

Ku-ring-gai  
Financial Services Limited  
ABN 56 103 129 184

2006  
annual report



# Contents

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# Chairman's report



For the year ended 30 June 2006

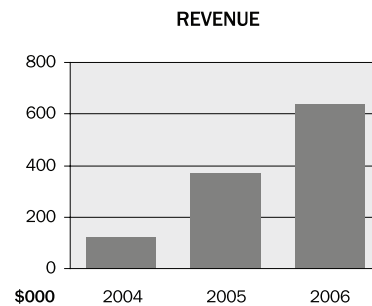
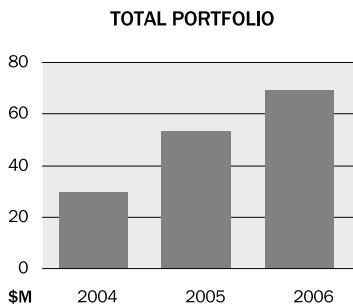
It is my pleasure to report on the progress of Ku-ring-gai Financial Services Limited (KFSL) during the year ended 30 June 2006.

## Operating results

As planned, your Directors and our staff have been focused on achieving the Board's twin fiscal 2006 financial performance goals for the company, namely to reach monthly profitability and to achieve a full-year profit.

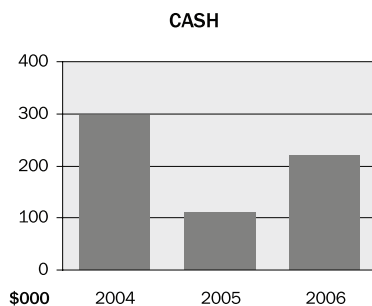
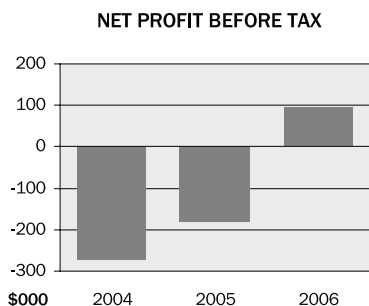
Our Turrumurra **Community Bank**<sup>®</sup> Branch finished the 2006 financial year with a total portfolio of **\$69.2 million** and **2765** customer accounts. These outcomes represent increases of \$16.7 million (31.8%) and 840 (43.6%) respectively over 30 June 2005.

As a result of this strong portfolio growth, revenue from ordinary activities grew from \$372,000 to \$638,000 during this period, an increase of \$266,000 (71.5%).



As indicated in the Directors' Report, Ku-ring-gai Financial Services Limited achieved a maiden pre-tax profit of \$95,593 during this period (\$183,130 loss in 2005). After provision for income tax the profit attributable to KFSL members for the year-ended 30 June 2006 was \$67,662 (\$137,307 loss in 2005).

One of the pleasing consequences from our attaining monthly profitability was the resultant strong improvement in our cash assets, as indicated below.



## Chairman's report continued

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### **Maiden dividend payment**

Your Directors have declared an unfranked dividend of 4 cents per share (at a cost of \$36,966.40) for the year ended 30 June 2006.

This dividend will be paid on 31 October 2006 in respect of all shares held at midnight 23 October 2006.

In declaring this dividend, your Directors were cognisant of the company's cash reserves, 2006 profitability and prospects for fiscal 2007.

### **Adding value to our community**

Despite still being in our "early days" of profitability, we continue to provide significant sponsorship or other financial support to numerous local clubs and community organisations.

Recipients of such support during fiscal 2006 included the Turramurra Bowling Club, Turramurra High School, Ku-ring-gai Philharmonic Orchestra, Warrawee Public School, Sacred Heart Catholic Primary School, Network North (a business network especially for women who work on the North Shore) and the Ku-ring-gai Business Forum. We also funded and undertook the much-needed restoration of the Turramurra Community Notice Boards located at each end of the footbridge at Turramurra Station.

Consistent with the motivation of your Board to breathe life back into our local precincts and local businesses, the Ku-ring-gai Business Forum (KBF) is "an initiative of the Turramurra **Community Bank**<sup>®</sup> Branch to promote and develop opportunities for local businesses to talk with one another and foster good relations within our community".

Buoyed by three successful KBF dinner events, two more "full-house" KBF dinner events were conducted during fiscal 2006, featuring Tim Pethick, the founder of Nudie Juice, and our Member for Ku-ring-gai Mr Barry O'Farrell, MP.

As your **Community Bank**<sup>®</sup> branch, we intend to significantly enhance our support of these and an expanded list of local community initiatives during the next two to three years. Indeed, the highly successful Upwey **Community Bank**<sup>®</sup> Branch in outer suburban Melbourne continues to provide our "inspiration". As a result of strong and sustained banking support from their local community, the Upwey **Community Bank**<sup>®</sup> Branch contributes more than \$100,000 per year into local community projects. Your KFSL Directors aspire to be in a position to provide similar support to our local community.

Your Directors also believe in investing time in the development of the youth of our community. Our Junior Observer Program provides year 11 students from the Turramurra High School Business Studies course with an opportunity to gain exposure and insights into the running of a small public company – from within our boardroom.

