

**K U - R I N G - G A I
F I N A N C I A L S E R V I C E S
L I M I T E D**

ABN 56 103 129 184

**A N N U A L R E P O R T
3 0 J U N E 2 0 0 3**

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A N N U A L R E P O R T 2 0 0 3

C O N T E N T S

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CHAIRMAN'S REPORT

HISTORY

We have certainly come a long way since the original Project Steering Committee decided to proceed with the establishment of the Turrumurra Community Bank™ based on the results of the Feasibility Study conducted by MGI Wamstekers Pty Ltd in August 2002.

Following the release of our Prospectus on 23 January 2003, the minimum subscription amount of \$695,000 was successfully raised prior to expiry of the statutory four months period. More than 350 shareholders have subscribed in excess of \$830,000 in share capital to enable the company to establish community banking services under management rights to operate a franchised branch of Bendigo Bank. At the time of this report, our Prospectus remains open for new subscriptions.

CURRENT POSITION

The company has made considerable progress toward the official launch of full banking operations. These are currently scheduled to commence in October 2003.

Recent milestones include:

- Securing the former Village Gentry site at 1273 Pacific Highway under a 15-year lease agreement. This site has excellent visibility and easy access to ample public car parking, the railway station and local bus interchange.
- Recruitment and commencement of our Branch Manager, Ms Denice Kelly, on 11 August 2003. Denice has an excellent track record in the financial and retail banking sectors and a demonstrated interest and commitment to supporting community initiatives.

- Recruitment and commencement of our full complement of supporting bank staff on 22 September, 2003.
- Commencement of building works to fit-out our premises.

Our Franchise Agreement with Bendigo Bank has been activated as at 1 September, 2003. This means that the company is now generating income from the banking business domiciled to our Turrumurra Community Bank™ Branch.

BOARD MEMBERS

The Board has met almost weekly throughout calendar 2003 to plan and monitor preparations for the establishment of our bank.

I extend my personal thanks to all Board members, our Secretary Juli Fidler, and also to those Steering Committee members who continue to contribute their time and energies voluntarily to enable the successful launch of our banking services.

BENDIGO BANK

Our partnership with Bendigo Bank is an excellent one. On behalf of the Board, I thank Bendigo Bank staff for their counsel, expertise and assistance throughout the past 24 months, initially to the Project Steering Committee members and more recently to our Board members.

CONCLUSION

In conclusion, I would like to thank all of our shareholders for supporting the establishment of the Turrumurra Community Bank™ Branch of Bendigo Bank.

I also remind you that your on-going support will be invaluable in ensuring the success of our Bank.

David A Langdon, Chairman

D I R E C T O R S ' R E P O R T

Your Directors are pleased to submit this report of Ku-ring-gai Financial Services Limited progress as at 30 June 2003.

PRINCIPAL ACTIVITY

The principal activities of the company during the course of the financial year were to raise share capital under our Prospectus dated 23 January 2003 and to prepare for the establishment of the Turramurra Community Bank™ Branch of Bendigo Bank.

OPERATING RESULTS

The company incurred a loss amounting to \$43,436 for the 2003 financial year after providing for income tax.

REVIEW OF OPERATIONS

The company has raised in excess of \$830,000 in share capital under the Prospectus dated 23 January 2003. At the time of this report, the Prospectus remains open for new subscriptions.

The company had not commenced banking operations as at 30 June 2003.

DIVIDENDS

No dividends were declared or paid during the year and no recommendation is made as to dividends.

MATERIAL AND UNUSUAL ITEMS AND EVENTS

At the date of this Report the Directors are not aware of any circumstances not otherwise dealt with in this report of accounts which would render any amount stated in the accounts misleading.

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 of 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.

SUBSEQUENT EVENTS

Since the end of the financial year and to the date of this Report, in the opinion of the Directors, no item, transaction or event of a material and unusual nature has occurred which would affect substantially the results of the company's operations for the next succeeding year.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

As planned, we have made considerable progress toward the official launch of full banking operations subsequent to 30 June 2003.

Significant milestones achieved by the company include securing a long-term lease agreement for our bank premises, commencement of our Branch Manager Ms. Denice Kelly and her full complement of support staff, and commencement of the building works to fit-out our new premises.

