Valley Community
Financial Services Limited
ABN 86 092 399 730

2008 annualreport





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Chairman’s report

For year ending 30 June 2008

When our branch first opened, we achieved our original goal of bringing banking services back to Hurstbridge. Now, we are witnessing a phenomenon. Our **Community Bank®** branch not only delivers modern banking with old-fashioned service, it has delivered good dividends to local shareholders, and this year, it has distributed almost $600,000 back to our local communities.

I am pleased to be able to report yet another good result for our community Company, for the financial year ending June 2008. This year we are able to announce a dividend of 20 cents a share, a terrific result for investors and community alike.

You will see from the reports from our Treasurer and the Branch Manager how the business has grown. We have delivered a net profit after tax of $200,553. If we include the community sponsorships and grants distributed throughout the year - about another $388,000 - we have given a total result of $588,000 back to the community in the 2007/2008 financial year.

The Hurstbridge branch is showing signs of becoming a maturing business. Growth appears to be levelling out and we now need to replace maturing loans and deposits to maintain the evolution of the business. Even so, Hurstbridge contributed some $525,000 to our total result. The Diamond Creek branch has also performed well, achieving budget and contributing $148,000 to our combined earnings. We now have more than 10,000 accounts at our two branches and that number continues to grow every month.

The Doreen community has expressed interest in opening a branch in the new Laurimar shopping precinct which is currently under construction. This area has always been a part of our customer catchment. We have supported a number of groups there over the years, including the Doreen Primary School. We are currently in discussions with the Doreen steering committee with a view to partnering them in a new bank branch. We will require a community buy-in in order to raise the capital to open the new branch. It would operate as a third branch of Valley Community Financial Services Ltd.

The past year has seen a number of changes on our Board of Directors and staff. Our Chairman Bruce Donelly resigned in November 2007. Bruce was a tireless worker and advocate for our Company. We were fortunate to have had such an energetic high achiever to lead the Company. People thought our first Chairman Dale Trezise would be a very hard act to follow. Bruce will be the same.

Peter Kelly, a former Director, moved from the area in August 2007. Peter had been involved with many community groups, and his contribution to our Company was extensive. Sadly, another Director, Frank Spencer, passed away in January this year after a sudden and short illness. He is sorely missed, not only for his extensive knowledge of corporate affairs and the guidance he was able to offer, but also for his wonderful sense of humour and good companionship. We have also lost another Director, Nillumbik Volunteer of the Year John Arthur, who has moved to Lara to be with his growing family. Rumour has it that John has been approached by the Lara community to help them open a bank there.

We now have three new Directors who joined the Board in February 2008: newly retired principal of the Diamond Valley Secondary College Malcolm Hackett; local identity and newly retired public servant Ingrid

Chairman's report continued

Crichton; and vintner Stephen Bennett. Many of you will already know them, and those of you who don't will no doubt be impressed when you meet them. They have added new skills and knowledge to the Board, as well as tremendous enthusiasm and commitment to their new role.

We have also had to say farewell to two key staff members. John Aitken, our original Branch Manager, and later senior Manager, has decided to move on. Under John's guidance, we grew the business from the beginning to a total banking book of $185,000,000. John engaged our community partners as well as managed a robust and busy business. He will be missed by Directors, community groups and staff alike. We wish him, and his wife Faye, well in their new life.

Our Hurstbridge Branch Manager Lorelle Richter resigned in March 2008. Lorelle was well liked by the Board, staff and community. We also wish her well in her new role, closer to home. We were fortunate to be able to appoint Dion Shirley, the former Manager of the Bendigo Bank branch in Greensborough, as our new Hurstbridge Branch Manager, in April 2008. Dion brings considerable experience and is already popular with staff and customers. The Board is very happy with their choice.

Your Board has worked hard, attending the regular monthly Board meetings and various sub-committee meetings. It has a full and busy schedule, and members have shown great dedication to the job.

The Company owes a great deal to the Managers and staff of our branches. They have always worked with total commitment to support the business and increase the community benefit. I would like to take this opportunity to acknowledge and thank them for a tremendous performance over the past 12 months.

We continue to pursue ways to grow our business and the best way to do that is to tell our story. The Board has plans for a major advertising campaign over the next 12 months which intends to engage those community groups that we have supported in order to encourage their members, and others, to support our business. Ours venture is a two-way relationship. The more people support us, the more we will be able to financially support community groups.

This year we have sponsored many of our local clubs, preschools, primary and secondary schools. We underwrote the Hurstbridge Wattle Festival in 2007, the second year of a 3-year agreement. We are also one of the major sponsors of the Diamond Creek Fair. 2007 was the second year of a 5-year deal worth a total of $70,000 to the Rotary Club of Diamond Creek.

