



annual report **2012**

Clifroy Limited

ABN 31 114 604 358

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Chairman's report

For year ending 30 June 2012

Dear Shareholder,

It gives me great pleasure to present this seventh Annual Report to shareholders on behalf of the Board of Clifroy Ltd. During the 2011/12 financial year the Clifton Hill/North Fitzroy **Community Bank**[®] Branch continued to perform at a level which places us amongst the most successful branches in our region. Over the year our banking business grew ahead of budget; our shareholders received their first dividend; and our investment in our local community increased substantially.

Our business

Over six years our branch has established a strong presence on the Queens Parade landscape, and provides banking services to over 3,000 business and personal customers. In the 2011/12 financial year, total banking business grew 16.5% to \$142million, split approximately 65/35 between deposits and loans. Branch operating costs were contained to an increase of just 8%, which reflects your Board's continuing focus on maximising profits to be returned to shareholders and the community.

Our partner Bendigo and Adelaide Bank has continued to introduce new banking products and improved internal systems which meet changing customer needs and enable us to compete strongly and on equal terms with other banks.

Our community

In November last year, with the assistance of Bendigo and Adelaide Bank's Community Enterprise Foundation[™], we launched our first Community Grants program. This provided an opportunity for charities and eligible not for profit organisations to access grants for projects that have a substantial community benefit.

Almost 60 local community organisations submitted applications which were carefully evaluated first by the Community Enterprise Foundation[™], to ensure eligibility, and then by our own Grants Committee comprising Board and staff members, and two community representatives.

In March, we announced that 27 organisations whose projects were judged by the Committee to provide the greatest community benefit would be offered grants totalling \$220,000. At the same time we announced a \$10,000 contribution to Bendigo and Adelaide Bank's Scholarship Program which will help fund two students from Princess Hill Secondary College to attend tertiary education.

In addition to our grants program, we continued to provide sponsorships to a wide range of local community organisations in return for marketing opportunities which will help grow our overall business. A total of \$169,000 was invested in this way to help strengthen our community and our business.

Our total contribution to the local community of \$390,000 in a single year is a spectacular vindication of the **Community Bank**[®] model and the support your branch continues to enjoy from all its stakeholders. A detailed list of grants and sponsorships provided during the 2011/12 financial year can be found on page 6.

Our Shareholders

Over the last year we have sought greater engagement with our shareholders in a number of ways. Our quarterly newsletters have been revamped, and for the first time we conducted a survey of shareholders to seek direct feedback. The helpful responses we received have already been factored in to our strategic planning for the year ahead, and thank you to those who responded.

Chairman's report (continued)

In October 2011 we paid our first dividend of 8 cents per share, which under our Franchise Agreement formula is the maximum our financial position allowed. This equates to an 8.8% pre-tax return, and brings total direct returns (including 5 cents per share capital returns in 2008 and 2010) to 18 cents per share.

It is your Board's policy to continue to pay the maximum dividend allowable under the formula consistent with the sustainability of the business. Shareholders are reminded to provide us with email and banking details to help us reduce mailing costs, and ensure that dividends can be paid and important communications are not missed.

Finally but most importantly, your decision back in 2005 to invest in a **Community Bank®** branch has benefitted local community organisations by approximately \$570,000 – equivalent to a 'community dividend' of 66c per issued share.

Our Board, management and staff

These excellent results would not have been possible without the commitment and enthusiasm of Branch Manager Rod May, our branch and Board support staff, and our Directors, all of whom continue to demonstrate an extraordinary commitment to our business.

Michelle Burns, Yann Burden, Clare Carmody, Peter Hille, Jenny Farrar and I have recently been joined as Directors by Jenny Stephens who brings to the Board a wealth of commercial and community experience. In August 2011 Georgia Wright joined our Board support team as Marketing Coordinator, and together with Andrea Foxworthy and Nicky White is responsible for ensuring that Board strategic plans and governance processes are executed effectively.

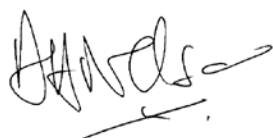
My sincere thanks goes to all involved for their continuing commitment to this valuable community enterprise we have all created.

Our vision and mission

The Clifton Hill/North Fitzroy **Community Bank®** Branch offers a full range of competitive personal and business banking services, and we aim to become the first choice for banking in this area.

We encourage those shareholders who still do not bank with Clifton Hill/North Fitzroy **Community Bank®** Branch to compare our offer, and we hope to encourage you to become committed advocates for our business in the year ahead.

On behalf of the Board, we look forward to meeting shareholders again at our Annual General Meeting on Wednesday 14 November 2012.



Adrian H Nelson
Chairman

Manager's report

For year ending 30 June 2012

Grants and sponsorships from our national network of 295 **Community Bank**[®] branches touch the lives of thousands of local people each and every day. From million dollar projects to small local initiatives, each tells a unique story of community collaboration. Since the first **Community Bank**[®] branch was established in 1998, more than \$80 million has been returned to communities across the country, \$45 million of which has been distributed in Victoria since 2006.

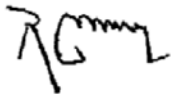
At a local level the Clifton Hill/North Fitzroy **Community Bank**[®] Branch has completed another outstanding year with good growth and a strong profit result. As at 30 June 2012, the branch held 4,710 accounts with \$141.848 million total business on its books. Deposit accounts totaled 4,082 while loans totaled 628.

Total revenue for the year was \$1.113 million which was 10.5% ahead of the previous year's result. Direct operating expenses were carefully controlled to end the year almost 8% below budget, resulting in a pre-tax operating profit for the 12 months of \$40,937. A summary of the performance of the branch since opening in 2006 is provided on the following page.

This success is only achievable with the support of a very committed branch team of David Burdett, Toni Vavala, Eli Inanir, Jessica McKean, Carole Malone and Michael Goode. I again thank them for their ongoing support and dedication in working for the benefit of our community.

I also wish to express my appreciation to the Clifroy Board of Directors and their support staff who continue to be very active in providing valuable support, direction and governance to my team while making sure that we are relevant to the needs of our community.

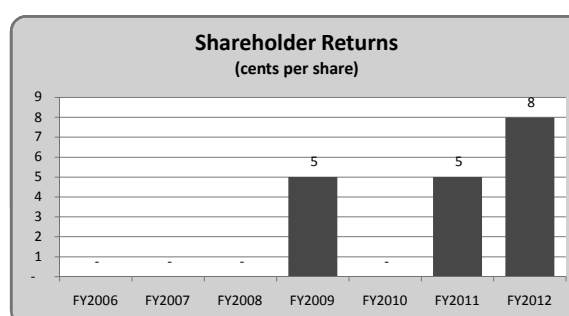
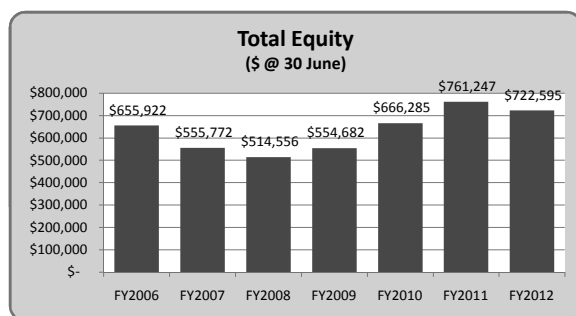
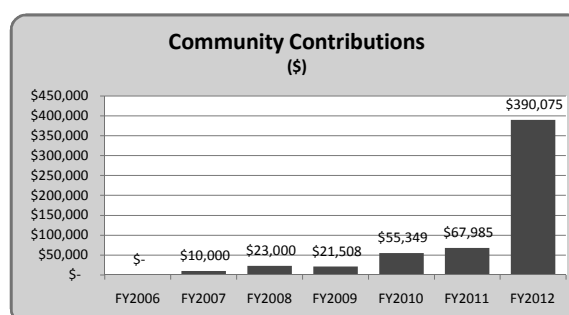
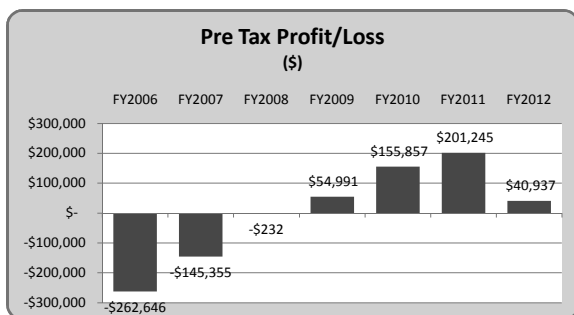
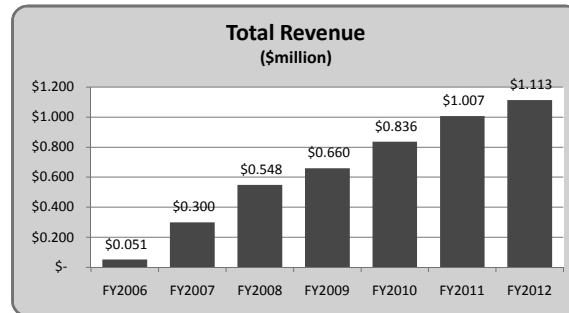
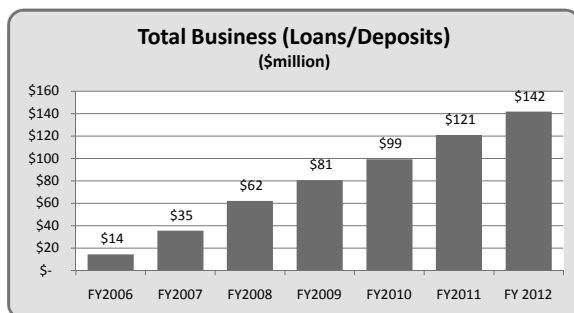
Finally, to all our stakeholders, remember as always to continually spread the word as awareness creates opportunity which contributes to success.