This program also encourages and helps to prepare the participants to serve their community on a voluntary basis in the future and develops a stronger sense of community spirit.

Our inaugural Junior Observers (Meredith McKeon and Daniel McMahon) have completed their final Junior Observer duties and are now focused on their HSC studies. Meredith and Daniel made such a strong impact on our Board that they have been formally appointed as "ambassadors" of the Turramurra **Community Bank**<sup>®</sup> Branch and will retain an on-going involvement with the branch in this new role and relationship.

## Chairman's report continued

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Following the successes achieved during the past year, we have now taken on a second intake of Junior Observers for 2006/7 (Joshua Cass and Alex Rusten).

### Outlook and aspirations

The Directors have budgeted for continued growth of our total portfolio and profitability during fiscal 2007.

Achievement of these financial performance goals is, of course, an essential prerequisite to meeting our expanded community engagement objectives and the payment of increased dividends to our shareholders.



2005/2006 youth observers Meredith McKeon and Daniel McMahon meet local MLA Barry O'Farrell

Building the overall business is something to which all shareholders can personally contribute. Indeed, we need all of our shareholders, local businesses, traders, residents, schools, clubs and associations to bring their banking business to Our Bank.

### Low Volume Market

Following deferral of the previously planned BSX listing due to financial considerations, the Directors are now investigating the ASIC-approved Low Volume Market as a superior alternative.

The Low Volume Market would provide a much cheaper framework for trading in KFSL shares and appears to offer a more suitable mechanism than the unlisted environment by providing a structured market to shareholders and achieving an appropriate level of compliance and governance.

### Directors contribution

The Directors met on a monthly basis during fiscal 2006, with the exception of December 2005, to plan and monitor the operations of our business. We also conducted our annual full-day strategy meeting in March 2006 to establish budgets, plans and priorities for the 2007 financial year.

At our third Annual General Meeting in November 2005, two new Directors were appointed. We duly welcomed new Directors Alexandra Russ and Jill Hill to our Board. Unfortunately Alexandra resigned from the Board in January 2006 due to work commitments, although she has continued to contribute to the company as a valued member of our finance committee. Joe Bollen was appointed to fill this casual vacancy in January 2006.

Three of our Directors, namely John Snelson, David Thomas and Chris Curran will stand down at our 2006 Annual General Meeting.

Shareholders will recall that John Snelson was the "founding father" of the Turrumurra **Community Bank**<sup>®</sup> Branch as the original visionary and inaugural Chairman of the TCB Steering Committee formed in October 2001. John became an inaugural Director when KFSL was formed in December 2002 and has been the convener of the Finance Committee from the inception of our Committee system.

David Thomas also attended the very first meeting of the TCB Steering Committee in 2001 and was Deputy Chairman for much of its operation. David was appointed to the KFSL Board in May 2004 and has been the convener of our Strategic Planning Committee during his term as a Director.

Chris Curran was appointed to the Board in 2004 and has served two full terms, most recently as convener of our Community Engagement Committee.

## Chairman's report continued

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I extend my sincere thanks to these departing Directors and the continuing KFSL Directors, along with our outstanding Secretary/Bookkeeper/Shares Registrar Julie Fidler, for the time, expertise and energy that they have individually and collectively contributed to enable the achievement of our successes thus far.

### **Acknowledging our staff**

Our Branch Manager Denice Kelly and her team continue to deliver excellent customer service and produce outstanding results. They do this by providing local residents, traders and businesses with the professional and friendly face-to-face banking services expected and appreciated by our community.

During the past year the excellence of these customer services has received public recognition on several occasions. Firstly, both Denice Kelly and Deborah Chape received individual Pride of Workmanship Awards from local Rotary groups in recognition of service excellence to our TCB customers. More recently the Turramurra **Community Bank**<sup>®</sup> Branch became a finalist in the 2006 North Shore Times Business Awards based on customer nominations.

I sincerely thank and congratulate Denice and her staff for their passion and commitment to servicing the needs of our customers, and for the many milestones that they have achieved in such a short time.

### **Bendigo Bank**

Our relationship with our partner Bendigo Bank remains very strong. I particularly thank our recently appointed Regional Manager Leanne Buttrose, former Relationship Manager Greg Spencer, the entire Bendigo Bank **Community Bank**<sup>®</sup> team and Pymble-based Regional Office personnel for the counsel, expertise and assistance provided to our staff and Directors throughout the past 12 months.



Jocelyn and Debbie celebrate Turramurra **Community Bank**<sup>®</sup> Branch's second birthday

### **Conclusion**

It is easy to forget that the Turramurra **Community Bank**<sup>®</sup> Branch of Bendigo Bank opened for business as recently as October 2003. Accordingly, fiscal 2006 represented only our second full year of banking operations.

At the time of writing, we are approaching \$75 million in total business and the Turramurra **Community Bank**<sup>®</sup> Branch continues to be one of the fastest growing branches in Bendigo Bank's 180-strong community bank network across Australia.