At our first grants night in November 2007, we distributed nearly $200,000 to various community groups who applied to us for financial assistance. Our second grants night will be held immediately after this year's Annual General Meeting, and we would like to invite all shareholders to attend. We have nearly $300,000 to distribute, if we get enough suitable applications.

I commend the Annual Report to you, and thank you for the privilege of being chairman of this Company, our local phenomenon.

Barry Henwood

Barry Henwood
Chairman

Hurstbridge Manager's report

For year ending 30 June 2008

The Hurstbridge branch has completed seven years of trading. At the end of the financial year, the branch reported banking business of $126,106,278 over 7,528 accounts.

The local community is to be applauded for the way that they have supported our **Community Bank®** branch. Over the past year, the Hurstbridge branch has faced the tough banking environment that challenged banks across the world. However, the branch is well established and because community support is high, business has remained steady in all areas of banking.

I would like to acknowledge the support and hard work of the staff at the Hurstbridge branch and the Diamond Creek branch in the past 12 months, especially after the departure of the Senior Manager John Aitken. The staff approach their roles with professionalism and have been keen to ensure the needs of the customers and community are met.

At Hurstbridge, as well as at Diamond Creek, we have striven to ensure we maintain a high level of face-to-face service. In order to meet this objective, and to ensure that we maintain our service standards, we have undergone a restructure of staff positions and job roles. We will be recruiting another part-time CSO in the next financial year. At present we employ 14 staff covering both branches, and this is likely to grow. We are providing employment opportunities in the district that would not exist if it we were not here.

The coming year will be a very challenging time. However with continued support from the community, we will enjoy continued success.

Dion Shirley
Branch Manager
Hurstbridge Community Bank® Branch

Diamond Creek Manager's report

For year ending 30 June 2008

Diamond Creek **Community Bank®** Branch has now completed four years of trading and is now contributing to the profit of the Company. This financial year Diamond Creek **Community Bank®** Branch has reported banking business totalling $59,846,473 which equates to growth of approximately $15,000,000 for the year. We now look after 3140 accounts.

Although, the current financial markets are volatile, our strong community relations will hold us in good stead. However, we do need shareholders and consumers alike to be our advocates in order to perpetuate the benefits of the **Community Bank®** model.

Being a **Community Bank®** branch means we offer more than just banking services to our community – we offer community benefit assisting in bringing about positive change and development to our area. We believe that successful customers, equal successful communities, which in turn lead to a successful bank – but only in that order.

I would like to acknowledge the support and hard work of the staff during the past 12 months. All staff approach their roles with diligence, responding positively to the needs of the customers and the community. Staff are always been willing to put their hand up to work at various events such as the Diamond Creek Town Fair, Wattle Festival and other key community get togethers. This is a testimony to their dedication and support for the Company.

I would also like to thank our Board Members who have contributed their time and effort into the growth of our Company.

In summary it has been a great year for Diamond Creek **Community Bank®** Branch and I look forward to another successful year.

Greg Arnott
Branch Manager
Diamond Creek Community Bank® Branch

Treasurer's report

For year ending 30 June 2008

It gives me great pleasure to report on the financial health of our businesses. Another excellent result for the Company was produced during 2007/2008.

Income was 18 per cent higher,or $278,403, for the year. Expenses were also higher, by 18 per cent or $232,198. Of the increases in costs,$154,563 represented increased donations and sponsorships to our community. Operating expenses were only up by 6 per cent or $77,635 for the year.

With retained earnings of $151,990 for the year, our net assets grew to $817,328 or $1.23 per share. Of these assets, $692,284 is in cash or equivalents representing $1.04 per share.

The Hurstbridge branch continues to be our main profit centre, although growth slowed this year. We have been expecting to reach a plateau for the last two years; this year it happened. Hurstbridge can now be considered a mature business that will continue to contribute a very healthy return to shareholders and the community.

At the same time, Diamond Creek is now providing excellent growth. In my report last year, I said Diamond Creek had reached a sustainable surplus. This year it provided an excellent profit result, which we believe will continue to grow.

As at 30 June 2008, the combined business had a little over $185 million in banking business on its books which means that an average of $2.1 million in savings and loans has transferred to our business each and every month for 86 months - a remarkable achievement.

Once again, the business has performed so well that our dividend payment is based on 20% of profit before tax, plus community dividends.On this basis, the business generated $662,000.00 surplus for the year. This enabled payment of a.20 cents per share fully franked dividend. It also means that the business is earning $1.00 per year for every $1.00 invested by its shareholders just 7 years ago, which is an annual earning rate of 100% return on capital.

