

# 2008 annual report



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# Chairman's report

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For year ending 30 June 2008

## Summary

2008 has been a very busy and exciting year. It was capped off by a memorable National **Community Bank**<sup>®</sup> Conference which celebrated 10 years of **Community Bank**<sup>®</sup>, and coincided with the 150th anniversary of the establishment of the organisation which is now proudly known as "The Bendigo".

At Kew East, we are now in our seventh year of providing banking and other financial services to our local community. We are beginning to have a significant impact on the community around us, through sponsorships, community grants, dividend payments and networking activities which are strengthening community ties. Some of these activities are detailed further in this report.

The last twelve months has been a period of unprecedented growth in our business. We reached the \$100 million mark during December, then quickly surpassed that to end the year with \$116.5 million. Net growth in business was over \$24 million, more than double what we budgeted for.

This solid business position generated revenue of \$974,000. Operating expenses were \$656,000, which provided a net operating profit before tax of \$318,000. From this profit we paid dividends of \$57,900 and set aside \$50,000 for our 2008 Community Grants.

In recognition of these achievements, our branch was awarded Branch of the Year within our region. Congratulations to George Prodromidis, Branch Manager, and all our staff for such a fine effort.

## Personnel

During the year our Chairman of the last four years, John McConnell, stepped down from this position. John continues on the Board as Chair of the Audit & Risk Committee, so we have not lost his valuable experience altogether.

Our Company Secretary of seven years, Robert Ball, resigned during the year. Robert has been a keen supporter of the **Community Bank**<sup>®</sup> concept, and our branch in particular. We will miss his genial wisdom, and wish him well. Shane Pappas has taken over as Company Secretary. Shane also heads our Nominations and Remunerations Committees.

I stepped into the role of Chairman early in 2008, and have passed the baton of Treasurer to one of our newest Board members, Mark Heffernan. Mark comes to us with a wealth of experience in accounting and an involvement with a Credit Union. He has embraced the **Community Bank**<sup>®</sup> ethos and we look forward to his future input.

The final change to the Board was in September, when we were joined by Brad Miles who has spent several years on our Community Grants committee as our community member.

We have also welcomed our Marketing Consultant, De Fraser. De has a Masters of Marketing, and in her final year worked on a research project with Bendigo Bank to investigate the value of sponsorship spending.

# Chairman's report continued

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She has assisted Shona MacInnes in redeveloping our Sponsorship program, which was successfully relaunched in May this year, and continues to work on building our relationships with our sponsored groups. She also organised our information evening for our 2008 Community Grants program, and has plans under way for future business and community information sessions.

## Sponsorships and grants

Its good to stop and take stock occasionally of just what we have been able to reinvest into the community. The following table recaps our history of Sponsorship and Community Grant spending.

Financial Year	Grants	Sponsorships	Donations	Total
2002/03			6,000 <sup>1</sup>	6,000
2003/04				0
2004/05		4,340		4,340
2005/06	6,400	15,170		21,570
2006/07	59,400 <sup>2</sup>	7,075		66,475
2007/08	50,000 <sup>3</sup>	36,750 <sup>4</sup>		86,750
<b>Total</b>	<b>115,800</b>	<b>63,335</b>	<b>6,000</b>	<b>185,135</b>

1. The \$6,000 Donations made in 2002/03 were provided by Bendigo Bank in recognition of growth in the Company's business in the first year or two.
2. During 2006/07 we made grants of \$18,500 to community groups, and also made a contribution of \$40,900 to the Community Enterprise Foundation (CEF), a charitable body established by Bendigo Bank to assist **Community Bank**<sup>®</sup> branches with their Grants programs. Of this amount, \$26,552 was actually distributed to community groups we nominated to CEF during our 2007 Community Grants program.
3. During 2007/08 we made a further contribution of \$50,000 towards our 2008 Community Grants program. We currently have a balance of \$61,114 with CEF, which we expect to use by the end of this year.
4. Our current sponsorship program runs for three years. We expect to spend another \$54,000 in the coming two years to complete that program.

## Sponsorships

We relaunched our sponsorship program this year, with the aim of covering all sporting groups which use the two grounds close to our branch, plus our three local primary schools. We have some valuable partnerships developing from this initiative.

## Community Grants

Our Community Grants money has been used for a wide variety of purposes over the years. These include a community garden at Kew Neighbourhood Learning Centre, a Chinese garden for Kew High School, a scholarship for research into brain injury, a trailer for Kew Band, garden tools for Friends of Glass St Creek Parklands, landscaping for Studley Park Kindergarten, toys and equipment for playgroups and toy libraries, emergency funds for the Kew High School chaplain, marimbas for Kew East Primary School, a history of

# Chairman's report continued

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Boroondara (Kew) Cemetary, and funds to assist Kew Historical Society with their efforts to save Kew Court House.

We look forward to the new projects and programs we will be funding this year.

## Dividends

Our returns to shareholders have also been substantial, as can be seen in this table:

Financial Year	Interim ¢ per share	Interim \$	Final ¢ per share	Final \$	Total \$
2004/05	2	9,650	3	14,475	24,125
2005/06	3	14,475	3 (f)	14,475	28,950
2006/07	5 (f)	24,125	6 (f)	28,950	53,075
2007/08	6 (f)	28,950	8 (f) 2 (f) special	48,251	77,201

(f) indicates dividend was franked.

The special dividend is to recognise the outstanding year we have had.