I would like to thank all of our shareholders for supporting the initial establishment and continuing growth of the Turramurra **Community Bank**<sup>®</sup> Branch of Bendigo Bank.

I also remind you that your on-going support as customers remains invaluable in ensuring the success of Our Bank.

I look forward to seeing as many of you as possible at our fourth Annual General Meeting on Wednesday 15 November 2006.

In the meantime, I thank you for your continuing support and encouragement.

  
**David A. Langdon, Chairman**

31 August, 2006

# Manager's report

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For the year ended 30 June 2006



It is difficult to believe that we are coming up to the end of our third year – our anniversary is on 20 October 2006. However, when I look around Turrumurra there is no doubt that your **Community Bank®** branch is now part of the business establishment of the area. Our awareness is high, not only due to the increasing number of customers we now have, but more importantly we have a reputation for service that is unequalled in the banking sector.

The staff and management of your bank branch derive great personal satisfaction from the service we deliver to our clients in an era when service in banking had all but disappeared. It truly differentiates us, yet is surprisingly easy to deliver given the right attitude.

Small things make a big difference. Having a Branch Manager on site who is happy to meet clients and discuss their needs in detail is a rarity today. Giving clients and potential clients the phone numbers of the Branch Manager and individual staff is also uncommon. Being open 9 to 5 every working day, plus Saturday morning, is a feature of our bank branch that the majors have still not emulated. But above all, it is the willingness to help, the smile, the “going the extra mile,” simple care and thoughtfulness – these are the things that really make the difference.

As we further establish our presence and reputation in the local community we trust that you, our shareholders, have visited the branch – it is the only way to experience all the features above – and open an account, apply for a loan, or purchase your insurance. Come and see Jocelyn, Debbie, Lisa, Jodie, Kris, Heather, Ruth or myself. And just to reinforce the point, here is my phone number: 9488 9496 or 0428 437 761.

  
**Denice Kelly**  
**Branch Manager**



# Directors' report

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

## Directors

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

### **Director's Details**

### **Committee responsibilities**

#### **David Andrew Langdon**

Consultant

Chairman

Ex officio member of all committees

David is a Fellow of the Australian Institute of Company Directors and a Member of the Australian Society of Certified Practising Accountants and the Australian Computer Society. He has been a partner in Accenture, the global technology consulting firm, before retiring in 1999.

#### **Geoffrey John Crittenden**

Managing Director, Human Resources

BSc(Hons) CEng MIMechE MICD MAIM psc me

Convenor, Business Development Committee

Human Resources Committee (HR)

Geoff is a Chartered Engineer and spent 7 years working as a CEO before starting his own Human Resources company in 2000. He is a Member of the Australian Institute of Company Directors.

#### **Christopher Thomas Curran**

Education Consultant

Convenor, Community Engagement Committee

Business Development Committee

Chris retired as a school principal in 2003 and is now a director of a company which incorporates education consultancy and the recruitment of medical personnel.

#### **Bruce William Hall**

Business Consultant

B.E. (Hons) UNSW

Convenor, Human Resources Committee (OH&S)

Strategic Planning Committee

Bruce's skills include business planning, operations management and project management which he offers through his own consulting business. Bruce has held senior executive positions in operations, safety, marketing and engineering.

#### **James Alan Loxton**

Barrister

BA, LLB

Convenor, Governance Committee

Finance Committee

James has practised as a barrister for 23 years, based in Queens Square Chambers, Sydney.



## Directors' report continued

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### **Director's Details**

### **Committee responsibilities**

#### **Matthew Grant Martin**

Managing Director, Retail

Business Development Committee (Sales)

Community Engagement Committee

Matt studied economics, business law and computer programming and is proprietor of Doug Smith Appliance Parts based on Pymble.

#### **Adrian John Snelson**

Accountant

Convenor, Finance Committee

Strategic Planning Committee

John is a Fellow of the Chartered Institute of Management Accountants, a Certified Practising Accountant and Director of The ClaimRoom Pty Limited. John was a partner with Ernst & Young from 1984 to 2000.

#### **David Francis Cardigan Thomas**

Consultant

Convenor, Strategic Planning Committee

David runs his own consulting business following a career in financial services spanning 24 years in London, Hong Kong and Sydney. He has experience in distribution, sales and business development, financial planning, strategic planning, marketing communications, education and training.

#### **Marion Jill Hill**

*(Appointed 16 November 2005)*

Dip Law, BAB, Grad Dip Legal Practice

Human Resources Committee

Business Development Committee

Jill is a barrister specialising in trade practices, competition and consumer law. Jill has been involved in a wide range of community organisations including schools, student exchange programs and community support services, as well as legal assistance for low income earners.

#### **Joseph Gerard Bollen**

*(Appointed 23 January 2006)*

Artist, Designer and Vexillographer

Post Grad Design Studies.

Business Development Committee

Joe is the director of local business 'My Frammer' . He has over 30 years of visual communications experience including corporate identity/branding, project and event management and protocol. Joe was a vexillology (flags) consultant to the Sydney Olympic Games and other international events.