Rod May
Branch Manager

Performance summary

1 July 2006 to 30 June 2012



Community support funding

Clifroy Limited community support funding 2011/12

Arts	Total	\$45,597
Arts Project Australia	Community grants	\$18,066
Banquet Press	Sponsorships	\$800
Dance Connection Studios	Sponsorships	\$500
Dramazing productions & Platypus Theatre	Sponsorships	\$1,000
J-Studios Artist Community Inc	Sponsorships	\$4,000
Moreland City Band	Sponsorships	\$5,000
The Abbotsford Convent Foundation	Sponsorships	\$2,981
The Boite	Community grants	\$1,500
The Gertrude Street Association	Sponsorships	\$750
The Matilda's Project	Sponsorships	\$2,000
The Village Festival - Famous Dog Show	Sponsorships	\$2,000
Yarra City Council - Archiballs	Sponsorships	\$7,000
Community Support Services	Total	\$68,466
Alphington Community Centre (ASHE) Inc.	Community grants	\$2,000
BasicNeeds Australia	Sponsorships	\$4,000
Children with Disability Australia	Sponsorships	\$2,000
Down Syndrome Victoria	Community grants	\$4,965
Fintry Community Inc.	Sponsorships	\$2,716
Fitzroy Learning Network	Community grants	\$4,760
Holden Street Neighbourhood House	Sponsorships	\$2,475
North Yarra Community Health- Yarra Bike Fleet	Sponsorships	\$1,100
Northern Support Services (NSS)	Community grants	\$7,000
Rotary Club of Albert Park	Sponsorships	\$3,000
St John Ambulance Australia (VIC) Inc. Yarra Division	Community grants	\$5,275
The Neighbourhood Justice Centre	Sponsorships	\$5,000
VACRO (Victorian Association For the Care and Resettlement of Offenders)	Community grants	\$18,850
VincentCare Victoria	Community grants	\$3,325
Yooralla	Sponsorships	\$2,000
Education - Adult	Total	\$67,060
Holden Street Neighbourhood House Inc	Community grants	\$50,640
North Carlton Railway Neighbourhood House	Sponsorships	\$2,000
The Grove Centre for Spirituality Inc	Community grants	\$2,500
Thornbury Women's Neighbourhood House	Community grants	\$3,910
U3A Darebin Inc	Community grants	\$5,000
Yarra City U3A Inc.	Community grants	\$3,010

Community support funding (continued)

Education - Children	Total	\$91,043
African Kids Reading Club	Community grants	\$1,500
Alfred Nuttall Memorial Kindergarten	Community grants	\$4,800
Alphington Primary School (Kids Thrive)	Sponsorships	\$4,179
Anand Bharadwaj - World Scrabble	Sponsorships	\$750
Clifton Child Care Co-operative	Community grants	\$2,500
Clifton Hill Primary School	Sponsorships	\$6,850
Collingwood English Language School	Community grants	\$3,000
Collingwood Steiner Playgroup	Community grants	\$1,812
Embrace Education Incorporated	Community grants	\$11,225
Fairfield Primary School	Sponsorships	\$4,727
Fitzroy Community School	Sponsorships	\$3,500
Kids Thrive	Sponsorships	\$15,000
Merri Creek Primary School	Sponsorships	\$3,700
Organic School Gardens Project (Biological Farmers of Australia Ptd)	Sponsorships	\$6,000
Princess Hill Secondary College (2 Scholarships)	Tertiary support scholarships	\$10,000
Sophia Mundi Steiner School	Sponsorships	\$3,500
Westgarth Kindergarten Inc- Bush Kinda Pilot	Sponsorships	\$8,000
Environment	Total	\$1,893
Clifton Hill Planter Box Group	Sponsorships	\$750
Journeys For Climate Justice	Sponsorships	\$643
Yarra Climate Action Now	Sponsorships	\$500
Multicultural	Total	\$27,216
The Social Studio	Community grants	\$12,000
The Victorian Aboriginal Health Service	Community grants	\$15,216
Sports	Total	\$61,400
Edinburgh Cricket Club	Sponsorships	\$3,000
Fair Play Happy Football Cambodia Australia	Sponsorships	\$3,000
Fitzroy Junior Football Club	Sponsorships	\$20,000
Northcote Cricket Club-Bill Lowry Oval	Sponsorships	\$16,000
Northcote Park Football Club	Sponsorships	\$10,000
Reds Foundation	Sponsorships	\$5,000
Thornbury Bowls Club Inc	Community grants	\$2,400
Youlden Park Cricket Club	Sponsorships	\$2,000

Community support funding (continued)

Youth	Total	\$27,400
1st Alphington Scout Group	Community grants	\$5,000
City of Yarra - Yarra Leisure	Community grants	\$10,000
Inner North Video Competition Festival	Sponsorships	\$2,400
Melbourne Youth Initiative	Community grants	\$10,000
Total FY1112		\$390,075
Total Community Grants		\$210,254
Total Sponsorships		\$169,821
Total Tertiary Support Scholarships		\$10,000

- * The Community Grants program was managed on behalf of Clifroy Limited by the Bendigo Bank Community Enterprise Foundation™ (CEF). The Community Grants total of \$210,254 includes \$45,455 transferred by Clifroy to the Community Enterprise Foundation™ in FY2010/11, and \$10,240 of direct CEF funding.

Bendigo and Adelaide Bank report

For year ending 30 June 2012

Thanks to your support as shareholders the **Community Bank**[®] network has achieved a significant milestone this year, contributing more than \$80 million to support the communities these unique companies operate within.

This figure was almost unimaginable when the **Community Bank**[®] model was first launched in 1998, in partnership with the people from the small Victorian wheat farming towns of Rupanyup and Minyip. For these communities the **Community Bank**[®] model was seen as a way to restore branch banking services to the towns, after the last of the major banks closed its services. However, in the years since the **Community Bank**[®] model has become so much more.

In the past financial year a further 20 **Community Bank**[®] branches have opened, this growth is in-line with our forecast and consistent with what we have seen in recent years. Demand for the model remains strong and there are currently another 32 **Community Bank**[®] sites in development, with many more conversations happening with communities Australia wide.

At the end of the financial year 2011/12 the **Community Bank**[®] network had achieved the following:

- Returns to community – \$80 million
- **Community Bank**[®] branches – 295
- **Community Bank**[®] branch staff – more than 1,400
- **Community Bank**[®] branch Directors – 1,905
- Volume footings – \$21.75 billion
- Customers – 500,000
- Shareholders – 71,197
- Dividends paid to shareholders – \$28.8 million

Almost 300 communities have now partnered with Bendigo and Adelaide Bank, so they can not only enhance banking services, but more importantly aggregate the profits their banking business generates and reinvest it in local groups and projects that will ultimately strengthen their community.