## Broader community involvement

In 2007, the Mayor of Boroondara established a Partnership Forum, to enable all levels of Government (local, State and Federal), **Community Bank**<sup>®</sup> (as providers of funding), Rotary Clubs (as providers of manpower) and Foundation Boroondara ( a charitable body established by the City of Boroondara) to meet together on a regular basis to identify community projects which may require input from a number of groups in order to achieve more than one organisation working alone could do.

To date, there have been useful discussions centring mainly on community needs within Boroondara. Several possible projects have been identified and we look forward to working in this expanded sphere of our local community.

One of the projects brought to our attention came from the Youth Action Committee of Foundation Boroondara, and is known as The Kokoda Project. A small number of disadvantaged young people, together with support crew, have tackled the Kokoda Track for a week during September. Their preparation included learning about the significance of this trail for the nation of Australia, discovering the spirit of Kokoda by meeting veterans and being assigned the story of one fallen soldier each to trace along the track, being trained in physical fitness by the Hawthorn Football Club, and learning how to use a camera and how to write and present a report of their experiences.

The objectives of the project were to develop leadership, and a sense of citizenship and community in each of the participants.

Our involvement was providing the cost of one young person, a donation which was matched by the Australian Government, so effectively the cost of the support person for the young trekker was also provided.

We will hear more about this trip during our AGM.

## Chairman's report continued

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### **Service excellence award**

Marie Briggs, one of our longest serving staff members, recently won an award for service excellence. This award was established four years ago by Kew on Yarra, a local rotary club, and now is jointly sponsored by the City of Boroondara. This year, over 375 people or businesses from small regional shopping centres within Boroondara were nominated. Marie was one of three Regional Winners.

Although not the final winner, it was a great honour for Marie to have been selected as a Regional Winner. Congratulations Marie, to De, who arranged for Marie's nomination, and to George and all the staff who work so hard year round at being providers of excellent service.

### **Here for good!**

By now it has become obvious to all, supporters and initial detractors alike, that the **Community Bank®** concept as a movement, and Kew East **Community Bank®** Branch in particular, are here for good.

That is to say, we are here for the long term.

It is also to say, we are here to contribute positively to community well-being.

My thanks to each and every Board member for their enthusiasm and support, to each of the staff for demonstrating "the Bendigo way" to everyone who walks through our door, and to Bendigo for their ceaseless work in promoting and encouraging the **Community Bank®** movement.



**Sue Allen**  
**Chairman**

# Manager's report

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For year ending 30 June 2008

It gives me great pleasure to provide this, my seventh annual report.

The past financial year has seen the Kew East **Community Bank**<sup>®</sup> Branch continue to steam ahead with solid growth. The results have been outstanding given the maturity of the branch. Moving into our eighth year of business and still achieving development at this level confirms that we are strong, successful and growing rapidly. We value the community's support, trust and belief in what our **Community Bank**<sup>®</sup> branch is striving to achieve.

Last year, I reported business growth as at 30 June 2007 (deposits and loans) of \$6.3M. This year's figure has seen us pass that magical milestone of \$100M, to close a total book size of \$116.5M. Net growth for the year was over \$24M in new business written. The year's growth enabled us to win the Regional Branch of the Year award.

I would like to acknowledge the outstanding efforts of our staff – Marie, Elie, Jenny, Glenda and Di for their friendly, courteous and professional service which is a key element to the success of our branch.

This financial year will provide challenges as the competition increases within the banking environment, however, I am confident that with the support of our shareholder and customer advocacy, who continue to spread the word, our success will not dwindle.

On behalf of the team and myself, I thank all of you who have supported the branch and made our **Community Bank**<sup>®</sup> branch as strong as it is.

The value of our association with our shareholders, local clubs and community groups cannot be understated. I ask that you continue to tell all your friends about the **Community Bank**<sup>®</sup> experience. In doing so you will ensure that your **Community Bank**<sup>®</sup> branch will continue to grow and everyone in the wider community will benefit.



**George Prodromidis**  
**Manager**

# Directors' report

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For year ending 30 June 2008

The Directors present their report together with the financial statements of Kew East Financial Services Ltd ("the Company") for the year ended 30 June 2008 and the Auditors' report thereon.

## 1. Directors in office

The Directors in office at any time during or since the end of the period are:



### Sue Allen

- Sue Allen, in office 5 years
- Chair, appointed 4/2/08
- Dip Bus Studs (Acc); Dip Fin Planning; CPA (FPS); CA, CFP® ; MAICD
- Runs own financial planning business



### Rod Albury

- Rod Albury, in office 4 years
- T.P.T.C; B Ed; Dip Art; F.R.M.I.T
- Retired, former school principal
- Member of Kew Community Festival Committee



### Allen Borella

- Allen Borella, in office 7 years
- Runs own automotive business



### Ken Franks

- Ken Franks, in office 7 years
- Land Surveyor
- Property investor
- Past chair of Harp Village Business Association



### Mark Heffernan

- Mark Heffernan, appointed 7/7/08
- Treasurer, appointed 7/7/08
- CPA
- Runs own financial services business
- Former credit union treasurer



### Brad Miles

- Brad Miles, appointed 1/9/08
- B.Sc.(Hons); MEIANZ
- Accountable Officer of a statutory body
- Current and past office bearer of a number of local community organisations.