#### **Alexandra Vera Cameron Russ**

*(Appointed 16 November 2005, resigned 19 December 2005)*

Accountant

# Directors' report continued

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## **Director's Details**

### **David Alan Coston**

*(Retired 16 November 2005)*

Media Executive

### **Gregory John Edwards**

*(Retired 16 November 2005)*

Software Engineer

## **Committee responsibilities**

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

No Directors have material interests in contracts or proposed contracts with the company except as set out in Note 18 to the financial statements.



James Loxton, Chris Curran, Matt Martin,  
Geoff Crittenden, Jill Hill, David Langdon,  
Manager Denice Kelly and David Thomas.  
[Absent: Bruce Hall, John Snelson, Joe Bollen]

## **Company Secretary**

The company secretary is Julie Fidler. Julie was appointed to the position of secretary at the first meeting of directors of the Company on 11 December 2002.

Julie has worked in business administration for over 20 years and is also a Company Secretary of Atlantic Gold NL, a company listed on the Australian Stock Exchange.

## **Principal activities**

The principal activities of the company during the course of the financial year were in providing community banking services under management rights to operate a franchised branch of Bendigo Bank Limited. There has been no significant changes in the nature of these activities during the year.

## **Operating result**

Operations have continued to perform in line with expectations. The profit/(loss) of the company for the financial year after provision for income tax was:

	<b>Year ended 30 June 2006</b>	<b>Year ended 30 June 2005</b>
	<b>\$</b>	<b>\$</b>
	<b>67,087</b>	<b>(137,307)</b>

# Directors' report continued

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## **Remuneration Report**

No Director of the company receives payment for services as a Director or committee member.

There are no employees who are directly accountable and have responsibility for the strategic direction and operational management of the entity.

There are therefore no specified executives whose remuneration requires disclosure.

## **Dividends**

No dividends were declared or paid for the previous year. The directors recommend that an unfranked dividend of 4 cents per share (\$36,966.40) be paid for the current year.

## **Significant changes in the state of affairs**

In the opinion of the directors there were no significant changes in the state of affairs of the company that occurred during the financial year under review not otherwise disclosed in this report or the financial report.

## **Matters subsequent to the end of the financial year**

The directors have recommended that an unfranked dividend of 4 cents per share (\$36,966.40) be paid for the current year.

There are no other matters or circumstances that have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the company, the results of those operations or the state of affairs of the company, in future years.

## **Likely Developments**

The company will continue its policy of providing banking services to the community.

## **Environmental Regulation**

The company is not subject to any significant environmental regulation.

## **Directors' Benefits**

No Director has received or become entitled to receive, during or since the financial year, a benefit because of a contract made by the company, controlled entity or related body corporate with a Director, a firm which a Director is a member or an entity in which a Director has a substantial financial interest. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the company's accounts, or the fixed salary of a full-time employee of the company, controlled entity or related body corporate.

## Directors' report continued

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### Indemnification and Insurance of Directors and Officers

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

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

### Directors Meetings

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

	Number of Board Meetings eligible to attend	Number attended
David Andrew Langdon	11	10
Geoffrey John Crittenden	11	10
Christopher Thomas Curran	11	9
Bruce William Hall	11	10
James Alan Loxton	11	9
Matthew Grant Martin	11	9
Adrian John Snelson	11	7
David Francis Cardigan Thomas	11	9
Marion Jill Hill ( <i>Appointed 16 November 2005</i> )	7	6
Joseph Gerard Bollen ( <i>Appointed 23 January 2006</i> )	6	6
David Alan Croston ( <i>Resigned 16 November 2005</i> )	4	2
Gregory John Edwards ( <i>Resigned 16 November 2005</i> )	4	1
Alexandra Vera Cameron Russ ( <i>Appointed 16 November 2005, Resigned 19 December 2005</i> )	1	1

## Directors' report continued

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### Non Audit Services

The company may decide to employ the auditor on assignments additional to their statutory duties where the auditor's expertise and experience with the company are important. Details of the amounts paid or payable to the Auditor (Andrew Frewin & Stewart) for audit and non audit services provided during the year are set out in the notes to the accounts.

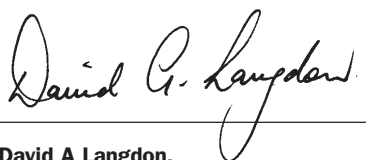
The board of directors has considered the position, in accordance with the advice received from the audit committee and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

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

- all non-audit services have been reviewed by the audit committee to ensure they do not impact on the impartiality and objectivity of the auditor;
- none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 13.

Signed in accordance with a resolution of the Board of Directors at Turramurra, New South Wales on 21 August 2006.



**David A Langdon,**  
**Chairman**



**A John Snelson,**  
**Director**

# Auditor's independence declaration

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In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Kuring-gai Financial Services Limited.

As lead auditor for the audit of Kuring-gai Financial Services Limited for the year ended 30 June 2006, I declare that, to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Kuring-gai Financial Services Limited.