In the past 14 years we have witnessed the **Community Bank**[®] network's returns to communities grow exponentially each year, with \$470,000 returned within the first five years, \$8.15 million within the first eight and \$22.58 million by the end of the first decade of operation.

Today that figure is an astonishing \$80 million and with the continued growth and popularity of the **Community Bank**[®] model, returns should top \$100 million by the end of 2013. These dollars add up to new community facilities, improved services, more opportunities for community engagement activities and generally speaking, a more prosperous society.

The communities we partner with also have access to Bendigo and Adelaide Bank's extensive range of other community building solutions including Community Enterprise Foundation™ (philanthropic arm), Community Sector Banking (banking service for not-for-profit organisations), Generation Green™ (environment and sustainability initiative), Community Telco (telecommunications solution), sponsorships, scholarships and Community Enterprises that provide **Community Bank**[®] companies with further development options.

In Bendigo and Adelaide Bank, your **Community Bank**[®] company has a committed and strong partner and over the last financial year our company has also seen much success.

Bendigo and Adelaide Bank report (continued)

Last December, our Bank joined the ranks of Australia's A-rated banks following an upgrade announced by Standard & Poor's. Its decision to raise our long-term rating from BBB+ to A- means the Bank (and its **Community Bank®** partners) are now rated 'A' by all three of the world's leading credit rating agencies. This is a huge boost to the Bank and will allow us to access new funding opportunities. It will also enable our group to service supporters who were precluded from banking with us because we were not A rated.

The rating upgrade is a welcome boost for the Bank and its partners at a time when funding is expensive and likely to remain so, margins have been eroded across the industry, credit growth is sluggish at best and subsequently, the profitability of banks remains under pressure.

Not surprisingly, these factors continue to place pressure on our Bank's margin and as **Community Bank®** margin share is still in part based on fixed trails, this is continuing to reflect a skew in margin share between the Bank and its **Community Bank®** partners.

We've been working with the **Community Bank®** network to take action to reduce this imbalance (which is in favour of the **Community Bank®** partners) and see the share of revenue on core banking products closely aligned to the key principal of 50/50 revenue share. Recent market developments are challenging this goal, but the Bank and its partners remain committed to addressing this.

It's Bendigo and Adelaide Bank's vision to be Australia's leading customer-connected bank. We believe our strength comes from our focus on the success of our customers, people, partners and communities. We take a 100-year view of our business; we listen and respect every customer's choice, needs and objectives. We partner for sustainable long-term outcomes and aim to be relevant, connected and valued.

This is what drives each and every one of our people and we invite you as **Community Bank®** shareholders to support us as we work with our partners to deliver on our goals and ensure our sustained and shared success.

As **Community Bank®** shareholders you are part of something special, a unique banking movement which has evolved into a whole new way of thinking about banking and the role it plays in modern society.

We thank you all for the part you play in driving this success.



Russell Jenkins
Executive Customer and Community

Directors' report

For the financial year ended 30 June 2012

Your Directors submit the financial statements of the Company for the financial year ended 30 June 2012.

Directors

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

Adrian Howard Nelson

Chairman

Age: 62

Occupation: Executive Director, Future Energy Pty Ltd

Board member since 2005.

Why I chose to become a Community Bank® Director: How many people get to run their own bank? I was coming to the end of my long-term corporate career just as the Clifroy Steering Committee was seeking new volunteers back in 2005. The challenge of establishing a business from scratch, particularly one with such a unique business model – and making a positive contribution to the local community at the same time – was irresistible. Six years on it's hard to believe what we have achieved – and it still gives me a buzz.

Experience I bring to this role: My 15 years with the Dulux Group and almost 20 with Tattersall's have been all about sales, marketing and in the latter years strategic business development – both locally and overseas. I was exposed to the workings of Boards as a Director of two of Tattersall's overseas subsidiaries and really enjoyed the balance between a Director's governance role and the business strategy and development role. I successfully completed the AICD Graduate Diploma course in 2004, and retain a keen interest in the continually changing environment in which Directors of public companies are required to operate.

My general philosophy: Treat others as you would wish to be treated yourself and look out for those less able to cope with today's challenges. Take responsibility for your own actions and hold others accountable for theirs.

Chair: Finance Committee. Member: Growth Committee, Governance & Audit Committee, HR Committee.

Interests in shares: 15,001

Jenny Maree Farrar

Deputy Chairman

Age: 39

Occupation: Industrial Organiser

Board member since 2005.

Why I chose to become a Community Bank® Director: Having previously served as a Councillor at Yarra City for over six years as the Mayor, Chair of Finance and Governance and Planning and Community Development, I have a strong connection and understanding of the Clifton Hil and North Fitzroy area and have developed positive and productive relationships with individuals and community groups in the area. As an active member of the Steering Committee of the **Community Bank®** branch since its inception, I became a Director when the **Community Bank®** launched in order to contribute to the successful establishment of a genuine, alternative, local banking service where community and shareholders benefit.

What experience I bring to this role: I bring a wide range of skills and experience in marketing, community planning, campaigning and industrial law. I have a degree in Communications and Social Sciences from Monash University and am further developing my skills by undertaking a Masters in Regional and Community Development at Monash University. I am also a member of the Council of Australasian Tribunals and currently preside on the Councillor Conflict Panel (CCP) administered by the Municipal Association of Victoria.

Directors' report (continued)

Directors (continued)

Jenny Maree Farrar (continued)

My general philosophy: I have a strong commitment to social justice, my local community, environmental sustainability, family, cooking and the North Melbourne Football Club.

Member: HR Committee, Partnerships Committee.

Interests in shares: 2,001

Michelle Kellie Burns

Company Secretary

Age: 41

Occupation: Consultant in Program and Project Management.

Board member since 2005.

Why I chose to become a Community Bank® Director: Having lived in Clifton Hill since 1995, I was keen to get involved in setting up the Clifton Hill / North Fitzroy **Community Bank®** and establish a long term asset which will benefit the current and future communities in Clifton Hill and surrounds. I am keen to see the bank's profits used to establish long-term projects, essential facilities and infrastructure in Clifton Hill, which can be used by a diverse range of community members.

Experience I bring to this role: I have significant experience in program management, project management and business analysis in the telecommunications and financial services sectors, and am able to initiate and implement projects for our bank. I have been involved with a number of local organisations and campaigns. I hold a Bachelor of Electrical Engineering (Communications) from University of Melbourne, a Master of Business Administration degree and have a PRINCE2 Project Management Practitioner qualification.

My general philosophy: I am committed to establishing long-term infrastructure and services within my community for the benefit of all.

Chair: Governance & Audit Committee. Member: Growth Committee.

Interests in shares: 8,501

Clare Elizabeth Carmody

Director

Age: 28

Occupation: Arts Manager, Executive Producer at St Martin's Youth Arts.

Board member since 2011.

Why I chose to become a Community Bank® Director: I am inspired by the innovative model of community banking. It is a better, fairer and more meaningful way of doing business. Being connected to my local community is also important to me. Through this role I've met many wonderful people passionate about making a difference.

Experience I bring to this role: A history in youth arts and community development helps me to understand how organisations and volunteers make a difference and what constitutes a good investment in community. Managing a not for profit organisation helps me see where this investment can be effectively spent and where the bank can fill gaps not covered by anyone else. My MBA has given me a practical understanding in corporate governance, which provides balance.

My general philosophy: I believe that any committed individual can make a change for the better. However, well defined partnerships and considered strategies help ensure our passion is directed where it will have the most positive impact. Collaboration helps us think bigger, act more effectively and fuel our inspiration for the long term.

Chair: Partnerships Committee.

Interests in shares: Nil

Directors' report (continued)

Directors (continued)

Yann Burden

Director

Age: 35

Occupation: Energy efficiency & Software professional.

Board member since 2010.

Why I chose to become a Community Bank® Director: I figured that if enjoyed living within my local community, I should contribute something to it. I was attracted by the innovative business model, the opportunity to make life a bit more difficult for the Big 4 banks, all while delivering benefits to the community.