## Directors' report continued

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### Shona MacInnes

- Shona MacInnes, in office 1 year
- Past President of Kew Junior Football Club



### John McConnell

- John McConnell, in office 5 years
- Chair of Audit & Risk committee, appointed 3/3/08
- B.Com; Dip Banking; FAICD; FAIM; F Fin
- Former bank executive, Company Director



### Shane Pappas

- Shane Pappas, in office 5 years
- Company Secretary, appointed 2/6/08
- Chair of Nominations committee, appointed 3/3/08
- Chair of Remuneration committee, appointed 3/3/08
- Dip Eng (Mech); Masters of Business (Management)
- Operations Manager



### Eric Thomas

- Eric Thomas, in office 7 years
- Chair of Community Grants committee, appointed 18/7/05
- FCA
- Chartered accountant

Directors retiring during the year for whom no photo is available:

Name and position held	Qualifications	Experience
<b>Robert Ball</b> in office 7 years, resigned 2/6/08 Company Secretary, resigned 2/6/08	Barrister & Solicitor	Runs own legal practice
<b>Geoff Thomas</b> in office 3 years, retired 13/11/07		Funds management

Directors have been in office since the start of the period unless otherwise stated.

# Directors' report continued

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## **2. Company Secretary**

The Company Secretary is Shane Pappas.

## **3. Principal activities of the Company**

The Company is engaged in operating a banking franchise in Kew East. It provides retail and commercial banking and financial services, including deposit taking, lending, financing, insurance and financial planning facilities.

## **4. Results**

The profit of the Company, after providing for income tax of \$95,406 (2007:\$80,090), amounted to \$222,616 (2007: \$156,590) for the year.

## **5. Dividends paid or declared**

A final dividend for 2007 of six cents per share, totalling \$28,951, was paid on 30th November 2007. This dividend was fully franked.

An interim dividend for 2008 of six cents per share, totalling \$28,951 was paid on 30th April 2008. This dividend was fully franked.

A final dividend for 2008 of eight cents per share, totalling \$38,600, plus a special dividend of two cents per share, totalling \$9,650 are proposed to be paid. These dividends will be fully franked.

## **6. Review of operations**

The Company continued its banking operations for the year ended 30 June 2008. Business is still growing and profits are steadily increasing.

Grants of \$50,000 (2007: \$59,409) have been paid to or on behalf of local community groups.

## **7. Events Subsequent to balance date**

There has not arisen in the interval between the end of the year and the date of this report any other matter of circumstance, in the opinion of the Directors of the Company, that has 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 the subsequent financial year.

## **8. Future developments**

The Company expects to continue offering banking and financial services to the community in Kew East and surrounding areas. The Directors are not aware of any specific developments which are likely to have a significant effect on the operations of the Company or the expected results of those operations.

## **9. Directors' insurance**

During the year, the Company has paid premiums to insure the Directors and Officers of the Company in respect of liabilities to other persons that may arise as a result of their position as Directors or Officers of the Company. The amount of the premiums and nature of the liabilities are subject to a confidentiality clause in the insurance policy.

# Directors' report continued

## 10. Related party transactions

An entity associated with Sue Allen has received payments of \$4,400 (2007: \$10,250) during the year for accounting services rendered on commercial terms and conditions.

No other Director has received a payment.

## 11. Directors meetings

Number of meetings held and attended during the financial year:

	Board		Committees							
			Audit & risk		Community grants		Nominations		Remuneration	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
John McConnell	11	8	1	1			2	2		
Sue Allen	11	9	1	1	1	1				
Shane Pappas	11	9					2	2	2	2
Robert Ball	11	10								
Rod Albury	11	10			4	4				
Allen Borella	11	8							2	2
Ken Franks	11	10								
Geoff Thomas	5	5								
Eric Thomas	11	11	1	0	4	4				
Shona MacInnes	11	8								
Mark Heffernan	0	0	0	0						
Brad Miles	0	0			4	4				

Note that Mark Heffernan and Brad Miles were appointed as Directors after the end of the financial year, and were not eligible to attend Board meetings during the financial year. Brad Miles was our community member of the Community Grants Committee. The four meetings he attended were in that capacity.

## 12. Directors' shareholdings

Shares in the Company owned by Directors or associated entities are:

Name	Shares held	Name	Shares held
John McConnell	-	Sue Allen	6,000
Shane Pappas	10,000	Robert Ball	2,001
Rod Albury	-	Allen Borella	501
Ken Franks	5,001	Geoff Thomas	14,001
Eric Thomas	1,001	Shona MacInnes	-
Mark Heffernan	-	Brad Miles	500

# Directors' report continued

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## **13 Corporate governance**

The following corporate governance principles have been determined by the Australian Stock Exchange as being minimum standards for public companies to adhere to. Under each principle are set out the means by which the Company is promoting compliance within the Board and the organisation with these principles.

### **Principle 1 – Lay solid foundations for management and oversight**

The Company recognises the need for the provision of strategic direction and sound oversight by the Board, to enable management to carry out its responsibilities within broadly defined parameters and without the day to day intervention of the Board.

The Company has adopted policies which define the different roles of Board and management, and which govern the way in which the Board discharges its duties. Additionally, the Franchise Agreement which governs the Company's operations as a Bendigo Bank **Community Bank**<sup>®</sup> branch also sets out roles and responsibilities of both the Board and management.

Matters reserved for the Board include provision of strategic leadership for the Company, appointment, assessment and remuneration of the Branch Manager (CEO), establishment of sub-committees and working groups to balance the workload of the Board, regular assessment of Board performance, recruitment of new Directors, provision of financial oversight of the Company, including setting annual budgets and CEO Key Performance Indicators (KPI's), and approving annual and half-yearly accounts.