DIRECTORS' REPORT

Our Franchise Agreement with Bendigo Bank Limited was activated as at 1 September 2003. This means that the company is now generating income from all banking business conducted by customers of the Turramurra Community Bank™ Branch.

The official launch of full banking operations in our own premises is currently scheduled to take place in October 2003.

There have been no significant unplanned changes in the state of affairs since the commencement of operations of the company to the date of this report.

FUTURE DEVELOPMENTS

As indicated above, the building works programme to fit-out our premises has now commenced. These works are anticipated to be completed by mid-October 2003.

The company has already prepared a detailed plan to conduct a community-based event to launch the Turramurra Community Bank™ Branch. This event will be preceded by a meeting of all shareholders at which the Directors will outline the progress achieved to date and enable shareholders to inspect the Bank premises.

DIRECTORS

The names of the Directors who held office during or since the end of the financial year and their special responsibilities are:

| | | |
|--------------------------|-----------------------------------|--|
| David Andrew Langdon | Consultant (retired) | Chairman of Directors |
| Glen James Armstrong | Information Technology Consultant | Convenor, Human Resources Committee and Information Technology Committee |
| David Alan Croston | Media Executive | Convenor, Marketing & Promotions Committee |
| Lorraine Frances Dawe | Principal, Licensed Real Estate | |
| Gregory John Edwards | Software Engineer | Convenor, Interim Operations Committee |
| James Alan Loxton | Barrister | Convenor, Audit & Governance Committee |
| Matthew Grant Martin | Managing Director, Retailer | Convenor, Fit-out Committee |
| Adrian John Snelson | Accountant | Convenor, Finance & Budget Committee |
| Arthur Wendelin Stautner | Baker | |
| Philip Andrew Young | Pharmacist | |

All Directors have been in office since the incorporation of the company on 11 December 2002.

MEETINGS OF DIRECTORS

21 meetings of Directors were held between 11 December 2002 and 30 June 2003.

| Director | Board Meetings attended |
|-----------------|-------------------------|
| David Langdon | 20 |
| Glen Armstrong | 20 |
| Dave Croston | 19 |
| Lorraine Dawe | 16 |
| Greg Edwards | 20 |
| James Loxton | 20 |
| Matthew Martin | 18 |
| John Snelson | 13 |
| Arthur Stautner | 12 |
| Philip Young | 12 |

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

No indemnities have been given or insurance premiums paid during or since the end of the financial year for any person who is or has been a Director, officer or auditor of the company.

Signed in accordance with a resolution of Directors



David A Langdon
Director

26 September 2003

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2003

| | NOTES | 2003 \$ |
|---|-------|-----------------|
| Revenues from ordinary activities | 2 | 5,000 |
| General administration | | (3,936) |
| Salaries and employee benefits expense | | (60,000) |
| Advertising and promotion | | (180) |
| Occupancy and associated costs | | (1,714) |
| Depreciation and amortisation expense | 3 | (855) |
| Loss from ordinary activities before income tax credit | | (61,685) |
| Income tax credit relating to ordinary activities | 4 | 18,249 |
| Loss from ordinary activities after income tax credit | | (43,436) |
| Total changes in equity other than those resulting from transactions with owners as owners | | (43,436) |

The statement of financial performance is to be read in conjunction with the notes to the financial statements set out on pages 9 to 14.

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2003

| | NOTES | 2003 \$ |
|----------------------------------|-------|----------------|
| CURRENT ASSETS | | |
| Cash assets | 5 | 683,640 |
| Receivables | 6 | 14,101 |
| Total current assets | | 697,741 |
| NON-CURRENT ASSETS | | |
| Receivables | 7 | 59,145 |
| Deferred tax assets | 8 | 18,249 |
| Total non-current assets | | 77,394 |
| TOTAL ASSETS | | 775,135 |
| CURRENT LIABILITIES | | |
| Payables | 9 | 27,106 |
| Total current liabilities | | 27,106 |
| TOTAL LIABILITIES | | 27,106 |
| NET ASSETS | | 748,029 |
| EQUITY | | |
| Contributed equity | 10 | 791,465 |
| Accumulated losses | 11 | (43,436) |
| TOTAL EQUITY | | 748,029 |

The statements of financial position is to be read in conjunction with the notes to the financial statements set out on pages 9 to 14.