Experience I bring to this role: As my day job, I run a small energy efficiency/software business and with that comes an understanding of how to juggle finances, sales, operations and HR. Being a geek at heart, with the help of my colleagues at the bank, we're trying to bring all our operations on-line.

My general philosophy: I try to focus on things I'm passionate about, but remain curious about the things I know little about.

Chair: Growth Committee.

Interests in shares: Nil

Peter Raymond Hille

Age: 64

Director (Appointed 3 August 2011)

Occupation: HR & Compliance Consultant.

Board member since 2011.

Why I chose to become a Community Bank® Director: I was invited to join the Board because of my broad and long-standing community networks and community engagement. I was also aware from the start what the Community Banking model meant, as I supported the original steering committee (which founded the Clifroy Ltd Branch) through my networking and advocacy. Several years down the track that model has made a significant difference in the local community and I considered I could add value to the Board as it pursued business growth to underpin its community investment.

Experience I bring to this role: As a resident of Clifton Hill for 20 years I bring local knowledge and substantive networks. As a leader and Board Member at a range of local community organisations, I bring an understanding of corporate governance as well as an awareness of community needs and how such needs might be addressed. I am currently Chairman of the Reds Foundation, a Director of the Rotary Club of Fitzroy, Vice-President of Fitzroy Victoria Bowls Club and Treasurer of Yarra Blue Light. My professional background includes educational leadership, public speaking, a managerial role in financial services and HR Consultancy – each of these informs and supports my role as a Director of Clifroy Limited.

My general philosophy: Partnerships can achieve more than individual effort.

Chair: HR Committee. Member: Partnerships Committee.

Interests in shares: 2,000

Directors' report (continued)

Directors (continued)

Jennifer Vivien Stephens

Director (Appointed 23 June 2012)

Age: 62

Occupation: Consultant in Change Management and Engagement.

Board member since 2012.

Why I chose to become a Community Bank® Director: Having for many years been a member of Boards of Governance of community organisations in my previous neighbourhood, I was keen to continue that involvement now that I live in North Fitzroy. Clifroy Limited's Board and staff clearly have done a wonderful job in their first 6 years of operation, and the growth in all areas of its work has been very impressive. It seemed an organisation whose Board I would enjoy contributing to and working with.

Experience I bring to this role: I have been actively involved with a range of community organisations, including as a former long serving member of the Board of Governance of Prahran Mission. In addition to my recent Board membership of Clifroy Limited, I have also been appointed to the Board of NMIT. I hold a Bachelor degree in Arts, a Masters degree in Sociology and have undertaken Executive level leadership programs in Australia and overseas. I am a member of the Australian Institute of Company Directors.

My general philosophy: I am committed to the principles of social justice, community participation and the value of collaborative partnerships and the work that Clifroy Limited is doing via its community support programs exemplifies these values in a really demonstrable and tangible way.

Member: Partnerships Committee.

Interests in shares: Nil

Aisling Mary Callaghan

Director (Resigned 29 March 2012)

Age: 31

Occupation: Management Consultant

Board member since 2011.

Why I chose to become a Community Bank® Director: Because of my interest in sustainability/localism; because the **Community Bank®** represents an alternative to the prevalent banking model that I feel has moved away from supporting and enabling prosperity locally; and finally because I wanted to contribute to my new community in Clifton Hill and to learn!

Experience I bring to this role: I have worked as a management consultant in Europe, Asia and Australia for the past seven years, primarily in banking. I brought business analysis, finance and project management skills to the Board. As a Clifton Hill resident, I played and coached soccer with the mighty Yarra Jets. I have a B.Sc. in Financial and Actuarial Mathematics from Dublin City University, an advanced diploma in Management Accounting from the Chartered Institute of Management Accountants and an MBA in International Business from Northern Kentucky University.

My general philosophy: Do what you enjoy with people you like!

Member: Partnership Committee, Finance Committee, Governance & Audit Committee.

Interests in shares: Nil

Directors' report (continued)

Directors (continued)

Jennifer Anne Gawne

Director (Resigned 10 November 2011)

Age: 58

Occupation: Retired.

Board member since 2005.

Experience I bring to this role: With a degree from Monash University and postgraduate diploma from RMIT University, I have decades of experience in information architecture, management and discovery, web content and metadata, as well as experience in delivering training in these fields in Australia, New Zealand and Thailand. I have also completed training as a human rights facilitator with the Victorian Equal Opportunity & Human Rights Commission and am a member of Collingwood Rotary. Having previously served as the Chair of the Partnerships Committee I used the opportunities offered by the **Community Bank®** concept to increase the range of services, activities and interests available to residents of the inner city and valued the opportunities to meet people making exciting and valuable contributions to the community.

Member: Partnerships Committee.

Interest in Shares: 1,001

Greg Randall Tinkler

Director (Resigned 1 October 2011)

Age: 56

Occupation: Consultant.

Board member since 2007.

Experience I bring to this role: I am a Fellow of the Australian Institute of Company Directors, the Assistant Vice President IMS Australia, Mahindra Satyam Ltd and owner and principal of TS Solutions Pty Ltd.

Member: HR Committee, Finance Committee, Governance & Audit Committee.

Interest in Shares: 10,000

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

Committee positions are as at 30 June 2012, or at the time of resignation from the Board.

Company Secretary

The Company Secretary is Michelle Kellie Burns. Michelle was appointed to the position of secretary on 3 June 2005. Michelle has extensive business and management experience.

Principal Activities

The principal activities of the Company during the course of the financial year were in facilitating **Community Bank®** services under management rights to operate a franchised branch of Bendigo and Adelaide Bank Limited.

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

Directors' report (continued)

Operating Results

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

	Year ended 30 June 2012 \$	Year ended 30 June 2011 \$
	30,709	138,312

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 statements.

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 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.

Dividends	Year Ended 30 June 2012	
	Cents	\$
Unfranked dividends paid in the year	8	69,361

Indemnification and insurance of Directors and Officers

The Company has indemnified all Directors and the Branch 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.

Directors' report (continued)

Directors' meetings

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

Director	Board Meetings Attended		Committee Meetings Attended									
			HR		Finance		Growth		Partnership		Governance and Audit	
	A	B	A	B	A	B	A	B	A	B	A	B
Adrian Howard Nelson	11	10	8	7	8	8	11	10	-	-	5	5
Michelle Kellie Burns	11	11	-	-	3	3	11	11	-	-	5	5
Jenny Maree Farrar	11	9	8	5	-	-	-	-	10	7	-	-
Yann Burden	11	10	-	-	-	-	11	11	2	2	-	-
Clare Elizabeth Carmody	11	10	-	-	-	-	-	-	10	10	-	-
Peter Raymond Hille (Appointed 3 August 2011)	10	6	7	6	-	-	-	-	10	7	-	-
Jennifer Vivien Stephens (Appointed 23 June 2012)	-	-	-	-	-	-	-	-	-	-	-	-
Jennifer Anne Gawne (Resigned 10 November 2011)	5	3	-	-	-	-	-	-	4	3	-	-
Greg Randall Tinkler (Resigned 1 October 2011)	3	-	1	-	2	2	-	-	1	-	2	2
Aisling Mary Callaghan (Resigned 29 March 2012)	8	8	-	-	3	3	1	0	7	4	2	2

A - Number of meetings held during the time the Director held office or was a member of the committee during the year

B - Number of meetings attended

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 Governance & 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 Governance & 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 APES 110 Code of Ethics for Professional Accountants, 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)

Remuneration Report

(a) Remuneration of Directors'

All Directors' of the Company provide their time on a voluntary basis, therefore no remuneration guidelines have been prepared.

(b) Remuneration of Branch Manager and Staff

The Company aims to provide market competitive compensation by offering a package of fixed pay and benefits to all employees. All staff are employed by Clifroy Limited except for the Branch Manager and Senior CSO who are seconded from Bendigo and Adelaide Bank Limited and all Branch staff are employed under a Certified Employment Agreement and as such, the Company is guided by Bendigo and Adelaide Bank Limited in determining the remuneration payable.

Seconded staff have the opportunity to participate in a bonus scheme operated by Bendigo and Adelaide Bank Limited, where:

- a) the amount of any bonus payment is tied to the outcome of annual performance reviews, such reviews measuring performance against defined objectives noted in the position description, and
- b) the amount of any bonus payment is not directly tied to the Company's performance, and
- c) the annual review process has been provided by Bendigo and Adelaide Bank, and
- d) the annual review process does not involve a comparison with factors external to the Company.