Matters delegated to the CEO include recruitment, appointment, training and assessment of staff, including setting annual KPI's and conducting six-monthly performance reviews, marketing the Company's services to prospective customers and community groups, being pro-actively engaged with sponsored groups and the day-to-day running of the branch. This includes overseeing the achievement of budget targets for business growth and ensuring expenditures remain within budget.

During the reporting period, two performance evaluations of the CEO's activities were undertaken. A half-yearly review based on Bendigo Bank criteria, and a full year review based on a combination of Bendigo Bank criteria and Company KPI's formed the basis of determining the annual bonus achieved by the CEO.

### **Principle 2 – Structure the Board to add value**

The Board is composed of ten individuals who each have experience in running small businesses or as Managers in large corporations. The specific skills and qualifications of each Director are set out under Item 1 of this Directors' Report.

All Directors are independent, including the chairman. No Director is a substantial shareholder of the Company, no Director has been employed by the Company, and no Director or entity with which a Director is associated has a material contract with the Company. While the CEO attends meetings, he does not have a vote in Board decision-making.

Directors are appointed for three year terms, and are able to offer themselves for re-election at the expiration of each term. All Directors undergo training in the role of Director, and their legal and fiduciary responsibilities.

## Directors' report continued

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The Board conducts written annual performance reviews using publicly available material. These reviews are collated to highlight any systemic weaknesses in the procedures of the Board, in which case, suitable corrective action is taken.

The Board has four standing sub-committees.

The Audit & Risk Committee has been established to provide assistance to the Board in fulfilling its corporate governance and oversight responsibilities in relation to the Company's financial reporting, internal controls, risk management processes and external audit functions. It consists of four Directors, each of whom has either accounting or risk assessment experience. The names of those Directors and their attendance at meetings is set out under Item 11 of this report.

The Community Grants Committee has been established to assist the Board in fulfilling its obligations to share the Company profits with community groups. These obligations arise under the Franchise Agreement with Bendigo Bank Ltd, which governs the operations of the Company as a branch of Bendigo Bank Ltd. The committee consists of two Directors, whose names and attendance at meetings are set out under Item 11 of this report, and one member of the local community. (At the date of this report, the local community member has been appointed as a Director of the Company).

The Nominations Committee has been established to regularly review the skill set of the Board, make recommendations regarding skills considered to be necessary for the Board to efficiently fulfil its various obligations, to source new Directors and to review candidates for Directorship which have been proposed by Board members or the CEO. It consists of two Directors, whose names and attendance at meetings are set out under Item 11 of this report.

The Remunerations Committee has been established to conduct the annual review of the CEO's salary package, propose the CEO's KPI's and bonus structure for the coming year in accordance with budget targets, and oversee staff reviews conducted by the CEO. It consists of two Directors, whose names and attendance at meetings are set out under Item 11 of this report.

### **Principle 3 - Promote ethical and responsible decision-making**

The Board has a Code of Conduct and Share Trading policy.

The Code of Conduct requires Directors to act honestly and in good faith at all times, to declare any interests which may result in a conflict of duties, to be diligent in attending Board meetings and in setting aside sufficient time to be conversant with matters which will require decisions during the meeting, to actively avoid any deception or unscrupulous behaviour in the performance of their duties, to maintain confidentiality of Board matters at all times, to recognise and act in accordance with the fiduciary nature of their duties, to abide by Board decisions once they are made and to avoid any behaviour which may denigrate or harm the image of the Company, the **Community Bank**<sup>®</sup> network or Bendigo Bank.

The Share Trading policy restricts Directors or their associates from dealing in Company shares except for a period of one month following the announcement to the Bendigo Stock Exchange of annual or half-yearly profit, and one month following the Annual General Meeting (AGM).

### **Principle 4 – Safeguard integrity in financial reporting**

The Board has established an Audit & Risk Committee with the mandate to oversee the Company's financial reporting and external audit functions, and to recommend the appointment, or removal, of the Company's

## Directors' report continued

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Auditor. The committee consists of four Directors, all of whom are independent and each of whom has either accounting or risk assessment experience. The members of this committee, their qualifications and their attendance at meetings have been set out under Items 1 and 11 of this report.

### **Principle 5 – Make timely and balanced disclosure**

The Company is listed on the Bendigo Stock Exchange (BSX), and complies with the disclosure requirements of that body. Matters announced to BSX include annual and half-yearly results, financial statements and annual reports, appointments, resignations and retirements of Directors and Officers, forthcoming dividends, and notices and results of AGM's. It is the responsibility of the Company Secretary to ensure that the required announcements are made within the required timeframes.

### **Principle 6 – Respect the rights of shareholders**

The Company recognises that shareholders have the right to receive information about the Company in a manner which is suitable for them. As well as providing financial and Board information to the BSX, the Company ensures it posts relevant information to shareholders regularly. This information includes annual reports, notice of AGM, proxy forms and information for voting at the AGM, annual and half-yearly profit results and dividend notifications (amount, books closing and payment dates), newsletters setting out Company activities within the community, and any other information which a shareholder would be deemed to reasonably require.

### **Principle 7 – Recognise and manage risk**

The Board has established an Audit & Risk Committee with the mandate to ensure that the Company maintains quality internal and external reporting processes both financial and non-financial, to identify and mitigate areas of potential risk, to oversee compliance with applicable laws and regulations and Company standards and policies, including the Risk Management Policy, and to monitor Bendigo Bank's periodic reviews of Branch operational and lending practices. The members of this committee, their qualifications and their attendance at meetings have been set out under Items 1 and 11 of this report.