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2003

| | NOTES | 2003 \$ |
|--|-------|----------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash paid to suppliers and employees | | (52,825) |
| Cash received from customers | | 5,000 |
| Net cash used in operating activities | 12(b) | (47,825) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Payment for Franchise Agreement | | (60,000) |
| Net cash used in investing activities | | (60,000) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds of share issues | | 831,660 |
| Payment of share issue costs | | (40,195) |
| Net cash provided by financing activities | | 791,465 |
| Net increase/(decrease) in cash held | | 683,640 |
| Cash at beginning of the financial year | | – |
| CASH AT THE END OF THE FINANCIAL YEAR | 12(a) | 683,640 |

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 9 to 14.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 including applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

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.

This is the first year that the company has been incorporated and therefore is the first year that these accounting policies have been applied.

INCOME TAX

Income tax has been brought to account using the liability method of tax effect accounting whereby income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

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

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised.

EMPLOYEE ENTITLEMENTS

The company had no full time employees as at 30 June 2003. Instead it has relied upon volunteer contributions from unpaid directors and staff provided by Bendigo Bank under an agreement with Bendigo Bank. The company is not responsible for the accrued entitlements of those staff. The company will employ staff and provisions for employee entitlements to wages, salaries and annual leave will be made, representing the amount which the company has a present obligation to pay resulting from employees' services provided up to the next balance date.

NOTES TO THE FINANCIAL STATEMENTS

The company will contribute to a defined contribution plan. Contributions to employee superannuation funds will be charged against income as incurred.

INTANGIBLES

The cost of the company's franchise fee has been recorded at cost and is amortised on a straight line basis at a rate of 20% per annum.

CASH

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

PROPERTY, PLANT AND EQUIPMENT

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

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, will be depreciated on a straight line basis over their estimated useful lives to the entity commencing from the time the asset is held ready for use.

Leasehold improvements will be depreciated over the shorter of either the unexpired period of the lease or estimated useful lives of the improvements.

The depreciation rates to be used for each class of depreciable assets are:

| Class of fixed assets | Depreciation rate (%) |
|-----------------------|-----------------------|
| Plant and equipment | 2.5 – 25 |

COMPARATIVE FIGURES

Comparatives have not been provided as the company had not commenced operations as at 30 June 2003.

REVENUE

Interest and fee revenue is recognised when earned. All revenue is stated net of the amount of Goods and Services Tax (GST).

PAYMENT TERMS

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

RECEIVABLES

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.

| | |
|---|----------|
| | 2003 |
| | \$ |
| 2. REVENUE FROM ORDINARY ACTIVITIES | |
| Operating activities | |
| Other revenue | 5,000 |
| | 5,000 |
| 3. EXPENSES | |
| Amortisation of non-current assets: | |
| Intangibles | 855 |
| | 855 |
| 4. INCOME TAX EXPENSE | |
| The prima facie tax on profit/(loss) from ordinary activities | |
| before income tax is reconciled to the income tax expense as follows: | |
| Operating Loss | (61,685) |
| Prima facie tax on loss from ordinary activities at 30% | (18,505) |
| Add tax effect of: | |
| Non-deductible expenses | 256 |
| Income tax credit on operating loss | (18,249) |
| 5. CASH ASSETS | |
| Cash at bank and on hand | 683,640 |
| | 683,640 |
| 6. RECEIVABLES | |
| Trade receivables | 14,101 |
| | 14,101 |
| 7. INTANGIBLE ASSETS | |
| <i>Franchise Fee</i> | |
| At cost | 60,000 |
| Less accumulated amortisation | (855) |
| | 59,145 |
| 8. DEFERRRED TAX BENEFIT | |
| Future income tax benefit | |
| Tax losses - revenue | 18,249 |
| | 18,249 |

NOTES TO THE FINANCIAL STATEMENTS

| | |
|--------------------|--------|
| | 2003 |
| | \$ |
| 9. PAYABLES | |
| Sundry creditors | 27,106 |
| | 27,106 |

10. CONTRIBUTED EQUITY

| | |
|--------------------------------------|----------|
| Balance at beginning of the year | – |
| Fully paid ordinary shares issued | 831,660 |
| Less: Equity raising costs | (40,195) |
| Balance at end of the financial year | 791,465 |