Clifroy Limited staff have the opportunity to participate in a bonus scheme operated by the Company in accordance with the Company's policy for staff remuneration, under which branch performance and community engagement are key performance criteria.

The Branch Manager, Rod May is on secondment from Bendigo and Adelaide Bank and paid a base salary, which is \$88,150 (2011: \$76,966), in addition he receives a bonus if the Company exceeds the budget estimates established by the Board. During the year a bonus was paid of \$7,339 (2011: \$4,587), plus a car allowance of \$13,000 (2011: \$9,423), plus employer sponsored superannuation of \$8,594 (2011: \$8,200).

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 18.

Signed in accordance with a resolution of the Board of Directors at Clifton Hill, Victoria on 5 September 2012.



Adrian Howard Nelson,
Chairman

Auditor's independence declaration



Lead auditor's independence declaration under section 307C of the *Corporations Act 2001* to the directors of Clifroy Limited

I declare, that to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2012 there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit
- any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to read 'Graeme Stewart'.

Graeme Stewart
Andrew Frewin Stewart
61 Bull Street, Bendigo Vic 3550

Dated: 5 September 2012

Liability limited by a scheme approved under Professional Standards Legislation. ABN: 51 061 795 337.

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Financial statements

Statement of Comprehensive Income for the Year Ended 30 June 2012

	Note	2012 \$	2011 \$
Revenues from ordinary activities	4	1,113,053	1,006,583
Employee benefits expense		(435,182)	(389,793)
Charitable donations, sponsorship, advertising and promotion		(377,534)	(162,105)
Occupancy and associated costs		(100,845)	(99,779)
Systems costs		(20,525)	(21,167)
Depreciation and amortisation expense	5	(27,168)	(22,776)
Finance costs	5	(886)	(1,162)
General administration expenses		(109,976)	(108,556)
Profit before income tax expense		40,937	201,245
Income tax expense	6	(10,228)	(62,933)
Profit after income tax expense		30,709	138,312
Total comprehensive income for the year		30,709	138,312
Earnings per share (cents per share)		c	c
- basic for profit for the year	23	3.54	15.95

The accompanying notes form part of these financial statements.

Financial statements (continued)

Balance Sheet as at 30 June 2012

	Note	2012 \$	2011 \$
ASSETS			
Current Assets			
Cash and cash equivalents	7	442,916	461,796
Trade and other receivables	8	86,386	73,131
Total Current Assets		529,302	534,927
Non-Current Assets			
Property, plant and equipment	9	212,945	226,229
Intangible assets	10	49,753	63,638
Deferred tax assets	11	7,154	6,392
Total Non-Current Assets		269,852	296,259
Total Assets		799,154	831,186
LIABILITIES			
Current Liabilities			
Current tax liabilities	11	3,064	2,933
Trade and other payables	12	37,836	29,722
Borrowings	13	4,968	4,968
Provisions	14	13,854	16,195
Total Current Liabilities		59,722	53,818
Non-Current Liabilities			
Borrowings	13	4,284	8,253
Provisions	14	12,553	7,868
Total Non-Current Liabilities		16,837	16,121
Total Liabilities		76,559	69,939
Net Assets		722,595	761,247
Equity			
Issued capital	15	753,928	753,928
Retained Earnings/(Accumulated losses)	16	(31,333)	7,319
Total Equity		722,595	761,247

The accompanying notes form part of these financial statements.

Financial statements (continued)

Statement of Changes in Equity for the Year Ended 30 June 2012

	Issued Capital \$	Retained Earnings \$	Total Equity \$
Balance at 1 July 2010	797,278	(130,993)	666,285
Total comprehensive income for the year	-	138,312	138,312
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Return on capital	(43,350)	-	(43,350)
Balance at 30 June 2011	753,928	7,319	761,247
Balance at 1 July 2011	753,928	7,319	761,247
Total comprehensive income for the year	-	30,709	30,709
Transactions with owners in their capacity as owners:			
Shares issued during period	-	-	-
Costs of issuing shares	-	-	-
Dividends paid during period	-	(69,361)	(69,361)
Balance at 30 June 2012	753,928	(31,333)	722,595

The accompanying notes form part of these financial statements.

Financial statements (continued)

Statement of Cashflows for the Year Ended 30 June 2012

	Note	2012 \$	2011 \$
Cash Flows From Operating Activities			
Receipts from customers		1,187,796	1,002,412
Payments to suppliers and employees		(1,136,660)	(798,905)
Interest received		15,060	6,418
Interest paid		(886)	(1,162)
Income taxes paid		(10,860)	-
Net cash provided by operating activities	17	54,450	208,763
Cash Flows From Investing Activities			
Payments for property, plant and equipment		-	(1,235)
Payments for intangible assets		-	(69,423)
Net cash used in investing activities		-	(70,658)
Cash Flows From Financing Activities			
Payments of return of capital		-	(43,350)
Dividends paid		(69,361)	-
Repayment of borrowings		(3,969)	(3,686)
Net cash used in financing activities		(73,330)	(47,036)
Net increase/(decrease) in cash held		(18,880)	91,069
Cash and cash equivalents at the beginning of the financial year		461,796	370,727
Cash and cash equivalents at the end of the financial year	7(a)	442,916	461,796

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ended 30 June 2012

Note 1. Summary of Significant Accounting Policies

a) Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standard Boards and the Corporations Act 2001. The Company is a for-profit entity for the purpose of preparing the financial statements.

Compliance with IFRS

These financial statements and notes comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. These areas involving a higher degree of judgement or complexities, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Historical cost convention

The financial statements have been prepared under the historical cost convention 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.

Comparative figures

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

Adoption of new and revised Accounting Standards

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2011 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods. The adoption of the revised AASB 124 Related Party Disclosures has not resulted in the disclosure of any additional related party transactions in the current period or any prior period and is not likely to affect future periods. The adoption of AASB 1054 Australian Additional Disclosures and AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project have not affected the disclosure of any items in the financial statements.

The Company has not elected to apply any pronouncements before their mandatory operative date in the annual reporting period beginning 1 July 2011.

Economic dependency - Bendigo and Adelaide Bank Limited

The Company has entered into a franchise agreement with Bendigo and Adelaide Bank Limited that governs the management of the **Community Bank®** branch at Clifton Hill/North Fitzroy, Victoria.

Notes to the financial statements (continued)

Note 1. Summary of Significant Accounting Policies (continued)

a) Basis of Preparation (continued)

Economic dependency - Bendigo and Adelaide Bank Limited (continued)

The branch operates as a franchise of Bendigo and Adelaide Bank Limited, using the name “Bendigo Bank” and the logo and system of operations of Bendigo and Adelaide Bank Limited. The Company manages the **Community Bank®** branch on behalf of Bendigo and Adelaide Bank Limited, however all transactions with customers conducted through the **Community Bank®** branches are effectively conducted between the customers and Bendigo and Adelaide Bank Limited.

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

Bendigo and Adelaide Bank Limited provides significant assistance in establishing and maintaining the **Community Bank®** branch franchise operations. It also continues to provide ongoing management and operational support, and other assistance and guidance in relation to all aspects of the franchise operation, including advice in relation to:

- advice and assistance in relation to the design, layout and fit out of the **Community Bank®** branch;
- training for the branch manager and other employees in banking, management systems and interface protocol;
- methods and procedures for the sale of products and provision of services;
- security and cash logistic controls;
- calculation of Company revenue and payment of many operating and administrative expenses
- the formulation and implementation of advertising and promotional programs; and
- sales techniques and proper customer relations.

The following is a summary of the material accounting policies adopted by the Company in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

b) Revenue

Revenue is recognised when the amount of revenue can be reliably measured, it is probable that future economic benefit will flow to the Company and any specific criteria have been met. Interest and fee revenue is recognised when earned. 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. All revenue is stated net of the amount of Goods and Services Tax (GST).