**David Hutchings**

**Auditor Partner**

**Andrew Frewin & Stewart**

Bendigo

24 August 2006

# Financial statements

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## Income statement

For the year ended 30 June 2006

	Notes	2006 \$	2005 \$
Revenues from continuing operations	3	638,402	371,521
Salaries and employee benefits expense		(276,913)	(277,420)
Advertising and promotion expenses		(13,973)	(22,007)
Occupancy and associated costs		(96,522)	(98,420)
Depreciation and amortisation expense	4	(23,663)	(26,620)
Finance costs		(1,220)	(1,608)
General administration expenses		(130,518)	(128,576)
<b>Profit/(Loss) from ordinary activities before income tax expense/credit</b>		<b>95,593</b>	<b>(183,130)</b>
Income tax expense/credit	5	(28,506)	45,823
<b>Profit/(Loss) from ordinary activities after income tax expense/credit</b>		<b>67,087</b>	<b>(137,307)</b>
<b>Profit/(Loss) attributable to members of Ku-ring-gai Financial Services Limited</b>		<b>67,087</b>	<b>(137,307)</b>

# Financial statements continued

## Balance sheet

As at 30 June 2006

	Notes	2006 \$	2005 \$
<b>Current Assets</b>			
Cash assets	6	220,172	111,989
Trade and other receivables	7	81,959	48,694
<b>Total Current Assets</b>		<b>302,131</b>	<b>160,683</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	8	211,985	223,325
Intangibles	9	26,000	38,000
Deferred tax assets	10	114,822	143,328
<b>Total Non-Current Assets</b>		<b>352,807</b>	<b>404,653</b>
<b>Total Assets</b>		<b>654,938</b>	<b>565,336</b>
<b>Current Liabilities</b>			
Trade and other payables	11	55,218	29,042
Borrowings	12	11,986	4,882
Provisions	13	11,500	10,280
<b>Total Current Liabilities</b>		<b>78,704</b>	<b>44,204</b>
<b>Non-current Liabilities</b>			
Borrowings	12	-	11,985
<b>Total non-current liabilities</b>		<b>-</b>	<b>11,985</b>
<b>Total Liabilities</b>		<b>78,704</b>	<b>56,189</b>
<b>Net Assets</b>		<b>576,234</b>	<b>509,147</b>
<b>Equity</b>			
Contributed equity	14	883,964	883,964
Accumulated losses	15	(307,730)	(374,817)
<b>Total Equity</b>		<b>576,234</b>	<b>509,147</b>



## Financial statements continued

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### Statement of changes in equity

For the year ended 30 June 2006

	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
Total equity at the beginning of the financial year	509,147	646,453
Net profit/(loss) for the year	67,087	(137,306)
Net income/expense recognised directly in equity	-	-
Dividends provided for or paid	-	-
Shares issued during period	-	-
<b>Total equity at the end of the financial year</b>	<b>576,234</b>	<b>509,147</b>

## Financial statements continued

### Statement of cashflows

For the year ended 30 June 2006

	Notes	2006 \$	2005 \$
<b>Cash flows from operating activities</b>			
Cash received from customers		591,098	360,657
Cash paid to suppliers and employees		(481,562)	(540,858)
Interest received		5,072	10,908
Interest paid		(1,220)	(1,608)
<b>Net inflow/(outflows) from operating activities</b>	16(a)	<b>113,388</b>	<b>(170,901)</b>
<b>Cash Flows From Investing Activities</b>			
Payments for property, plant and equipment		(323)	(9,637)
<b>Net cash outflows investing activities</b>		<b>(323)</b>	<b>(9,637)</b>
<b>Cash Flows From Financing Activities</b>			
Repayment of borrowings		(4,883)	(4,494)
<b>Net cash outflows financing activities</b>		<b>(4,883)</b>	<b>(4,494)</b>
<b>Net increase/(decrease) in cash held</b>		<b>108,182</b>	<b>(185,032)</b>
Cash at the beginning of the financial year		111,990	297,022
<b>Cash at the end of the financial year</b>	16(b)	<b>220,172</b>	<b>111,990</b>

# Notes to the financial statements

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For the year ended 30 June 2006

## Note 1: Summary of significant accounting policies

### **Basis of preparation**

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

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

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

These financial statements are the first Ku-ring-gai Financial Services Limited financial statements to be prepared in accordance with AIFRSs. AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards has been applied in preparing these financial statements.

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

Reconciliations and descriptions of the effect of the transition from previous AGAAP to AIFRSs on the Company equity and its net income are given in note 21.

### **Revenue**

Interest and fee revenue is recognised when earned. All revenue is stated net of the amount of Goods and Services Tax (GST). The gain or loss on disposal of property, plant and equipment is recognised on a net basis and is classified as income rather than revenue.

### **Income tax**

#### Current Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

# Notes to the financial statements continued

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## Note 1: Summary of significant accounting policies continued

### **Income tax** (continued)

#### Deferred Tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they related to income taxes levied by the same taxation authority and the company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

#### Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

### **Goods and services tax**

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

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet. Cash flows are included in the statement of cash flows on a gross basis.