11. RETAINED LOSSES

| | |
|---|----------|
| Balance at the beginning of the financial year | – |
| Net profit/(loss) from ordinary activities after income tax | (43,436) |
| Balance at the end of the financial year | (43,436) |

12. STATEMENT OF CASHFLOWS

(a) *Reconciliation of cash*

| | |
|--------------------------|---------|
| Cash at bank and on hand | 683,640 |
| | 683,640 |

(b) *Reconciliation of profit from ordinary activities after tax to net cash provided by/(used in) operating activities*

| | |
|--|----------|
| Loss from ordinary activities after income tax | (43,436) |
| Non cash items: | |
| Amortisation | 855 |
| Changes in assets and liabilities: | |
| Decrease in receivables | (14,101) |
| Decrease in other assets | (18,249) |
| Increase in liabilities: | |
| Payables | 27,106 |
| Net cashflows provided by/(used in) operating activities | (47,825) |

13. AUDITORS' REMUNERATION

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

| | |
|-------------------------|-------|
| Audit & review services | 1,200 |
| | 1,200 |

14. RELATED PARTY DISCLOSURES

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

Glen James Armstrong
David Alan Croston
Lorraine Frances Dawe
Gregory John Edwards
David Andrew Langdon
James Alan Loxton
Matthew Grant Martin
Adrian John Snelson
Arthur Wendelin Stautner
Philip Andrew Young

No director or related entity has entered into a material contract with the company. No director's fees have been paid as the positions are held on a voluntary basis.

15. SUBSEQUENT EVENTS

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

16. CONTINGENT LIABILITIES

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

17. SEGMENT REPORTING

The economic entity facilitates community banking services under management rights to operate a franchised branch of Bendigo Bank Limited. The economic entity operates in one geographic area being Turrumurra, NSW.

18. REGISTERED OFFICE/ PRINCIPAL PLACE OF BUSINESS

The registered office and principal place of business is:

REGISTERED OFFICE

40 Tennyson Avenue
Turrumurra NSW 2074

PRINCIPAL PLACE OF BUSINESS

40 Tennyson Avenue
Turrumurra NSW 2074

NOTES TO THE FINANCIAL STATEMENTS

19. 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

| | FLOATING INTEREST RATE 2003 \$ | NON INTEREST BEARING 2003 \$ | WEIGHTED AVERAGE EFFECTIVE INTEREST RATE 2003 \$ |
|------------------------------|---|---------------------------------------|--|
| Financial assets | | | |
| Cash assets | 683,840 | – | n/a |
| Receivables | – | 14,101 | n/a |
| Financial liabilities | | | |
| Payables | – | 27,106 | n/a |

DIRECTORS' DECLARATION

In the opinion of the directors of Ku-ring-gai
Financial Services Limited:

- 1 the financial statements and notes set out on pages 6 to 14 are in accordance with the Corporations Act 2001, including:
 - a) giving a true and fair view of the financial position of the company as at 30 June 2003 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
 - b) comply with Accounting Standards in Australia and the Corporations Regulations 2001; and
- 2 there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Dated at Sydney this 26th day of September
2003.

Signed in accordance with a resolution of
the Directors.



David A Langdon
Director



A John Snelson
Director

I N D E P E N D E N T A U D I T O R ' S R E P O R T

T O T H E M E M B E R S O F K U - R I N G - G A I F I N A N C I A L S E R V I C E S L I M I T E D

SCOPE

We have audited the financial report of Ku-ring-gai Financial Services Limited for the financial year ended 30 June 2003, as set out on pages 6 to 15, including the Directors' Declaration. The company's Directors are responsible for the financial report. We have 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 to provide reasonable assurance whether the financial report is free of material misstatement. 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. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements and statutory requirements in Australia, so as to present a view which is consistent with our understanding of the company's financial position and performance as presented by the results of its operations and cash flows.

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

AUDIT OPINION

In our opinion the financial report of Ku-ring-gai 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 2003 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations; and
- (b) other mandatory professional reporting requirements.



David Hutchings
ANDREW FREWIN & STEWART
61-65 Bull Street, Bendigo, 3550

Dated this 26th day of September 2003