With continued growth at Diamond Creek, and slower growth at Hurstbridge, we are budgeting for this surplus to continue to grow. This will enable more funds to be distributed to both shareholders and the communities that the banks serve.

In his chairman's report, Barry Henwood has given notice that we may be about to undertake further expansion by opening a third branch at Doreen. Unlike at Diamond Creek, we will seek to raise capital from the Doreen community to fund this expansion.

We can ensure you that our original shareholders will be uppermost in our minds, as it was through your foresight, along with that of our partners the Bendigo Bank, that this business was created. I commend the reports to you.

David Wheeler
Treasurer

Directors' report

For year ending 30 June 2008

Your Directors submit the financial report of the Company for the financial year ended 30 June 2008.

Directors

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

Barry Henwood
Chairman
Newsagent

David Wheeler
Director
Shop Proprietor

Bruce Donelly (resigned 22 November 2007)
Director
Company Director

Hugh Stubley
Director
IT Consultant

Malcolm Hackett (appointed 6 February 2008)
Director
School Principal

Stephen Frank Bennett (appointed 6 February 2008)
Director
Winery Proprietor

Ian Mason
Director
Real Estate Agent

Julie Reid
Director
Consultant

William John Arthur (resigned 31 August 2008)
Director
Security Consultant

Francis Daniel Spencer (deceased 22 January 2008)
Director
Chartered Accountant

Peter Kelly (resigned 9 August 2007)
Director
Nurseryman

Ingrid Crichton (appointed 6 February 2008)
Director
Retired

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

No Directors have material interests in contracts or proposed contracts with the Company except as disclosed below.

Principal activities

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

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

Directors' report continued

Operating results

Operations have continued to perform in line with expectations. The profit of the Company for the financial year after provision for income tax was $200,553 (2007: $171,053). There was a corresponding increase in advertising, marketing, and sponsorship towards the community, with total expenditure of $401,886 (2007: $247,323).

	Year ended 30 June 2008	
Dividends	**Cents Per Share**	**$**
Dividends paid in the year:		
- As recommended in the prior year report	13	86,494

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 period under review not otherwise disclosed in this report.

Significant events after the balance date

There are no matters or circumstances that have arisen since the end of the financial period 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.

Directors' benefits

Staff and shareholders' meeting expenses were paid to Bridges Restaurant - an associated entity of Director Peter Kelly. During the year an amount of $3,480 (2007: $3,668) was paid to Bridges Restaurant.

Director Remuneration for the year ended 30 June 2008

	Primary benefits salary & fees 2008 $	**Primary benefits salary & fees 2007 $**
Ian Mason	2,800	2,800
Bruce Donelly (resigned 22 November 2007)	-	4,800
David Wheeler	4,800	4,800
Barry Henwood	4,800	3,300
William John Arthur (resigned 31 August 2008)	3,300	2,800
Julie Reid	3,300	3,300
Francis Daniel Spencer (deceased 22 January 2008)	-	2,800
Peter Kelly (resigned 9 August 2007)	-	3,300
Hugh Stubley	4,800	4,800
Malcolm Hackett (appointed 6 February 2008)	1,400	-
Ingrid Crichton (appointed 6 February 2008)	1,400	-
Stephen Frank Bennett (appointed 6 February 2008)	1,400	-

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

Indemnification and Insurance of Directors and Officers

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

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

Directors' report continued

Directors meetings

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

Number of meetings held:	**12**
Number of meetings attended:	
Barry Henwood	12
Ian Mason	11
David Wheeler	12
Julie Reid	10
Bruce Donelly (resigned 22 November 2007)	3
William John Arthur (resigned 31 August 2008)	8
Hugh Stubley	10
Francis Daniel Spencer (deceased 22 January 2008)	5
Malcolm Hackett (appointed 6 February 2008)	6
Peter Kelly (resigned 9 August 2007)	1
Stephen Frank Bennett (appointed 6 February 2008)	6
Ingrid Crichton (appointed 6 February 2008)	5

Company Secretary

Hugh Stubley was appointed Company Secretary on 1 July 2006. Hugh Stubley's qualifications and experience include: Founder, Director and Sales & Marketing Manager of Trinity Digital Solutions Pty Ltd and Vice President of Breakaway Camps Inc. for underprivileged kids.

Corporate Governance

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

(a) The establishment of an audit committee. Members of the audit committee are:
Stephen Frank Bennett (appointed 6 February 2008)
Barry Henwood
Ingrid Crichton (appointed 6 February 2008)

(b) Director approval of operating budgets and monitoring of progress against these budgets;

(c) Ongoing Director training; and

(d) Monthly Director meetings to discuss performance and strategic plans.

