NSW 2729

Adelong & District Financial Services Limited
ABN 39 107 620 137
Notes to the Financial Statements for the year ended 30 June 2007

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 | |
|-----------------------|------------------------|---------------------------------|---------|-------------------|---------|--------------|---------|----------------------|---------|--|--------|
| | | 1 year or less | | Over 1 to 5 years | | Over 5 years | | | | | |
| | | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ | 2007 % | 2006 % |
| Financial assets | | | | | | | | | | | |
| Cash assets | 42,793 | 10,053 | - | - | - | - | - | - | - | .05 | .05 |
| Investments | - | 53,438 | - | - | - | - | - | - | - | - | 5.125 |
| Receivables | - | - | - | - | - | - | - | 31,896 | 24,531 | N/A | N/A |
| Financial liabilities | | | | | | | | | | | |
| Payables | - | - | - | - | - | - | - | 23,112 | 45,332 | N/A | N/A |

Adelong & District Financial Services Limited
ABN 39 107 620 137
Directors' Declaration

In accordance with a resolution of the directors of Adelong & District Financial Services Limited, we state that:

In the opinion of the directors:

- (a) the financial statements and notes of the company are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2007 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.
- (c) the audited remuneration disclosures set out in the remuneration report section of the directors' report comply with Accounting Standard AASB174 Related Party Disclosures and the *Corporations Regulations 2001*.

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



Stewart MacDonald Smith, Chairman



Timothy Jamin Quilty, Treasurer

Signed on the 26th of September 2007.

INDEPENDENT AUDITOR'S REPORT

To the members of Adelong & District Financial Services Limited

We have audited the accompanying financial report of Adelong & District Financial Services Limited which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes and the Directors' Declaration.

Directors Responsibility for the Financial Report

The Directors are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial report so that that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility


Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Opinion

In our opinion, the financial report of Adelong & District Financial Services Limited is in accordance with the Corporations Act 2001 including giving a true and fair view of the financial position of Adelong & District Financial Services Limited as of 30 June 2007, and of its financial performance and its cash flows for the year then ended and Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.



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

Dated this 26th day of September 2007