### **Principle 8 – Remuneration report**

The Board has established a Remuneration Committee to assist it to effectively carry out this function, with the mandate to conduct an annual review of the CEO's salary package, propose the CEO's KPI's and bonus structure for the coming year in accordance with budget targets, and oversee staff reviews conducted by the CEO. It consists of two Directors, whose names and attendance at meetings are set out under Item 11 of this report.

For the year ended 30 June 2008, the Company has paid or provided a salary to its CEO, including bonus and superannuation, of \$117,109 (2007: \$106,273).

The bonus is paid according to a pre-determined matrix of performance outcomes, including achieving budget for growth in the business, and results of an annual performance review conducted by Bendigo Bank Ltd. The performance review focuses on matters such as the quality of our customer relationships, the standing of the Company in the local community and the level of service provided by our staff. These matters all contribute to the Company's growth and profitability.

## Directors' report continued

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During determination of the CEO's KPI and bonus for the year ended 30 June 2008, the decision was taken to significantly increase the proportion of the total salary package which would be paid according to performance outcomes. Hence the bonus for the year ended 30 June 2008 represented 12.2% (2007: 2.5%) of salary.

Staff employed in the branch are paid under an Employment Agreement which runs for three years and reflects pay and conditions negotiated between Bendigo Bank Ltd and its staff.

The Company does not pay remuneration to Directors for their activities as Directors.

### **14. Non-audit services**

The Directors are satisfied that the provision of non-audit services by the external Auditor during the year is compatible with the general standard of independence for Auditors imposed by the Corporations Act 2001. The Directors are satisfied that the services disclosed below did not compromise the external Auditor's independence for the following reasons:

- All non-audit services are reviewed and approved by the Audit & Risk committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the Auditor; and
- The nature of the services provided do not compromise the general principles relating to Auditor independence as set out in the Institute of Chartered Accountants in Australia Professional Statement F1: Professional Independence.

The following fees for non-audit services were paid/ payable to the external Auditors during the year ended 30 June 2008: \$Nil (2007: \$Nil).

### **15. Auditors independence declaration**

The Auditor's independence declaration for the year ended 30 June 2008 has been received and can be found on page 15 of this financial report.

### **16. Proceedings on behalf of the Company**

No person has applied for leave of a court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the half year.

Dated at Melbourne, Victoria on 25 September, 2008.

Signed in accordance with a resolution of the Directors:



**Sue Allen**  
**Director**

# Auditor's independence declaration

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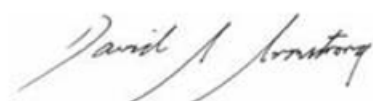
**AUDITOR'S INDEPENDENCE DECLARATION  
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001  
TO THE DIRECTORS OF KEW EAST FINANCIAL SERVICES LTD**

**Auditors Independence Declaration**

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2008 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporation Act 2001 in relation to the audit; and
- (ii) no contravention of any applicable code of professional conduct in relation to the audit.

**Armstrong Partners**



**David A Armstrong  
Partner**

Melbourne  
25 September 2008



# Financial statements

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## Income statement For year ending 30 June 2008

	Note	2008 \$	2007 \$
Revenue from ordinary activities	2(b)	973,690	821,893
Depreciation and impairment	2(a)	(44,289)	(55,680)
Employee costs		(337,623)	(294,212)
Community grants		(50,000)	(59,409)
Other expenses from ordinary activities		(223,756)	(175,912)
<b>Profit before income tax expense</b>		<b>318,022</b>	<b>236,680</b>
Income tax expense	3	(95,406)	(80,090)
<b>Net profit for the year</b>		<b>222,616</b>	<b>156,590</b>
Earnings per share (cents)		46.1	32.5
Dividends per share (cents)	4	16.0	11.0

The accompanying notes form part of these financial statements.

## Financial statements continued

### Balance sheet As at 30 June 2008

	Note	2008 \$	2007 \$
<b>Current assets</b>			
Cash	6	604,522	386,778
Receivables	7	100,123	71,599
Investments	8	10,900	-
<b>Total current assets</b>		<b>715,545</b>	<b>458,377</b>
<b>Non-current assets</b>			
Property, plant and equipment	9	110,921	133,359
Other assets	10	54,619	60,810
<b>Total non-current assets</b>		<b>165,540</b>	<b>194,169</b>
<b>Total assets</b>		<b>881,085</b>	<b>652,546</b>
<b>Current liabilities</b>			
Accounts payable	11	115,453	57,702
Provisions	13	31,671	26,440
<b>Total current liabilities</b>		<b>147,124</b>	<b>84,142</b>
<b>Non-current liabilities</b>			
Other liabilities	12	10,250	13,250
Provisions	13	22,713	18,870
<b>Total non-current liabilities</b>		<b>32,963</b>	<b>32,120</b>
<b>Total liabilities</b>		<b>180,087</b>	<b>116,262</b>
<b>Net assets</b>		<b>700,998</b>	<b>536,284</b>
<b>Equity</b>			
Issued capital	14	482,510	482,510
Retained earnings (losses)	5	218,488	53,774
<b>Total equity</b>		<b>700,998</b>	<b>536,284</b>

The accompanying notes form part of these financial statements.