Auditor independence declaration

The Directors received the following declaration from the Auditor of the Company:

Richmond Sinnott & Delahunty

Chartered Accountants.

Richmond Sinnott & Delahunty

Chartered Accountants

172 McIvor Road
PO Box 30
Bendigo. 3552
Ph. 03 5443 1177
Fax. 03 5444 4344
E-mail: rsd@rsdadvisors.com.au

Auditor's independence declaration

In relation to our audit of the financial report of Valley Community Financial Services Ltd for the financial year ended 30 June 2008, to the best of my knowledge and belief, there have been no contraventions of the Auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Warren Sinnott

Partner

Richmond Sinnott & Delahunty

3 September 2008

Signed in accordance with a resolution of the Board of Directors at Hurstbridge on 3 September 2008.

David Wheeler

Director

Financial statements

Income statement
For year ending 30 June 2008

	Note	2008 $	2007 $
Revenues from ordinary activities	2	1,827,941	1,549,538
Employee benefits expense	3	(677,384)	(617,567)
Charitable donations and sponsorship		(373,550)	(57,106)
Depreciation and amortisation expense	3	(56,907)	(69,836)
Advertising and marketing		(28,336)	(190,217)
Other expenses from ordinary activities		(403,354)	(372,607)
Profit before income tax expense		**288,410**	**242,205**
Income tax expense	4	87,857	71,152
Profit after income tax expense		**200,553**	**171,053**

Earnings per share (cents per share)			
- basic for profit for the year	22	30.14	25.71
- diluted for profit for the year	22	30.14	25.71
- dividends paid per share	21	13.00	10.00

The accompanying notes form part of these financial statements.

Balance sheet
As at 30 June 2008

	Note	2008 $	2007 $
Current assets			
Cash assets	6	462,158	322,621
Receivables	7	194,261	158,048
Other assets	8	35,865	28,892
Total current assets		**692,284**	**509,561**
Non-current assets			
Property, plant and equipment	9	310,565	320,185
Intangible assets	10	48,790	69,765
Total non-current assets		**359,355**	**389,950**
Total assets		**1,051,639**	**899,511**
Current liabilities			
Payables	11	89,868	75,273
Provisions	12	144,443	120,969
Total current liabilities		**234,311**	**196,242**
Total liabilities		**234,311**	**196,242**
Net assets		**817,328**	**703,269**
Equity			
Share capital	13	665,338	665,338
Retained earnings	14	151,990	37,931
Total equity		**817,328**	**703,269**

The accompanying notes form part of these financial statements.

Statement of cash flows
As at 30 June 2008

	Note	2008 $	2007 $
Cash flows from operating activities			
Cash receipts in the course of operations		1,926,202	1,610,345
Cash payments in the course of operations		(1,610,577)	(1,311,728)
Interest received		22,589	11,449
Income tax paid		(85,871)	(60,715)
Net cash flows from operating activities	**15b**	**252,343**	**249,351**
Cash flows from investing activities			
Payments for property, plant and equipment		(26,312)	(13,065)
Net cash flows used in investing activities		**(26,312)**	**(13,065)**
Cash flows from financing activities			
Dividends paid		(86,494)	(66,534)
Repayment of borrowings		-	(7,340)
Net cash flows used in financing activities		**(86,494)**	**(73,874)**
Net increase in cash held		**139,537**	**162,412**
Add opening cash brought forward		322,621	160,209
Closing cash carried forward	**15a**	**462,158**	**322,621**

The accompanying notes form part of these financial statements.

Statement of changes in equity
As at 30 June 2008

	Note	2008 $	2007 $
SHARE CAPITAL			
Ordinary shares			
Balance at start of year		665,338	665,338
Issue of share capital		-	-
Share issue costs		-	-
Balance at end of year		**665,338**	**665,338**
Retained earnings			
Balance at start of year		37,931	(66,588)
Profit after income tax expense		200,553	171,053
Dividends paid		(86,494)	(66,534)
Balance at end of year		**151,990**	**37,931**

The accompanying notes form part of these financial statements.

Notes to the financial statements

For year ending 30 June 2008

Note 1. Basis of preparation of the financial report

(a) Basis of accounting

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and applicable Australian Accounting Standards and other mandatory professional reporting requirements.

The financial report has been prepared on an accruals basis and is based on historical costs (except for land and buildings and available-for-sale financial assets that have been measured at fair value) 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.