Revenue calculation

The franchise agreement with Bendigo and Adelaide Bank Limited provides for three types of revenue earned by the Company. First, the Company is entitled to 50% of the monthly gross margin earned by Bendigo and Adelaide Bank Limited on products and services provided through the Company that are regarded as “day to day” banking business (ie ‘margin business’). This arrangement also means that if the gross margin reflects a loss (that is, the gross margin is a negative amount), the Company effectively incurs, and must bear, 50% of that loss.

Notes to the financial statements (continued)

Note 1. Summary of Significant Accounting Policies (continued)

b) Revenue (continued)

Revenue calculation (continued)

The second source of revenue is commission paid by Bendigo and Adelaide Bank Limited on the other products and services provided through the Company (ie 'commission business'). The commission is currently payable on various specified products and services, including insurance, financial planning, common fund, Sandhurst Select, superannuation, commercial loan referrals, products referred by Rural Bank, leasing referrals, fixed loans and certain term deposits (>90 days). The amount of commission payable can be varied in accordance with the Franchise Agreement (which, in some cases, permits commissions to be varied at the discretion of Bendigo and Adelaide Bank Limited). This discretion has been exercised on several occasions previously. For example in February 2011 Bendigo and Adelaide Bank Limited reduced commissions on two core banking products to ensure a more even distribution of income between Bendigo and Adelaide Bank Limited and its **Community Bank®** partners. The revenue share model is subject to regular review to ensure that the interests of Bendigo and Adelaide Bank Limited and **Community Bank®** Companies remain balanced.

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

c) 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 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).

Deferred tax

Deferred tax is accounted for using the 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 entity intends to settle its tax assets and liabilities on a net basis.

Notes to the financial statements (continued)

Note 1. Summary of Significant Accounting Policies (continued)

c) Income Tax (continued)

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the statement of comprehensive income, 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.

d) Employee Entitlements

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

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

e) Cash and Cash Equivalents

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.

f) 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.

g) 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)

Note 1. Summary of Significant Accounting Policies (continued)

h) Intangibles

The franchise fee paid to Bendigo and Adelaide Bank Limited has been recorded at cost and is amortised on a straight line basis over the life of the franchise agreement.

The renewal processing fee paid to Bendigo and Adelaide Bank Limited when renewing the franchise agreement has also been recorded at cost and is amortised on a straight line basis over the life of the franchise agreement.

i) Payment Terms

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

j) Borrowings

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

k) Financial Instruments

Recognition and initial measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial instruments are initially measured at fair value plus transaction costs. Financial instruments are classified and measured as set out below.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset.

Classification and subsequent measurement

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the entity's intention to hold these investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

(iii) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Impairment

At each reporting date, the entity assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the statement of comprehensive income.

Notes to the financial statements (continued)

Note 1. Summary of Significant Accounting Policies (continued)

l) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership are transferred to the Company are classified as finance leases. Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

m) 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.

n) 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.

o) 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.

p) Goods and Services Tax

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

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the 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 taxation authority are classified as operating cash flows.

Notes to the financial statements (continued)

Note 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 and Adelaide 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 and Adelaide Bank Limited mitigates this risk significantly.

(v) Cash flow and fair value interest rate risk

Interest-bearing assets are held with Bendigo and Adelaide 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 and Adelaide Bank Limited mitigates this risk significantly.

(vi) Capital management

The Board's policy is to maintain a strong capital base so as to sustain future development of the Company. The Board of Directors monitor the return on capital and the level of dividends to shareholders. Capital is represented by total equity as recorded in the balance sheet.

In accordance with the franchise agreement, in any 12 month period, the funds distributed to shareholders shall not exceed the distribution limit.

(i) the distribution limit is the greater of:

(a) 20% of the profit or funds of the franchisee otherwise available for distribution to shareholders in that 12 month period; and

(b) subject to the availability of distributable profits, the relevant rate of return multiplied by the average level of share capital of the franchisee over that 12 month period; and

(ii) the relevant rate of return is equal to the weighted average interest rate on 90 day bank bills over that 12 month period plus 5%.

Notes to the financial statements (continued)

Note 2. Financial Risk Management (continued)

(vi) Capital management (continued)

The Board is managing the growth of the business in line with this requirement. There are no other externally imposed capital requirements, although the nature of the Company is such that amounts will be paid in the form of charitable donations and sponsorship. Charitable donations and sponsorship paid for the year ended 30 June 2012 can be seen in the statement of comprehensive income.

There were no changes in the Company's approach to capital management during the year.

Note 3. 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.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

Taxation

Judgement is required in assessing whether deferred tax assets and certain tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from un-recouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future sales volumes, operating costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation.

These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amount of recognised deferred tax assets and liabilities may require adjustment, resulting in corresponding credit or charge to the statement of comprehensive income.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience and the condition of the asset is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

Notes to the financial statements (continued)

Note 3. Critical Accounting Estimates and Judgements (continued)

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Company's share of the net identifiable assets of the acquired branch/agency at the date of acquisition. Goodwill on acquisition is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

The calculations require the use of assumptions.

Impairment of assets

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets that have an indefinite useful life 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.

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.

	2012 \$	2011 \$
Note 4. Revenue from Ordinary Activities		
Operating activities:		
- services commissions	1,098,191	988,046
- other revenue	-	9,752
Total revenue from operating activities	1,098,191	997,798
Non-operating activities:		
- interest received	14,862	8,785
Total revenue from non-operating activities	14,862	8,785
Total revenues from ordinary activities	1,113,053	1,006,583

Notes to the financial statements (continued)

	2012 \$	2011 \$
Note 5. Expenses		
Depreciation of non-current assets:		
- computers and software	460	718
- plant and equipment	3,911	4,178
- leasehold improvements	8,912	9,797
Amortisation of non-current assets:		
- franchise agreement	2,314	2,130
- formation costs	-	1,130
- franchise renewal fee	11,571	4,823
	27,168	22,776
Finance costs:		
- interest paid	886	1,162
Bad debts	421	5,206

Note 6. Income Tax Expense

The components of tax expense comprise:

- Current tax	13,065	2,933
- Movement in deferred tax	(763)	(1,300)
- Recoup of prior year tax loss	-	61,300
- Adjustments to tax expense of prior periods	(1,736)	-
- Under/over provision in respect to prior years	(338)	-
	10,228	62,933

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

Operating profit	40,937	201,245
Prima facie tax on profit from ordinary activities at 30%	12,281	60,374
Add tax effect of:		
- non-deductible expenses	21	2,424
- timing difference expenses	763	1,299
- other deductible expenses	-	136
	13,065	64,233

Notes to the financial statements (continued)

	Note	2012 \$	2011 \$
Note 6. Income Tax Expense (continued)			
Movement in deferred tax	11	(763)	(1,300)
Adjustment to tax expense of prior periods		(1,736)	-
Under/over provision in respect to prior years		(338)	
		10,228	62,933

Note 7. Cash and Cash Equivalents

Cash at bank and on hand	134,999	267,366
Term deposits	307,917	194,430
	442,916	461,796

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

Note 7.(a) Reconciliation of cash

Cash at bank and on hand	134,999	267,366
Term deposits	307,917	194,430
	442,916	461,796

Note 8. Trade and Other Receivables

Trade receivables	78,485	65,969
Other receivables and accruals	2,559	2,757
Prepayments	5,342	4,405
	86,386	73,131

Note 9. Property, Plant and Equipment

Plant and equipment

At cost	62,788	62,788
Less accumulated depreciation	(23,878)	(19,967)
	38,910	42,821

Computer & Software

At cost	15,000	15,000
Less accumulated depreciation	(14,182)	(13,721)
	818	1,279

Notes to the financial statements (continued)

	2012 \$	2011 \$
Note 9. Property, Plant and Equipment (continued)		
Leasehold improvements		
At cost	240,440	240,440
Less accumulated depreciation	(67,223)	(58,311)
	173,217	182,129
Total written down amount	212,945	226,229
Movements in carrying amounts:		
Plant and equipment		
Carrying amount at beginning	42,821	45,764
Additions	-	1,235
Disposals	-	-
Less: depreciation expense	(3,911)	(4,178)
Carrying amount at end	38,910	42,821
Computer & Software		
Carrying amount at beginning	1,279	1,998
Additions	-	-
Disposals	-	-
Less: depreciation expense	(461)	(719)
Carrying amount at end	818	1,279
Leasehold improvements		
Carrying amount at beginning	182,129	191,926
Additions	-	-
Disposals	-	-
Less: depreciation expense	(8,912)	(9,797)
Carrying amount at end	173,217	182,129
Total written down amount	212,945	226,229