## Financial statements continued

### Statement of cash flows As at 30 June 2008

	Note	2008 \$	2007 \$
<b>Cash flows from operating activities</b>			
Receipts from customers		1,017,809	874,958
Interest received		21,588	16,224
Payments to suppliers & employees		(691,001)	(641,052)
Community grants paid		(50,000)	(59,409)
<b>Net cash provided by operating activities</b>	<b>16</b>	<b>298,396</b>	<b>190,721</b>
<b>Cash flows from investing activities</b>			
Franchise renewal fee			(50,000)
Managed fund investment	8	(15,000)	-
Payment for property, plant & equipment		(7,750)	-
<b>Net cash provided by (used in) investing activities</b>		<b>(22,750)</b>	<b>(50,000)</b>
<b>Cash flows from financing activities</b>			
Dividends paid	4	(57,902)	(38,600)
<b>Net cash provided by (used in) financing activities</b>		<b>(57,902)</b>	<b>(38,600)</b>
<b>Net increase in cash held</b>		<b>217,744</b>	<b>102,121</b>
Cash at beginning of period		386,778	284,657
<b>Cash at end of period</b>	<b>6</b>	<b>604,522</b>	<b>386,778</b>

The accompanying notes form part of these financial statements.

## Financial statements continued

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### Statement of changes in equity As at 30 June 2008

	<b>Ordinary Shares \$</b>	<b>Retained Earnings \$</b>	<b>Total \$</b>
Balance at 1 July 2006	482,510	(64,216)	418,294
Profit attributable to members of the Company	-	156,590	156,590
Dividends paid	-	(38,600)	(38,600)
<b>Balance at 30 June 2007</b>	<b>482,510</b>	<b>53,774</b>	<b>536,284</b>
Profit attributable to members of the Company	-	222,616	222,616
Dividends paid	-	(57,902)	(57,902)
<b>Balance at 30 June 2008</b>	<b>482,510</b>	<b>218,488</b>	<b>700,998</b>

The accompanying notes form part of these financial statements.

# Notes to the financial statements

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For year ending 30 June 2008

## Note 1. Statement of significant accounting policies

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. The financial report covers Kew East Financial Services Limited, a public Company, listed on the Bendigo Stock Exchange and incorporated and domiciled in Australia.

The financial report of Kew East Financial Services Limited complies with all Australian equivalents to International Reporting Standards (AIFRS) in their entirety.

### **Basis of preparation**

The following is a summary of the material accounting policies adopted by the Company in the preparation of the financial report.

### **Reporting basis and conventions**

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

### **Income tax**

The Company adopts the liability method of tax-effect accounting whereby the income tax expense is based on the operating profit adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income, are brought to account as either provision for deferred income tax or as a deferred tax asset at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Deferred tax assets are not brought to account unless realisation of the asset is assured beyond any reasonable doubt.

The amount of assets brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the Company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

# Notes to the financial statements continued

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## Note 1. Statement of significant accounting policies (continued)

### **Property, plant and equipment**

Property, plant and equipment is carried at cost or at independent or Directors' valuation, less where applicable any accumulated depreciation or impairment. The carrying amount of property, plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of expected net cash flows which will be received from the asset's employment and subsequent disposal.

The depreciable amount of all fixed assets is depreciated over their estimated useful lives to the Company commencing from the time the asset is held ready for use.

Depreciation rates being used are:

Plant & equipment	15% pa
Office furniture & equipment	10% pa
Fixtures & fittings	5% pa

### **Intangibles**

Franchise renewal fee is being amortised straight line over 5 years (term of renewal agreement). An impairment test has been conducted with no further writedown in the value of the franchise asset necessary.

### **Investment**

The investment is carried at market value, where this is below cost. Impairment is recognised as an expense.

### **Cash**

For the purposes of the statement of cash flows, cash includes cash on hand and in at call deposits with banks or financial institutions, and investments in money market instruments maturing within less than twelve months.

### **Employee entitlements**

Provision is made for the Company's liability for employee entitlements arising from services rendered by employees to balance date. Employee entitlements expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and long service leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Other employee benefits later than one year have been measured at the present value of the estimated future cash flows to be made for those benefits.

Contributions are made by the Company to an employee's superannuation fund and are charged as expenses when incurred.

# Notes to the financial statements continued

## Note 1. Statement of significant accounting policies (continued)

### Revenue recognition

Revenue from the provision of services to customers is recognised in the period during which the service was provided. Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

### Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

	2008 \$	2007 \$
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## Note 2. Profit from ordinary activities

### (a) Profit (Loss) from ordinary activities before income tax has been determined after:

Charging as expense:

Movement in provisions:

Employee provisions	9,074	(500)
Depreciation of plant & equipment	20,422	35,445
Depreciation of office furniture & equipment	3,274	4,485
Depreciation of fixtures & fittings	6,493	4,917
Impairment of franchise fee	10,000	10,833
Impairment of investment	4,100	-
Community Grants	50,000	59,409

### (b) Revenue from ordinary activities:

Included in operating profit are the following items of operating revenue:

Interest	27,897	16,720
Banking income	945,793	805,173

## Notes to the financial statements continued

	2008 \$	2007 \$
<b>Note 3. Income tax expense</b>		
The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:		
Prima facie tax expense on profit from ordinary activities before income tax at 30%	95,406	71,002
Add tax effect of:		
Non-deductible items	-	7,050
Underprovision in prior year	-	2,038
<b>Income tax expense attributable to profit from ordinary activities</b>	<b>95,406</b>	<b>80,090</b>

## Note 4. Dividends

Dividends paid or proposed on ordinary shares:

Interim dividend, fully franked, paid for 2008 (6 cents per share) (2007: 5 cents per share)	28,951	24,125
Final dividend, fully franked, proposed but not recognised as a liability (8 cents per share) (2007: 6 cents per share)	38,600	28,950
Special dividend, fully franked, proposed but not recognised as a liability (2 cents per share) (2007: nil)	9,650	-
Franking credit balance:		
The amount of franking credits available at the end of the financial year, at 30%	123,866	51,525

## Note 5. Retained earnings

Retained profits (losses) at the start of the period	53,774	(64,216)
Net profit attributable to members of the Company	222,616	156,590
Dividends paid	(57,902)	(38,600)
	<b>218,488</b>	<b>53,774</b>



## Notes to the financial statements continued

	2008 \$	2007 \$
<b>Note 6. Cash</b>		
Cash at bank – operating	604,422	386,678
Cash on hand	100	100
	<b>604,522</b>	<b>386,778</b>

## Note 7. Receivables

### Current

Debtors	92,368	70,063
Prepayments	175	262
Accrued income	7,580	1,274
	<b>100,123</b>	<b>71,599</b>

## Note 8. Investments

Units in managed funds, at cost	15,000	-
Less impairment in value	(4,100)	-
	<b>10,900</b>	-

## Note 9. Property, plant and equipment

Plant & equipment, at cost	136,201	136,201
Less: accumulated depreciation	(119,090)	(98,669)
	<b>17,111</b>	<b>37,532</b>
Office furniture & equipment, at cost	32,240	32,240
Less: accumulated depreciation	(17,997)	(14,723)
	<b>14,243</b>	<b>17,517</b>
Fixtures & fittings, at cost	111,739	103,989
Less: accumulated depreciation	(32,172)	(25,679)
	<b>79,567</b>	<b>78,310</b>
	<b>110,921</b>	<b>133,359</b>

## Notes to the financial statements continued

	2008 \$	2007 \$
<b>Note 10. Other assets</b>		
<b>Non-current</b>		
Deferred tax asset	20,452	16,643
Intangibles – franchise renewal fees, at cost	50,000	50,000
Less: accumulated impairment	(15,833)	(5,833)
	<b>54,619</b>	<b>60,810</b>

## Note 11. Accounts payable

<b>Current</b>		
Accrued creditors	62,413	23,173
Company tax payable	37,728	15,604
GST payable	15,312	18,925
	<b>115,453</b>	<b>57,702</b>

## Note 12. Other liabilities

<b>Non-current</b>		
Deferred tax liability	10,250	13,250
	<b>10,250</b>	<b>13,250</b>

## Note 13. Provisions

<b>Current</b>		
Employee entitlements	31,671	26,440
<b>Non-current</b>		
Employee entitlements	22,713	18,870
	<b>54,384</b>	<b>45,310</b>

## Notes to the financial statements continued

	2008 \$	2007 \$
<b>Note 14. Issued capital</b>		
482,510 fully paid ordinary shares	482,510	482,510

### Note 15. Auditors' remuneration

- for auditing or reviewing the financial report	5,940	6,000
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### Note 16. Cash flow information

#### Reconciliation of cash flow from operations

#### With profit from ordinary activities after income tax

Profit from ordinary activities after income tax	222,616	156,590
Depreciation and impairment	44,288	55,680
<b>Change in operating assets and liabilities:</b>		
(Increase) decrease in trade debtors	(22,305)	(8,308)
(Increase) decrease in other receivables	(11,308)	(2,758)
(Decrease) increase in trade creditors	39,240	(14,216)
(Decrease) increase in other creditors and provisions	25,865	3,733
<b>Net cash inflow from operating activities</b>	<b>298,396</b>	<b>190,721</b>

### Note 17. Related party transactions

An entity associated with Sue Allen has received payments of \$4,400 (2007: \$10,250) during the financial period for accounting services rendered on commercial terms and conditions.

No other Director has received a payment.

### Note 18. Lease commitments

The Company has renewed an operating lease in respect of its business premises, with options to renew for two further terms. The terms are five years each. The next renewal date is 1/12/2011. Rent is currently \$38,900 plus GST. CPI increases are applied in December each year.

# Notes to the financial statements continued

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## Note 19. Capital commitments

There are no known capital commitments for Kew East Financial Services Ltd.

## Note 20. Contingent liabilities

There are no known contingent liabilities for Kew East Financial Services Ltd.

## Note 21. Segment reporting

Kew East Financial Services Ltd operates in the financial services sector where it provides banking and financial services to its customers. The Company operates in the geographic area of Kew East.

## Note 22. Events after balance date

No events have occurred between the end of the financial period and the signing of this report which would have impacted on the result for the year.

## Note 23. Financial instruments

### **(a) Financial instruments**

#### Derivative financial instruments

The Company does not utilise derivative financial instruments.

#### Unrecognised financial instruments

- Forward exchange contracts  
The Company does not utilise forward exchange contracts
- Interest rate swaps  
The Company does not utilise interest rate swap contracts

### **(b) 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.

### **(c) 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 the financial instruments entered into by the Company.

## Notes to the financial statements continued

### Note 23. Financial instruments (continued)

#### (d) Interest rate risk

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets & liabilities, is as follows:

Financial instrument	Floating interest rate		Fixed interest rate maturing in 1 year or less		Non-interest bearing		Weighted average effective interest rate	
	June 2008	June 2007	June 2008	June 2007	June 2008	June 2007	June 2008	June 2007
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Financial assets</b>								
Cash assets	494,673	283,636	109,749	103,042	100	100	6.00	5.00
Receivables	-	-	-	-	100,123	71,599		
<b>Total financial assets</b>	494,673	283,636	109,749	103,042	100,223	71,699		
<b>Financial liabilities</b>								
Payables	-	-	-	-	116,733	57,702		
<b>Total financial liabilities</b>	-	-	-	-	116,733	57,702		

# Directors' declaration

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1. In the opinion of the Directors of Kew East Financial Services Ltd (the "Company"):
  - (a) the financial statements and notes, set out on pages 16 to 28 are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the financial position of the Company as at 30 June 2008 and of its performance, as represented by the results of its operations and cash flows, for the year ended on that date: and
    - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations
  - (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.
2. The Directors have been given the declarations required by section 295A of the Corporations Act 2001 from the Chief Executive Officer and the Treasurer for the financial year ended 30 June 2008.