The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operation cash flows.

# Notes to the financial statements continued

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## Note 1: Summary of significant accounting policies continued

### **Employee entitlements**

The provision for employee benefits to wages, salaries and annual leave represents the amount which the company has a present obligation to pay resulting from employees' services provided up to the balance date. The provision has been calculated on undiscounted amounts based on wage and salary rates expected to be paid and includes related on-costs.

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

### **Intangibles**

The cost of the company's franchise fee has been recorded at cost and is amortised on a straight line basis.

### **Cash**

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts.

### **Comparative figures**

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

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

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated at the rate equivalent to the available building allowance using the straight line method. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

- leasehold improvements	40 years
- plant and equipment	2.5 - 40 years
- furniture and fittings	4 - 40 years

# Notes to the financial statements continued

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## Note 1: Summary of significant accounting policies continued

### **Impairment of assets**

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs. Goodwill is tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

### **Payment terms**

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

### **Receivables and Payables**

Receivables are carried at their amounts due. The collectability of debts is assessed at balance date and specific provision is made for any doubtful accounts. Liabilities for trade creditors and other amounts are carried at cost that is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the company.

### **Borrowings**

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

# Notes to the financial statements continued

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## Note 1: Summary of significant accounting policies continued

### **Provisions**

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

### **Contributed capital**

Issued and paid up capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

## 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 Bank Limited.

### (iv) Liquidity Risk

Prudent liquidity management implies maintaining sufficient cash and marketable securities and the availability of funding from credit facilities. The company believes that its sound relationship with Bendigo Bank Limited mitigates this risk significantly.

### (v) Cash flow and fair value interest rate risk

Interest-bearing assets are held with Bendigo Bank Limited and subject to movements in market interest. Interest-rate risk could also arise from long-term borrowings. Borrowings issued at variable rates expose the company to cash flow interest-rate risk. The company believes that its sound relationship with Bendigo Bank Limited mitigates this risk significantly.

## Notes to the financial statements continued

	2006 \$	2005 \$
<b>Note 3: Revenue from ordinary activities</b>		
Operating activities:		
- Margin income	352,683	183,960
- Commission income	270,353	174,045
- Other revenue	8,538	2,608
<b>Total revenue from operating activities</b>	<b>631,574</b>	<b>360,613</b>
Non-operating activities:		
- Interest received	6,828	10,908
<b>Total revenue from non-operating activities</b>	<b>6,828</b>	<b>10,908</b>
<b>Total revenues from ordinary activities</b>	<b>638,402</b>	<b>371,521</b>

## Note 4: Expenses

Depreciation of non-current assets:		
- Motor vehicle	809	4,426
- Office furniture and equipment	1,681	1,358
- Leasehold improvements	9,173	8,836
Amortisation of non-current assets:		
- Franchise agreement	12,000	12,000
	<b>23,663</b>	<b>26,620</b>
Borrowing expenses:		
- interest paid	<b>1,220</b>	<b>1,608</b>



## Notes to the financial statements continued

	2006 \$	2005 \$
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### Note 5: Income tax expense

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

Operating Profit/(Loss)	95,593	(183,130)
Prima facie tax on profit/(loss) from continuing operations at 30%	28,678	(54,939)
Add tax effect of:		
- non-deductible expenses	(172)	9,116
<b>Income tax expense on operating profit/(loss)</b>	<b>28,506</b>	<b>(45,823)</b>

### Note 6: Cash assets

Cash at bank and on hand	62,604	9,016
Term Deposits	157,568	102,973
<b>Total cash</b>	<b>220,172</b>	<b>111,989</b>

### Note 7: Trade and other receivables

Trade receivables	78,292	44,448
Prepayments	3,667	4,246
	<b>81,959</b>	<b>48,694</b>

### Note 8: Property, plant and equipment

#### *Office furniture and equipment*

At cost	27,963	27,640
Less accumulated depreciation	(3,816)	(2,136)
	<b>24,147</b>	<b>25,504</b>

## Notes to the financial statements continued

	2006 \$	2005 \$
<b>Note 8: Property, plant and equipment continued</b>		
<i>Leasehold improvements</i>		
At cost	195,403	195,403
Less accumulated depreciation	(23,919)	(14,745)
	<b>171,484</b>	<b>180,658</b>
<i>Motor vehicle</i>		
At cost	23,636	23,636
Less accumulated depreciation	(7,282)	(6,473)
	<b>16,354</b>	<b>17,163</b>
<b>Total written down amount</b>	<b>211,985</b>	<b>223,325</b>
<b>Movements in carrying amounts:</b>		
<i>Office furniture and equipment</i>		
Carrying amount at beginning	25,504	20,195
Additions	323	6,667
Disposals	-	-
Less: depreciation expense	(1,680)	(1,358)
<b>Carrying amount at end</b>	<b>24,147</b>	<b>25,504</b>
<i>Leasehold improvements</i>		
Carrying amount at beginning	180,658	186,523
Additions	-	2,970
Disposals	-	-
Less: depreciation expense	(9,174)	(8,835)
<b>Carrying amount at end</b>	<b>171,484</b>	<b>180,658</b>
<i>Motor vehicle</i>		
Carrying amount at beginning	17,163	21,590
Additions	-	-
Disposals	-	-
Less: depreciation expense	(809)	(4,427)
Carrying amount at end	16,354	17,163
<b>Total written down amount</b>	<b>211,985</b>	<b>223,325</b>