The financial report was authorised for issue by the Directors on 3 September 2008.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS'). Australian Accounting Standards that have been recently issued or amended, but are not yet effective, have not been adopted in the preparation of this financial report.

(c) Significant accounting policies

The following is a summary of the material accounting policies adopted. The accounting policies have been consistently applied and are consistent with those applied in the 30 June 2008 financial statements.

Income tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled.

Note 1. Basis of preparation of the financial report (continued)

Property, plant and equipment

Property, plant and equipment are brought to account at cost less accumulated depreciation and any impairment in value. Land and buildings are measured at fair value less accumulated depreciation.

Depreciation is calculated on a straight line basis over the estimated useful life of the asset as follows:

Class of asset	Depreciation rate
Buildings	2.5%-15%
Computers	40%
Plant & equipment	5%-37.5%

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater 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.

Revaluations

Following initial recognition at cost, land and buildings are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and accumulated impairment losses.

Fair value is determined by reference to market based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm’s length transaction as at the valuation date.

Any revaluation surplus is credited to the asset revaluation reserve included in the equity section of the balance sheet unless it reverses a revaluation decrease of the same asset previously recognised in the income statement.

Any revaluation deficit is recognised in the income statement unless it directly offsets a previous surplus of the same asset in the asset revaluation reserve.

An annual transfer from the asset revaluation reserve is made to retained earnings for the depreciation relating to the revaluation surplus.

Notes to the financial statements continued

Note 1. Basis of preparation of the financial report (continued)

Recoverable amount of assets

At each reporting date, the Company assesses whether there is any indication that an asset is impaired.

Where an indicator of impairment exists, the Company makes a formal estimate of the recoverable amount.

Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Goods and services tax

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

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

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

Employee benefits

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

Establishment costs have been initially recorded at cost and amortised on a straight line basis at a rate of 20% per annum.

Cash

Cash on hand and in banks are stated at nominal value.

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

Notes to the financial statements continued

Note 1. Basis of preparation of the financial report (continued)

Comparative figures

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

Revenue

Interest and fee revenue is recognised when earned. All revenue is stated net of the amount of goods and services tax (GST).

Receivables and payables

Receivables and payables are non interest bearing and generally have payment terms of between 30 and 90 days. Receivables are recognised and carried at original invoice amount less a provision for any uncollected debts. 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.

Interest bearing liabilities

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

Provisions

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

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

Contributed 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.

	2008 $	2007 $

Note 2. Revenue from ordinary activities

Operating activities		
- services commissions	1,805,352	1,538,089
- other revenue	-	-
Total revenue from operating activities	**1,805,352**	**1,538,089**
Non-operating activities:		
- interest received	22,589	11,449
Total revenue from non-operating activities	**22,589**	**11,449**
Total revenue from ordinary activities	**1,827,941**	**1,549,538**

Note 3. Expenses

Employee benefits expense		
- wages and salaries	550,219	503,987
- superannuation costs	48,617	43,922
- workers' compensation costs	3,478	2,369
- other costs	75,070	67,289
	677,384	**617,567**
Depreciation of non-current assets:		
- plant and equipment	31,968	43,422
- leasehold improvements	3,964	5,439
Amortisation of non-current assets:		
- franchise fee / start up costs	20,975	20,975
	56,907	**69,836**
Bad debts	1,209	1,761

	2008 $	2007 $

Note 4. Income tax expense

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

Prima facie tax on profit from ordinary activities at 30%	86,523	72,661
Add tax effect of:		
- Amortisation of franchise fee and formation expenses	1,200	1,200
- Non-deductible expenses	134	319
- Overprovision of tax in prior year	-	(3,028)
Current income tax expense	**87,857**	**71,152**
Income tax expense	**87,857**	**71,152**

Note 5. Auditors' remuneration

Amounts received or due and receivable by Richmond, Sinnott & Delahunty for:

- Audit or review of the financial report of the Company	**3,852**	**3,650**

Note 6. Cash assets

Cash at bank and on hand	**462,158**	**322,621**

Note 7. Receivables

Commission receivable	158,105	134,820
Sundry debtors	36,156	23,228
	194,261	**158,048**

Note 8. Other assets

Deferred tax asset	**35,865**	**28,892**

	2008 $	2007 $

Note 9. Property, plant and equipment

Leasehold improvements		
At cost	148,567	131,227
Less accumulated depreciation	(32,903)	(28,939)
	115,664	**102,288**
Plant and equipment		
At cost	407,596	398,624
Less accumulated depreciation	(212,695)	(180,727)
	194,901	**217,897**
Total written down amount	**310,565**	**320,185**
Movements in carrying amounts		
Leasehold improvements		
Carrying amount at beginning of year	102,288	107,727
Additions	17,340	-
Depreciation expense	(3,964)	(5,439)
Carrying amount at end of year	**115,664**	**102,288**
Plant and equipment		
Carrying amount at beginning of year	217,897	248,254
Additions	8,972	13,065
Depreciation expense	(31,968)	(43,422)
Carrying amount at end of year	**194,901**	**217,897**