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



**Sue Allen**  
**Director**

Dated at Melbourne, Victoria on 25 September 2008.

# Independent audit report

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## Armstrong Partners

CHARTERED ACCOUNTANTS

KEW EAST FINANCIAL SERVICES LTD A.B.N.91 096 301 058

### INDEPENDENT AUDIT REPORT TO THE MEMBERS OF KEW EAST FINANCIAL SERVICES LTD

#### **Report on the financial report and the AASB124 remuneration disclosure contained in the directors' report**

We have audited the accompanying financial report of Kew East Financial Services Ltd (the company), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and the statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration.

We have also audited the remuneration disclosures contained in the directors' report under the heading "remuneration report" in page 9 of the directors' report and not in the financial report

#### **Directors' responsibility for the financial report and the AASB 124 remuneration disclosures contained in the directors' report**

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair 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 accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, the financial report complies with all Australian equivalents to International Reporting Standards (AIFRS) in their entirety.

The directors of the company are also responsible for the remuneration disclosures in the directors' report.

#### **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 the Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making these risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purposes 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.

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

# Independent audit report continued

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**Armstrong Partners**

## **Independence**

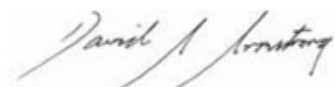
In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

## **Auditor's Opinion**

In our opinion:

- a. the financial report of Kew East Financial Services Ltd is in accordance with the *Corporations Act 2001*, including:
  - i. giving a true and fair view of the company's financial position as at 30 June 2008 and of its performance for the year ended on that date; and
  - ii. complying with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1; and
- c. the remuneration disclosures that are contained in page 9 of the directors' report comply with Section 300A of the Corporations Act 2001.

**Armstrong Partners**



**David Armstrong  
Partner**

Melbourne  
25 September 2008



# BSX report

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## Share information

In accordance with Bendigo Stock Exchange listing rules the Company provides the following information as at 11 September 2008, which is within six weeks of this report being sent to shareholders.

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

<b>Number of shares held</b>	<b>Number of shareholders</b>
1 to 1,000	153
1,001 to 5,000	76
5,001 to 10,000	13
10,001 to 100,000	-
100,001 and over	-

Each of the above shareholders is entitled to one 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 one vote. Normally holding more than 5% of total issued shares would create a substantial shareholder, but this is not applicable due to voting restrictions for the Company.

There is one shareholder 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 \$1 per share. There are no unquoted equity securities.

The following table shows the twenty largest shareholders.

## BSX report continued

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<b>Shareholder</b>	<b>Number of shares</b>	<b>Percentage of capital</b>
Fiona Margaret Cochrane	10,000	2
Bruce Diggles	10,000	2
Susan Diggles	10,000	2
P & M Gibbs Superannuation Fund	10,000	2
James Michael Hall	10,000	2
The Searle Executive Superannuation Fund	10,000	2
Avenal Super Fund No 3	10,000	2
Marjorie Irene White	10,000	2
Adrian Lawler & Karen Lawler	10,000	2
Longbourne Pty Ltd	9,000	1.8
Michael Vincent Keating	7,500	1.6
Geoffrey Bruce Thomas & Joan Erica Thomas	5,501	1
Kenneth George Franks	5,001	1
Susan Allen	5,000	1
Ian Atkinson & Laurel Atkinson	5,000	1
Ian Richard Buchan & Barbara Dianne Buchan	5,000	1
Kuen Hong Chan	5,000	1
Margaret Eileen Clements	5,000	1
Raymond Denis Clements	5,000	1
DiPalmas Restaurants Australia Pty Ltd	5,000	1

### **Registered office and principal administrative office**

The registered office of the Company is located at:

661A High Street,  
Kew East VIC 3102  
Phone (03) 9859 6799

The principal administrative office of the Company is located at:

661A High Street,  
Kew East VIC 3102  
Phone (03) 9859 6799

# BSX report continued

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## **Security register**

The security register (share register) is kept at:

Computershare Investor Services Pty Ltd  
Yarra Falls, 452 Johnston Street,  
Abbotsford VIC 3067

## **Other information**

Please refer to the Directors' report, within the annual report, for details of the Company Secretary and main corporate governance practices of the entity.

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





Kew East **Community Bank**<sup>®</sup> Branch  
661a High Street, Kew East VIC 3102  
Phone: (03) 9859 7699 Fax: (03) 9859 6944

Franchisee: Kew East Financial Services Limited  
661a High Street Kew, East VIC 3102  
ABN 91 096 301 058

[www.bendigobank.com.au](http://www.bendigobank.com.au)

Bendigo and Adelaide Bank Limited, The Bendigo Centre, Bendigo VIC 3550  
ABN 11 068 049 178. AFSL 237879. (BMPAR8012) (08/08)