Note 10. Intangible Assets

Formation costs

At Cost	1,130	1,130
Less: accumulated amortisation	(1,130)	(1,130)
	-	-

Notes to the financial statements (continued)

	2012 \$	2011 \$
Note 10. Intangible Assets (continued)		
Franchise fee		
At cost	21,570	21,570
Less: accumulated amortisation	(13,278)	(10,964)
	8,292	10,606
Renewal processing fee		
At cost	57,853	57,853
Less: accumulated amortisation	(16,392)	(4,821)
	41,461	53,032
Total written down amount	49,753	63,638

Note 11. Tax

Current:

Income tax payable	3,064	2,933
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Non-Current:

Deferred tax assets

- accruals	-	-
- employee provisions	7,922	7,219
	7,922	7,219

Deferred tax liability

- accruals	768	827
- deductible prepayments	-	-
	768	827

Net deferred tax asset	7,154	6,392
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Movement in deferred tax charged to statement of comprehensive income	(763)	(1,300)
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Note 12. Trade and Other Payables

Trade creditors	31,827	24,050
Other creditors and accruals	6,009	5,672
	37,836	29,722

Notes to the financial statements (continued)

	2012 \$	2011 \$
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Note 13. Borrowings

Current:

Bank loans	4,968	4,968
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Non-Current:

Bank loans	4,284	8,253
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Bank loan is repayable monthly with the final instalment due in July 2014. Interest is recognised at a rate of 7.74%. The loans are secured by a fixed and floating charge over the Company's assets.

Note 14. Provisions

Current:

Provision for annual leave	13,854	16,195
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Non-Current:

Provision for long service leave	12,553	7,868
---	---------------	--------------

Number of employees at year end	4	4
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Note 15. Contributed Equity

867,013 Ordinary shares (2011: 867,013)	867,013	867,013
Less: equity raising expenses	(26,384)	(26,384)
Less: return of capital (2008)	(43,351)	(43,351)
Less: return of capital (2010)	(43,350)	(43,350)
	753,928	753,928

Rights attached to shares

(a) Voting rights

Subject to some limited exceptions, each member has the right to vote at a general meeting.

On a show of hands or a poll, each member attending the meeting (whether they are attending the meeting in person or by attorney, corporate representative or proxy) has one vote, regardless of the number of shares held. However, where a person attends a meeting in person and is entitled to vote in more than one capacity (for example, the person is a member and has also been appointed as proxy for another member) that person may only exercise one vote on a show of hands. On a poll, that person may exercise one vote as a member and one vote for each other member that person represents as duly appointed attorney, corporate representative or proxy.

The purpose of giving each member only one vote, regardless of the number of shares held, is to reflect the nature of the Company as a community based Company, by providing that all members of the community who have contributed to the establishment and ongoing operation of the **Community Bank®** have the same ability to influence the operation of the Company.

Notes to the financial statements (continued)

Note 15. Contributed Equity (continued)

Rights attached to shares (continued)

(b) Dividends

Generally, dividends are payable to members in proportion to the amount of the share capital paid up on the shares held by them, subject to any special rights and restrictions for the time being attaching to shares. The franchise agreement with Bendigo and Adelaide Bank Limited contains a limit on the level of profits or funds that may be distributed to shareholders. There is also a restriction on the payment of dividends to certain shareholders if they have a prohibited shareholding interest (see below).

(c) Transfer

Generally, ordinary shares are freely transferable. However, the Directors have a discretion to refuse to register a transfer of shares.

Subject to the foregoing, shareholders may transfer shares by a proper transfer effected in accordance with the Company's constitution and the Corporations Act.

Prohibited shareholding interest

A person must not have a prohibited shareholding interest in the Company.

In summary, a person has a prohibited shareholding interest if any of the following applies:

- They control or own 10% or more of the shares in the Company (the "10% limit").
- In the opinion of the Board they do not have a close connection to the community or communities in which the Company predominantly carries on business (the "close connection test").
- Where the person is a shareholder, after the transfer of shares in the Company to that person the number of shareholders in the Company is (or would be) lower than the base number (the "base number test"). The base number is 276. As at the date of this report, the Company had 302 shareholders.

As with voting rights, the purpose of this prohibited shareholding provision is to reflect the community-based nature of the Company.

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

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

The Bendigo Stock Exchange (BSX) has advised that in its view the prohibited shareholding provisions are appropriate and equitable but the 'base number test' is not as a result the base number clause does not operate whilst the Company remains listed on the BSX.

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

Notes to the financial statements (continued)

	2012 \$	2011 \$
Note 16. Retained Earnings/Accumulated Losses		
Balance at the beginning of the financial year	7,319	(130,993)
Net profit from ordinary activities after income tax	30,709	138,312
Dividends paid or provided for	(69,361)	-
Balance at the end of the financial year	(31,333)	7,319

Note 17. Statement of Cashflows

Reconciliation of profit from ordinary activities after tax to net cash provided by operating activities

Profit from ordinary activities after income tax	30,709	138,312
Non cash items:		
- depreciation	13,283	14,693
- amortisation	13,885	8,084
Changes in assets and liabilities:		
- increase in receivables	(13,255)	(6,588)
- (increase)/decrease in other assets	(763)	60,000
- increase/(decrease) in payables	8,114	(15,368)
- increase in provisions	2,345	6,698
- increase in current tax liabilities	132	2,932
Net cashflows provided by operating activities	54,450	208,763

Note 18. Leases

Operating lease commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements

Payable - minimum lease payments		
- not later than 12 months	84,000	80,000
- between 12 months and 5 years	294,000	362,050
- greater than 5 years	-	-
	378,000	442,050

The property lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance. The current lease expires in February 2016, with an option for one more term of five years to be exercised.

Notes to the financial statements (continued)

	2012 \$	2011 \$
Note 19. Auditor's Remuneration		
Amounts received or due and receivable by the auditor of the Company for:		
- audit and review services	4,500	4,500
- share registry services	6,349	4,875
- non audit services	3,415	1,300
	14,264	10,675

Note 20. Director and Related Party Disclosures

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

Adrian Howard Nelson
Michelle Kellie Burns
Jenny Maree Farrar
Yann Burden
Clare Elizabeth Carmody
Peter Raymond Hille (Appointed 3 August 2011)
Jennifer Vivien Stephens (Appointed 23 June 2012)
Jennifer Anne Gawne (Resigned 10 November 2011)
Greg Randall Tinkler (Resigned 1 October 2011)
Aisling Mary Callaghan (Resigned 29 March 2012)

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	2012	2011
Adrian Howard Nelson	15,001	15,001
Michelle Kellie Burns	8,501	8,501
Jenny Maree Farrar	2,001	2,001
Yann Burden	-	-
Clare Elizabeth Carmody	-	-
Peter Raymond Hille (Appointed 3 August 2011)	2,000	-
Jennifer Vivien Stephens (Appointed 23 June 2012)	-	-
Jennifer Anne Gawne (Resigned 10 November 2011)	1,001	1,001
Greg Randall Tinkler (Resigned 1 October 2011)	10,000	10,000
Aisling Mary Callaghan (Resigned 29 March 2012)	-	-

There was no movement in Directors' shareholdings during the year.

Notes to the financial statements (continued)

	2012 \$	2011 \$
Note 21. Dividends Paid or Provided		
a. Dividends paid during the year		
Unfranked dividend - 8 cents (2011: Nil) per share	69,361	-
b. Dividends proposed and recognised as a liability		
Unfranked dividend - Nil (2011: Nil) per share	-	-
c. Dividends proposed and not recognised as a liability		
Unfranked dividend - Nil (2011: 8 cents) per share	-	69,361
d. Franking account balance		
Franking credits available for subsequent reporting periods are:		
- franking account balance as at the end of the financial year	10,859	-
- franking credits that will arise from payment of income tax payable as at the end of the financial year	3,064	859
- franking debits that will arise from the payment of dividends recognised as a liability at the end of the financial year	-	-
Franking credits available for future financial reporting periods:	13,923	859
- franking debits that will arise from payment of dividends proposed or declared before the financial report was authorised for use but not recognised as a distribution to equity holders during the period	-	-
Net franking credits available	13,923	859

At the Company's July 2011 Board meeting a motion was passed to pay an 8 cent per share unfranked dividend. The Company's first dividend record date was 30 September 2011 and payment was made on 31 October 2011.

