Palerang Financial Services Limited
ABN 83 097 801 100

2008 annualreport

Contents

Chairman's report

For year ending 30 June 2008

Dear Shareholders,

The 2007/08 financial year has seen Palerang Financial Services Ltd's (PFSL) business continue to grow with both our **Community Bank®** branches consolidating their respective positions in Braidwood and Bungendore as an integral part of their community.

A profit before income tax of $116,090 has been achieved by the Company. This result is considered satisfactory by the Board as the Bungendore **Community Bank®** Branch has just reached a monthly break even trading basis and the Braidwood branch had its first five year franchise fee renewed in September 2007.

This result has allowed PFSL to distribute a five cent unfranked dividend to shareholders, to be paid in November 2008, at a cost of $66,020. In the future it is anticipated that profits will allow the Company to continue to pay an annual dividend. I would like to take this opportunity to thank all shareholders for their patience and continued support in allowing PFSL to reach this point in the Company's growth. Without your support we would not have two successful **Community Bank®** branches in our towns or be able to support community projects as we do.

The Board of PFSL anticipates continued business growth as we go forward and has budgeted on twelve percent growth in revenue over the coming year. The Braidwood **Community Bank®** Branch's business growth pattern remains consistent in meeting expected outcomes for its stage of maturity. The financial market of the Bungendore **Community Bank®** Branch is potentially larger but there are more difficulties in increasing market share. Whilst the branch is achieving sound growth results there is a need for this to remain high to meet present and future Company objectives.

As foreshadowed last year contributions to sponsorships have been reduced in the 2007/08 year to help allow PFSL to strengthen its financial position.

Annual sponsorship comparison:

2005/06	$5,768
2006/07	$24,076
2007/08	$14,939

Major sponsorships undertaken during the 2007/08 year:

$7,000	Majors Creek – children's playground
$3,000	Braidwood National Theatre – sound system
$1,500	Bungendore Scouts – camping equipment
$1,000	Braidwood Preschool – playground mulch

Chairman's report continued

For the 2008/09 year PFSL has budgeted on a substantial increase in sponsorship contributions and is presently working with community groups on some exciting projects.

The Company now has twelve permanent staff servicing the community in an exemplary manner and I would like to thank them for their commitment and dedication. With the continued growth of business a position has been created for a Loans Officer at the Braidwood **Community Bank®** Branch. I would like to congratulate Georgina Byrnes on being promoted to that position.

Thanks to PFSL Board members for the time and effort they give and the pride they display in working for the community. I would like to welcome new Directors Jenifer Frederick and Shane Holness and acknowledge the expertise they bring to the Board and thank retiring Director Steven Hockey for his valued contribution.

Again, I would like to reiterate my belief in the **Community Bank®** concept in delivering positive outcomes for the community and shareholders alike.

N A Wisbey

Noel Wisbey
Chairman

Manager's report

For year ending 30 June 2008

The 2007/08 financial year has seen both the Company's branches continue to grow. Business under management passed $100 million and now stands at $115 million making Palerang Financial Services Limited one of the largest **Community Bank®** branch organisations in New South Wales.

The Braidwood branch, despite being well established, continues to grow and now has more than $75 million in banking business. The branch continues to produce good monthly trading surpluses.

The Bungendore branch has almost $40 million in banking business and is now starting to contribute to the profitability of the organisation.

The Company's before tax profit of $116,090 was a pleasing result considering we had franchise renewal costs in the year and it was only the Bungendore branch's second year of trading. We expect to build on this result over the coming year despite what is shaping as a difficult economic environment. Early signs are that the growth will continue and, at the time of writing, we are in front of business growth budgets for the present year. This should flow through to an increase in profitability before tax and donations.

I would like to thank the customers and shareholders who have supported our Company and our branches. Without your support we would not be able to achieve these milestones. I am particularly pleased we are now able to pay a dividend.

I also would like to thank staff and Board members for their work and support over the year.

If you are yet to become a customer of our **Community Bank®** branches, I invite you to contact us to see if we are able to assist you with your banking needs.