Note 10. Intangible assets

Franchise fee / start up sosts		
At cost	104,877	104,877
Less accumulated amortisation	(56,087)	(35,112)
	48,790	**69,765**

Notes to the financial statements continued

	2008 $	2007 $

Note 11. Payables

Trade creditors	87,168	72,573
Non-interest bearing loan	-	-
Accrued expenses	2,700	2,700
	89,868	**75,273**

Note 12. Provisions

Employee benefits	107,269	92,754
Provision for taxation	37,174	28,215
	144,443	**120,969**
Number of employees at year end	**13**	**14**

Note 13. Share capital

665,338 Ordinary Shares fully paid of $1 each	**665,338**	**665,338**

Note 14. Retained earnings

Balance at the beginning of the financial year	37,931	(66,588)
Profit after income tax	200,553	171,053
Dividends	(86,494)	(66,534)
Balance at the end of the financial year	**151,990**	**37,931**

Note 15. Cash flow statement

(a) Reconciliation of cash		
Cash assets	**462,158**	**322,621**
(b) Reconciliation of profit after tax to net cash from operating activities		
Profit after income tax	200,553	171,053

	2008 $	2007 $

Note 15. Cash flow statement (continued)

	2008 $	2007 $
Non cash items		
- Depreciation	35,932	48,861
- Amortisation	20,975	20,975
Changes in assets and liabilities		
- (Increase) decrease in receivables / other assets	(43,186)	(33,744)
- Increase (decrease) in payables	14,595	6,979
- (decrease) increase in income tax payable	8,959	15,820
- Increase (decrease) in provisions	14,515	19,407
Net cash flows from operating activities	**252,343**	**249,351**

Note 16. Director and related party disclosures

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

Barry Henwood

Ian Mason

David Wheeler

Julie Reid

Bruce Donelly (resigned 22 November 2007)

William John Arthur (resigned 31 August 2008)

Hugh Stubley

Francis Daniel Spencer (deceased 22 January 2008)

Malcolm Hackett (appointed 6 February 2008)

Peter Kelly (resigned 9 August 2007)

Stephen Frank Bennett (appointed 6 February 2008)

Ingrid Crichton (appointed 6 February 2008)

Other than detailed below no Director or related entity has entered into a material contract with the Company.

Staff and shareholders' meeting expenses were paid to Bridges Restaurant - an associated entity of Director Peter Kelly. During the year an amount of $3,480 (2007: $3,668) was paid to Bridges Restaurant.

Note 16. Director and related party disclosures

Director Remuneration for the year ended 30 June 2008

	Primary benefits salary & fees 2008 $	**Primary benefits salary & fees 2007 $**
Ian Mason	2,800	2,800
Bruce Donelly (resigned 22 November 2007)	-	4,800
David Wheeler	4,800	4,800
Barry Henwood	4,800	3,300
William John Arthur (resigned 31 August 2008)	3,300	2,800
Julie Reid	3,300	3,300
Francis Daniel Spencer (deceased 22 January 2008)	-	2,800
Peter Kelly (resigned 9 August 2007)	-	3,300
Hugh Stubley	4,800	4,800
Malcolm Hackett (appointed 6 February 2008)	1,400	-
Ingrid Crichton (appointed 6 February 2008)	1,400	-
Stephen Frank Bennett (appointed 6 February 2008)	1,400	-

Directors shareholdings	**2008**	**2007**
Barry Henwood	1,500	1,500
Ian Mason	1,000	1,000
David Wheeler	2,000	2,000
Julie Reid	-	-
Bruce Donelly (resigned 22 November 2007)	15,000	15,000
William John Arthur (resigned 31 August 2008)	-	-
Hugh Stubley	-	-
Francis Daniel Spencer (deceased 22 January 2008)	-	-
Malcolm Hackett (appointed 6 February 2008)	-	-
Peter Kelly (resigned 9 August 2007)	-	-
Stephen Frank Bennett (appointed 6 February 2008)	-	-
Ingrid Crichton (appointed 6 February 2008)	-	-

There was no movement in Directors shareholdings during the year. Each share is fully paid to $1.