## Notes to the financial statements continued

	2006 \$	2005 \$
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### Note 9: Intangible assets

#### *Franchise Fee*

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

### Note 10: Deferred Tax Benefit

#### Future income tax benefit

<b>Tax losses - revenue</b>	<b>114,822</b>	<b>143,328</b>
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### Note 11: Trade and other payables

Trade creditors	37,101	20,419
Accrued expenses	18,117	8,824
	<b>55,218</b>	<b>29,243</b>

### Note 12: Interest bearing liabilities

#### **Current:**

Hire purchase liability	11,986	4,882
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#### **Non-current**

Hire purchase liability	-	11,986
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## Notes to the financial statements continued

	2006 \$	2005 \$
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### Note 13: Provisions

<b>Employee provisions</b>	<b>11,500</b>	<b>10,280</b>
<b>Number of employees at year end (full time equivalent)</b>	<b>5</b>	<b>4</b>

### Note 14: Contributed equity

924,160 ordinary shares fully paid of \$1 each (2005: 924,160)	924,160	924,160
Less: equity raising expenses	(40,196)	(40,196)
	<b>883,964</b>	<b>883,964</b>

### Note 15: Retained Earnings/Accumulated Losses

Balance at the beginning of the financial year	(374,817)	(237,511)
Net profit/(loss) from ordinary activities after income tax	67,662	(137,306)
Dividends paid	-	-
<b>Balance at the end of the financial year</b>	<b>(307,155)</b>	<b>(374,817)</b>

### Note 16: Statement of cashflows

#### (a) Reconciliation of cash

Cash at bank and on hand	62,604	9,016
Term deposit	157,568	102,973
	<b>220,172</b>	<b>111,989</b>

## Notes to the financial statements continued

	2006 \$	2005 \$
<b>Note 16: Statement of cashflows continued</b>		
<i>(b) Reconciliation of loss from ordinary activities after tax to net cash provided by/(used in) operating activities</i>		
Profit /(Loss) from ordinary activities after income tax	67,087	(137,306)
<i>Non cash items</i>		
- depreciation	11,663	14,620
- amortisation	12,000	12,000
<i>Changes in assets and liabilities</i>		
- (increase)/decrease in receivables	(33,265)	(30,491)
- (increase)/decrease in other assets	28,506	(45,823)
- increase/(decrease) in payables	26,177	15,419
- increase/(decrease) in provisions	1,220	680
<b>Net cashflows provided by/(used in) operating activities</b>	<b>113,388</b>	<b>(170,901)</b>

## Note 17: Auditors' remuneration

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

- audit & review services	2,700	2,900
- other services in relation to the company	300	300
	<b>3,000</b>	<b>3,200</b>

## Notes to the financial statements continued

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### Note 18: Director and Related party disclosures

<b>Name</b>	<b>Other relationships</b>
David Andrew Langdon Consultant	
Geoffrey John Crittenden Managing Director, Human Resources	Geoff Crittenden is a director of Crittendens, a division of Pulse Business Solutions, which provides recruitment services to the Company on normal commercial terms and conditions. Amount paid during the year totalled \$Nil (2004: \$3,147)
Christopher Thomas Curran Education Consultant	
Bruce William Hall Business Consultant	
James Alan Loxton Barrister	
Matthew Grant Martin Managing Director, Retail	
Adrian John Snelson Accountant	
David Francis Cardigan Thomas Consultant	Julia Thomas, wife of David Thomas, provided marketing administration services to the Company on normal commercial terms and conditions. Amount paid during the year totalled \$1,342.85 (2005: \$9,868.50) which includes disbursements of \$154.85.
Marion Jill Hill (Appointed 16 November 2005) Barrister	
Joseph Gerard Bollen (Appointed 23 January 2006) Artist, Designer and Vexillographer	
Alexandra Vera Cameron Russ (Appointed 16 November 2005, resigned 19 December 2005) Accountant	
David Alan Croston (Retired 16 November 2005) Media Executive	Dave Croston is a director of The Media Establishment Pty Ltd which provided advertising and marketing services to the Company on normal commercial terms and conditions. Amount paid during the year totalled \$1,026 (2005: \$2,306) and represented reimbursement of costs only.
Gregory John Edwards (Retired 16 November 2005) Software Engineer	

## Notes to the financial statements continued

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### Note 18: Director and Related party disclosures continued

No Directors have material interests in contracts or proposed contracts with the company except as set out in the table above.

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

### Note 19: Reconciliation and equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under AIFRS

Entities complying with AIFRS for the first time are required to restate their comparative financial statements to amounts reflecting the application of AIFRS to that comparative period. Most adjustments required on transition to AIFRS would be made, retrospectively, against opening retained earnings as at 1 July 2004.