Craig Pettit

Manager

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:

Noel Arthur Wisbey
Chairman
Orchardist

Steven Hockey
(appointed 27 September 2007)
Director
Small Business Owner

Jenifer Frederick
(appointed 27 September 2007)
Director
Certified Practicing Accountant

Maureen Christine Faviell
(resigned 24 January 2008)
Director
School Administrator

Michael Andrews
Director
Marriage Celebrant

Caroline Suzette Spencer
(resigned 25 October 2007)
Director
Chartered Accountant

Douglas William Smith
Director
Chemist

Frank David Judge
Director
Retired Accountant

Michelle Robison
Director
Teacher

Allan Donnelly
Director
Publishing Company Manager

Michael Fay
Director
Sales Manager

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

No Directors have material interests in contracts or proposed contracts with the Company.

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 two franchised branches 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 $79,324 (2007: $7,374).

Dividends

No dividends were declared or paid for the previous year. The Directors intend to recommend a 5 cent per share unfranked dividend 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.

Significant events after the balance date

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

Likely developments

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

Directors' benefits

The Company entered into a rental agreement with an entity related to a Director (Michael Fay) for the rental of the Bungendore branch premises. The agreement is on commercial terms and commenced on 1 July 2006, with rent for the year ended 30 June 2008 being $21,815 (2007: $22,303).

No other 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 were:

Number of meetings held:	**11**
Number of meetings attended:	
Noel Arthur Wisbey	10
Steven Hockey (appointed 27 September 2007)	7
Maureen Christine Faviell (resigned 24 January 2008)	5
Jenifer Frederick (appointed 27 September 2007)	6
Frank David Judge	2
Michelle Robison	6
Douglas William Smith	7
Allan Donnelly	8
Michael Andrews	9
Michael Fay	8
Caroline Suzette Spencer (resigned 25 October 2007)	3

Company Secretary

Mick Andrews was appointed Company Secretary of Palerang Financial Services Ltd in March 2007. Mick's experience includes running his own business.

Corporate governance

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

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

(b) Ongoing Director training; and

(c) 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 Palerang 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

5 September 2008.

Signed in accordance with a resolution of the Board of Directors at Braidwood, New South Wales on 5 September 2008.

Noel Arthur Wisbey
Chairman

Financial statements

Income statement
For year ending 30 June 2008

	Note	2008 $	2007 $
Revenues from ordinary activities	2	1,034,282	800,070
Employee benefits expense	3	(543,198)	(445,000)
Charitable donations and sponsorship		(11,862)	(23,000)
Depreciation and amortisation expense	3	(49,221)	(43,460)
Administration and other expenses from ordinary activities		(313,911)	(267,959)
Profit before income tax expense		**116,090**	**20,651**
Income tax expense	4	36,766	13,277
Profit after income tax expense		**79,324**	**7,374**

Earnings per share (cents per share)			
- basic for profit for the year	20	5.99	0.56
- diluted for profit for the year	20	5.99	0.56

The accompanying notes form part of these financial statements.

Balance sheet
As at 30 June 2008

	Note	2008 $	2007 $
Current assets			
Cash assets	6	308,463	177,361
Receivables	7	101,202	80,912
Total current assets		**409,665**	**258,273**
Non-current assets			
Property, plant and equipment	8	668,176	710,246
Deferred income tax asset	4	-	13,182
Intangible assets	9	20,942	12,113
Total non-current assets		**689,118**	**735,541**
Total assets		**1,098,783**	**993,814**
Current liabilities			
Current tax liability	4	23,584	-
Payables	10	47,431	50,803
Provisions	11	25,915	20,624
Total current liabilities		**96,930**	**71,427**
Non-current liabilities			
Bank loan	10	292	150
Total non-current liabilities		**292**	**150**
Total liabilities		**97,222**	**71,577**
Net assets		**1,001,561**	**922,237**
Equity			
Share capital	12	1,067,752	1,067,752
Accumulated losses	13	(66,191)	(145,515)
Total equity		**1,001,561**	**922,237**