Note 17. Subsequent events

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

Note 18. Contingent liabilities

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

Note 19. Segment reporting

The economic entity operates in the financial services sector were it provides banking services to its clients. The economic entity operates in one geographic area being Hurstbridge and Districts, Victoria.

Note 20. Corporate information

Valley Community Financial Services Ltd is a Company limited by shares incorporated in Australia, whose shares are publicly traded on the Bendigo Stock Exchange.

The registered office of the Company is:

808 Main Road,
Hurstbridge VIC 3099

The principal places of business are:

808 Main Road,
Hurstbridge VIC 3099

Shop 1, 72 Chute Street,
Diamond Creek VIC 3089

Note 21. Dividends paid or provided for on ordinary shares

	2008 $	2007 $
(a) Dividends paid during the year		
Franked dividends - 13 cents per share (2007: 10 cents per share)	**86,494**	**66,534**
(b) Dividends proposed and not recognised as a liability		
Franked dividends - 20 cents per share (2007: nil)	**133,068**	**-**

	2008 $	2007 $

Note 21. Dividends paid or provided for on ordinary shares (continued)

(c) Franking credit balance

The amount of franking credits available for the subsequent financial year are:		
- Franking account balance as at the end of the financial year at 30% (2007: 30%)	153,224	104,422
- Franking credits that will arise from the payment of income tax payable as at the end of the financial year	37,174	28,215
	190,398	**132,637**

The tax rate at which dividends have been franked is 30% (2007: 30%).

Note 22. Earnings per share

Basic earnings per share amounts are calculated by dividing profit after income tax by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing profit after income tax by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects of any dilutive options or preference shares).

The following reflects the income and share data used in the basic and diluted earnings per share computations:

Profit after income tax expense	**200,553**	**171,053**
Weighted average number of ordinary shares for basic and diluted earnings per share	**665,338**	**665,338**

Note 23. Financial risk management

The Company has exposure to credit risk, liquidity risk and market risk from their use of financial instruments.

This note presents information about the Company's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The Board has established an Audit Committee which reports regularly to the Board. The Audit Committee is assisted in the area of risk management by an internal audit function.

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. For the Company it arises from receivables and cash assets.

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. The Company's maximum exposure to credit risk at reporting date was:

	Carrying amount	
	2008	**2007**
	$	**$**
Cash assets	462,158	322,621
Receivables	194,261	158,048
	656,419	**480,669**

The Company's exposure to credit risk is limited to Australia by geographic area. The majority of the balance of receivables is due from Bendigo and Adelaide Bank Ltd.

None of the assets of the Company are past due (2007: nil past due) and based on historic default rates, the Company believes that no impairment allowance is necessary in respect of assets not past due.

The Company limits its exposure to credit risk by only investing in liquid securities with Bendigo and Adelaide Bank Ltd.

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures it will have enough liquidity to meet its liabilities when due under both normal and stressed conditions. Liquidity management is carried out within the guidelines set by the Board.

Typically, the Company maintains sufficient cash on hand to meet expected operational expenses, including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Note 23. Financial risk management (continued)

The following are the estimated contractual maturities of financial liabilities, including estimated interest payments.

	Carrying amount $	Contractual cash flows $	1 year or less $	over 1 to 5 years $	more than 5 years $
30 June 2008					
Payables	89,868	(89,868)	(89,868)	-	-
	89,868	**(89,868)**	**(89,868)**	**-**	**-**
30 June 2007					
Payables	75,273	(75,273)	(75,273)	-	-
	75,273	**(75,273)**	**(75,273)**	**-**	**-**

(c) Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

Interest rate risk

Interest rate risk is that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company reviews the exposure to interest rate risk as part of the regular Board meetings.

Sensitivity analysis

At the reporting date the interest rate profile of the Company's interest bearing financial instruments was:

	Carrying amount 2008 $	Carrying amount 2007 $
Fixed rate instruments		
Financial assets	400,000	263,169
Financial liabilities	-	-
	400,000	**263,169**
Variable rate instruments		
Financial assets	62,158	59,452
Financial liabilities	-	-
	62,158	**59,452**

Note 23. Financial risk management (continued)

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed interest rate financial assets or liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have no impact on profit or retained earnings. For the analysis performed on the same basis as at 30 June 2008 there was also no impact. As at both dates this assumes all other variables remain constant.

(d) 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 year end.

(e) Capital management

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

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

(i) the Distribution Limit is the greater of:

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

  (b) subject to the availability of distributable profits, the Relevant Rate of Return multiplied by the average level of share capital of the Franchisee over that 12 month period; and

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

The Board is managing the growth of the business in line with this requirement. There are no other externally imposed capital requirements, although the nature of the Company is such that amounts will be paid in the form of charitable donations and sponsorship. Charitable donations and sponsorship paid for the year ended 30 June 2008 can be seen in the Income Statement.