In the Company's opinion, there have been no material impacts in relation to the financial report for the year ended 30 June 2006. There are no impacts to be disclosed.

#### **Impact on the income statement**

Nil.

#### **Impact on the balance sheet**

Nil.

### Note 20: Subsequent events

The directors have recommended that an unfranked dividend of 4 cents per share (\$36,966.40) be paid for the current year.

There have been no other events after the end of the financial year that would materially affect the financial statements.

### Note 21: Contingent liabilities

There were no contingent liabilities at the date of this report to affect the financial statements.

### Note 22: Segment reporting

The economic entity operates in the financial services sector where it provides banking services to its clients.

The economic entity operates in one geographic area being Turramurra, New South Wales.

## Notes to the financial statements continued

### Note 23: Registered office/Principal place of business

The registered office and principal place of business is:

<b>Registered office</b>	<b>Principal place of business</b>
1273 Pacific Highway Turrumurra NSW 2074	1273 Pacific Highway Turrumurra NSW 2074

### Note 24: Financial instruments

#### Net fair values

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

#### Credit risk

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

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

#### Interest rate risk

Financial Instrument	Floating Interest Rate		Fixed Interest Rate maturing in						Non Interest Bearing		Weighted average Effective Interest rate	
			1 year or less		Over 1 to 5 years		Over 5 years				2006	2005
			2006	2005	2006	2005	2006	2005				
	%	\$	\$	\$	\$	\$	\$	\$	\$	%	%	
<b>Financial Assets</b>												
Cash assets	62,604	9,016	-	-	-	-	-	-	-	-	0.05	0.05
Term Deposit	-	-	157,568	102,973	-	-	-	-	-	-	4.33	4.92
Receivables	-	-	-	-	-	-	-	-	81,959	48,694	N/A	N/A
<b>Financial Liabilities</b>												
Interest Bearing Liabilities	-	-	11,986	4,882	-	11,986	-	-	-	-	8.31	8.31
Payables	-	-	-	-	-	-	-	-	55,218	29,042	N/A	N/A



# Directors' declaration

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In accordance with a resolution of the directors of Ku-ring-gai Financial Services Limited, we state that:

In the opinion of the directors:

- (a) the financial statements and notes of the company are in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's financial position as at 30 June 2006 and of its performance for the financial year ended on that date; and
  - (ii) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.



**David A Langdon,**  
**Chairman**



**A John Snelson,**  
**Director**

Signed on the 21st of August 2006

# Independent audit report

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To the members of Ku-ring-gai Financial Services Limited

## **SCOPE**

### **The financial report and directors' responsibility**

The financial report comprises the balance, sheet, income statement, statement of changes in equity, cash flow statement, a summary of significant accounting policies and other explanatory notes and the directors' declaration for Ku-ring-gai Financial Services Limited for the financial year ended 30 June 2006.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with Accounting Standards in Australia and the Corporations Act 2001. This includes responsibility for the maintenance of adequate financial records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

### **Audit approach**

We have conducted an independent audit of the financial report in order to express an opinion on them to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards in Australia and the Corporations Act 2001 so as to present a view which is consistent with our understanding of the company's financial position, and performance as represented by the results of its operations, its changes in equity and its cash flows.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

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

## Independent audit report continued

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### **AUDIT OPINION**

In our opinion the financial report of Ku-ring-gai Financial Services Limited is in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the company's financial position as at 30 June 2005 and of its performance for the year ended on that date; and
- (ii) complying with Accounting Standards in Australia and the Corporations Regulations.

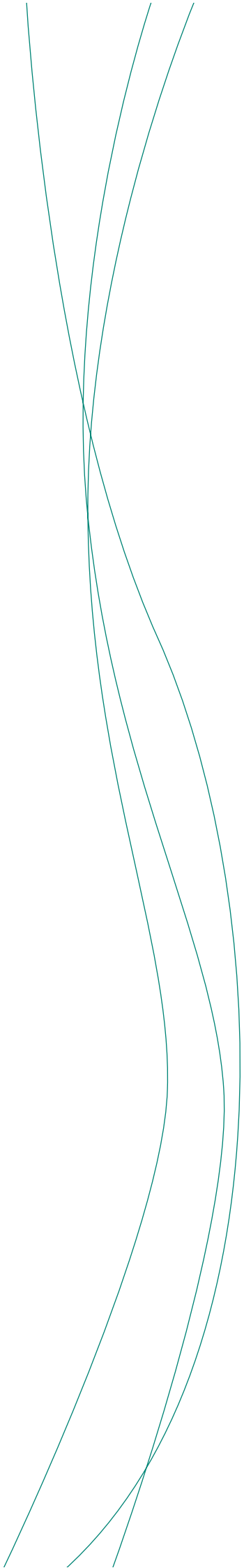


**DAVID HUTCHINGS**

### **ANDREW FREWIN & STEWART**

61-65 Bull Street, Bendigo, 3550

Dated this 24th day of August 2006



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