Note 22. Key Management Personnel Disclosures

No Director of the Company receives remuneration for services as a Company Director or committee member.

Note 23. Earnings Per Share

(a) Profit attributable to the ordinary equity holders of the Company used in calculating earnings per share	30,709	138,312
	Number	Number
(b) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	867,013	867,013

Notes to the financial statements (continued)

Note 24. 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.

Note 25. Contingent Liabilities

Estimates of the potential financial effect of contingent liabilities which may become payable are as follows:

The Company has entered into a sponsorship agreement with the Northcote Park Football Club to contribute \$30,000 to the club over a three year period. The first payment of \$10,000 was made in April 2012 with the remaining contribution of \$20,000 payable over the next two years.

The Company has also entered into a sponsorship agreement in 2011 with the Yarra Bike Fleet Project to contribute \$3,000 for new bikes over three years. As at 30 June 2012 two payments of \$1,000 had been made with \$1,000 payable during 2012/13.

The Company has committed to pay \$3,000 to the Fitzroy Victoria Bowls Club in October 2012 as sponsorship for their Centenary Bowls Tournament.

The Company has also committed to pay a \$5,000 sponsorship to the Northcote Cricket Club during 2012/13.

The commitments are as follows:

- 2013 \$19,000
- 2014 \$10,000

Note 26. Segment Reporting

The economic entity operates in the service sector where it facilitates **Community Bank®** services in the Clifton Hill, North Fitzroy and neighbouring suburbs of Melbourne, Victoria pursuant to a franchise agreement with Bendigo and Adelaide Bank Limited.

Note 27. Registered Office/Principal Place of Business

The entity is a Company limited by shares, incorporated and domiciled in Australia. The registered office and principal place of business is:

Registered Office
101 Queens Parade
Clifton Hill VIC 3068

Principal Place of Business
101 Queens Parade
Clifton Hill VIC 3068

Note 28. Financial Instruments

Net Fair Values

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

Notes to the financial statements (continued)

Note 28. Financial Instruments (continued)

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 balance sheet 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					
	2012 \$	2011 \$	2012 \$	2011 \$	2012 \$	2011 \$	2012 \$	2011 \$	2012 \$	2011 \$	2012 %	2011 %
Financial Assets												
Cash and cash equivalents	134,849	267,367	307,917	194,429	-	-	-	-	150	150	5.56	5.48
Receivables	-	-	-	-	-	-	-	-	86,385	73,131	N/A	N/A
Financial Liabilities												
Interest bearing liabilities	-	-	4,968	4,968	4,284	8,253	-	-	-	-	7.74	7.74
Payables	-	-	-	-	-	-	-	-	37,836	29,722	N/A	N/A

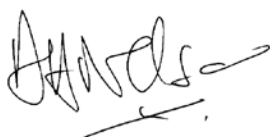
Directors' declaration

In accordance with a resolution of the Directors of Clifroy 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 2012 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 AASB124 Related Party Disclosures and the Corporations Regulations 2001.

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



Adrian Howard Nelson,
Chairman

Signed on the 5th of September 2012.

Independent audit report



Independent auditor's report to the members of Clifroy Limited

Report on the financial report

We have audited the accompanying financial report of Clifroy Limited, which comprises the balance sheet as at 30 June 2012, statement of comprehensive income, 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 of the company are responsible for the preparation and presentation of the financial report in accordance with Australian Accounting Standards and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making fair accounting estimates that are reasonable in the circumstances. In note 1, the directors also state in accordance with the Accounting Standard AASB 101 Presentation of Financial Statements that the financial statements comply with International Financial Reporting Standards.

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 our 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, we consider internal controls relevant to the entity's preparation and 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 performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the company's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Liability limited by a scheme approved under Professional Standards Legislation. ABN: 51 061 795 337.

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Independent audit report (continued)

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written auditor's independence declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report and the remuneration disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's opinion on the financial report

In our opinion:

- 1) The financial report of Clifroy Limited is in accordance with the *Corporations Act 2001* including giving a true and fair view of the company's financial position as at 30 June 2012 and of its financial performance and its cash flows for the year then ended and complying with Australian Accounting Standards and the Corporations Regulations 2001.
- 2) The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Clifroy Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.



Graeme Stewart
Andrew Frewin Stewart
61 Bull Street Bendigo Vic 3550

Dated: 5 September 2012

NSX report

Clifroy Limited is a public Company incorporated in Australia and listed on the National Stock Exchange of Australia (NSX).

Shareholding

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	Number of shares held
1 to 1,000	169	111,809
1,001 to 5,000	97	332,602
5,001 to 10,000	22	193,501
10,001 to 100,000	13	229,101
100,001 and over	0	0
Total shareholders	301	867,013

Equity securities

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

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

There are 9 shareholders holding less than a marketable parcel of shares (\$500 in value).

There are no restricted securities on issue.

All shares on issue are ordinary shares fully paid to \$0.90 per share. There are no unquoted equity securities.

Ten largest shareholders

The following table shows the 10 largest shareholders.

Shareholder	Number of fully paid shares held	Percentage of issued capital
Mr Brendan Mitchell <Mitchell Leighton A/C>	20,000	2.307
Casconsulting Pty Ltd <Lightfood Retire Fund A/C>	20,000	2.307
Rotary Club Collingwood Inc	20,000	2.307
Mr Owen Beaton & Mrs Roslyn Beaton <Not the Cobden B/F S/F A/C>	20,000	2.307
Mrs Joy Lorraine Dale & Mr Russel James Dale	20,000	2.307
David Parsons Super Nominees Pty Ltd	20,000	2.307
Martrak (Vic) Pty Ltd	20,000	2.307
Deep Green Enterprises Pty Ltd	16,600	1.915

NSX report (continued)

Ten largest shareholders (continued)

Shareholder	Number of fully paid shares held	Percentage of issued capital
Mr Adrian H Nelson & Ms Glenda M Lindsay	15,001	1.730
*Roxel Cape Pty Ltd <Employees Super Fund A/C>	15,000	1.730
*Dr Joanne Finkelstein	15,000	1.730
	186,601	21.52

*Equal tenth largest shareholder

Registered office and principal administrative office

The registered office of the company is located at:

101-103 Queens Parade,
Clifton Hill VIC 3068
Phone: (03) 9482 9040

The principal administrative office of the company is located at:

101-103 Queens Parade,
Clifton Hill VIC 3068
Phone: (03) 9482 9040

Security register

The security register (share register) is kept at:

Boardroom Pty Limited
GPO Box 3993,
Sydney NSW 2001
Phone: (02) 9290 9600

Company Secretary

Michelle Kellie Burns has been the Company Secretary of Clifroy Limited for 7 years. Michelle's qualifications and experience include experience in program management, project management and business analysis in the telecommunications and financial services sectors. Her qualifications include a Bachelor of Electrical Engineering (Communications) from University of Melbourne, a Master of Business Administration degree and have a PRINCE2 Project Management Practitioner qualification.

Corporate governance

The company has implemented various corporate governance practices, which include:

- (a) The establishment of a governance & audit committee. Members of the audit committee are Michelle Kellie Burns, Adrian Howard Nelson, Yann Burden and Peter Raymond Hille.
- (b) Director approval of operating budgets and monitoring of progress against these budgets;
- (c) Ongoing Director training; and
- (d) Monthly Director meetings to discuss performance and strategic plans.

NSX report (continued)

Annexure 3

There are no material differences between the information in the company's Annexure 3 and the information in the financial documents in its Annual Report.

5 Year summary of performance

	2008 \$	2009 \$	2010 \$	2011 \$	2012 \$
Gross revenue	547,979	660,318	836,063	1,006,583	1,113,053
Net profit before tax	-232	54,991	155,857	201,245	40,937
Total assets	566,871	602,154	745,646	831,186	799,154
Total liabilities	52,315	47,472	79,361	69,939	76,559
Total equity	514,556	554,682	666,285	761,247	722,595



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