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

Director's declaration

In accordance with a resolution of the Directors of Valley Community Financial Services Limited, I 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 2008 and of their performance for the year ended on that date; and

  (ii) complying with Accounting Standards in Australia and Corporations Regulations 2001;

(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; and

(c) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2008.

David Wheeler
Director

Signed at Hurstbridge on 3 September 2008.

Independent audit report

Richmond Sinnott & Delahunty
Chartered Accountants

Partners:
Kenneth J Richmond
Warren J Sinnott
Philip P Delahunty
Brett A Andrews

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF VALLEY COMMUNITY FINANCIAL SERVICES LIMITED

SCOPE

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for Valley Community Financial Services Limited, for the year ended 30 June 2008.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company, and that complies with Accounting Standards in Australia, in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are established to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to 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 control, 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 assess whether in all material respects the financial report presents fairly in accordance with the Corporations Act 2001, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant account 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.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Woodbury Court, 172 McIvor Road Bendigo 3550. PO Box 30 Bendigo 3552. Ph: (03) 5443 1177. Fax: (03) 5444 4344. Email: rsd@rsdadvisors.com.au
ABN 60 616 244 309

INDEPENDENCE

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

AUDIT OPINION

In our opinion, the financial report of Valley Community Financial Services Limited is in accordance with:

(a) 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 Accounting Standards and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements in Australia.

Richmond Sinnott & Delahunty

RICHMOND SINNOTT & DELAHUNTY
Chartered Accountants

W Sinnott.

W. J. SINNOTT
Partner
Bendigo

Date: 3 September 2008

BSX report

Share information

In accordance with Bendigo Stock Exchange listing rules to Company provides the following information as at 17 September 2008, which is within 6 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.

Number of shares held	Number of shareholders
1 to 1,000	276
1,001 to 5,000	84
5,001 to 10,000	11
10,001 to 100,000	8
100,001 and over	0
Total shareholders	**379**

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

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

There are 5 shareholders holding less than a marketable parcel of shares ($500 in value).

There are no restricted securities on issue.

All shares on issue are ordinary shares fully paid to $1 per share. There are no unquoted equity securities.

The following table shows the 10 largest shareholders.

Shareholder		Number of shares	Percentage of capital
Graham Dryden & Clare Dryden	<Graden Engineering Super Fund A/C>	30,000	4.51%
Mr Bruce Donelly	65 Thomas Road	15,000	2.25%
Mrs A Jupp	<Trash N Stash Super Fund Ac>	15,000	2.25%
Mrs Beverley Joan Mitchell	105 York Street	15,000	2.25%
Mr Harold Charles Mitchell	105 York Street	15,000	2.25%
Vetemac Pty Ltd	<Super Fund A/C>	15,000	2.25%
Mr Gregory John Howlett	<GH Superannuation Fund Ac>	14,250	2.14%
Wayryn Pty Ltd	<Superannuation Fund A/C>	12,000	1.80%
Carl Chahine & Renee Chahine	38 Tara Valley Cres	10,000	1.50%
Chambeyron Superannuation	P/L359 Iron Bark Road	10,000	1.50%
		151,250	22.09%

BSX report continued

Registered office and principal administrative office

The registered office of the Company is located at:

808 Heidelberg Kinglake Road,
Hurstbridge VIC 3099
Phone: (03) 9718 0431

The principal administrative office of the Company is located at:

808 Heidelberg Kinglake Road,
Hurstbridge VIC 3099
Phone: (03) 9718 0431

Security register

The security register (share register) is kept at:

Computershare Investor Services Pty Ltd
452 Johnston Street,
Abbotsford VIC 3067
Phone: 1300 137328

Other information

Please refer to the Directors report, within the annual report, for details of the Company Cecretary 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.

Hurstbridge **Community Bank®** Branch
808 Main Road, Hurstbridge VIC 3099
Phone: (03) 9718 0431

Diamond Creek **Community Bank®** Branch
1/72 Main Hurstbridge Road, Diamond Creek VIC 3089
Phone: (03) 9438 4133

Franchisee: Valley Community Financial Services Limited
808 Main Road, Hurstbridge VIC 3099
ABN 86 092 399 730

www.bendigobank.com.au
Bendigo and Adelaide Bank Limited, The Bendigo Centre, Bendigo VIC 3550
ABN 11 068 049 178. AFSL 237879. (BMPAR8019) (08/08)