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		1,109,335	848,189
Cash payments in the course of operations		(969,701)	(812,611)
Interest received		7,306	7,996
Net cash flows from operating activities	**14b**	**146,940**	**43,574**
Cash flows from investing activities			
Payment for property, plant and equipment		(5,980)	(250,033)
Purchase of intangible assets		(10,000)	-
Net cash flows used in investing activities		**(15,980)**	**(250,033)**
Cash flows from financing activities			
Members contributions		-	31,801
Proceeds from borrowings		142	129
Net cash flows used in financing activities		**142**	**31,930**
Net increase/(decrease) in cash held		**131,102**	**(174,529)**
Add opening cash bought forward		177,361	351,890
Closing cash carried forward	**14a**	**308,463**	**177,361**

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		1,067,752	1,035,951
Issue of share capital		-	31,801
Balance at end of year		**1,067,752**	**1,067,752**
Retained earnings / (accumulated losses)			
Balance at start of year		(145,515)	(152,889)
Profit after income tax expense		79,324	7,374
Balance at end of year		**(66,191)**	**(145,515)**

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 5 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 2007 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
Leasehold improvements	8%
Plant & equipment	33%
Buildings	2.5%

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.

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.

Notes to the financial statements continued

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

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.

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.

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

	2008 $	2007 $

Note 2. Revenue from ordinary activities

	2008 $	2007 $
Operating activities:		
- services commissions	1,026,976	792,074
Total revenue from operating activities	**1,026,976**	**792,074**
Non-operating activities:		
- interest received	7,306	7,996
Total revenue from non-operating activities	**7,306**	**7,996**
Total revenue from ordinary activities	**1,034,282**	**800,070**

Note 3. Expenses

	2008 $	2007 $
Employee benefits expense		
- wages and salaries	463,987	398,444
- superannuation costs	38,655	34,212
- other costs	40,556	12,344
	543,198	**445,000**

Notes to the financial statements continued

	2008 $	2007 $

Note 3. Expenses (continued)

Depreciation of non-current assets:		
- plant and equipment	8,598	156
- leasehold improvements	9,730	9,711
- building	29,722	14,476
Amortisation of non-current assets:		
- intangibles	1,171	19,117
	49,221	**43,460**
Bad debts	173	403

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 before income tax at 30%	34,827	6,195
Add tax effect of:		
- Non-deductible expenses	1,939	7,082
Current income tax expense	**36,766**	**13,277**
Income tax expense	**36,766**	**13,277**
Deferred income tax assets		
Future income tax benefits arising from tax losses are recognised at reporting date as realisation of the benefit is regarded as probable.	**-**	**13,182**
Tax liabilities		
Current tax payable	**23,584**	**-**

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	**3,650**	**3,650**

	2008 $	2007 $

Note 6. Cash assets

Cash at bank and on hand	**308,463**	**177,361**

Note 7. Receivables

Trade debtors	**101,202**	**80,912**

Note 8. Property, plant and equipment

Land		
At cost	180,621	180,621
Buildings		
At cost	446,494	446,494
Less accumulated depreciation	(49,173)	(19,451)
	397,321	**427,043**
Leasehold fit out		
At cost	121,758	121,758
Less accumulated depreciation	(55,789)	(46,059)
	65,969	**75,699**
Plant and equipment		
At cost	36,336	30,356
Less accumulated depreciation	(12,071)	(3,473)
	24,265	**26,883**
Total written down amount	**668,176**	**710,246**
Movements in carrying amounts		
Land		
Carrying amount at beginning of year	180,621	180,621
Additions	-	-
Carrying amount at end of year	**180,621**	**180,621**

	2008 $	2007 $

Note 8. Property, plant and equipment (continued)

	2008 $	2007 $
Buildings		
Carrying amount at beginning of year	427,043	218,525
Additions	-	222,994
Depreciation expense	(29,722)	(14,476)
Carrying amount at end of year	**397,321**	**427,043**
Leasehold fit out		
Carrying amount at beginning of year	75,699	85,410
Depreciation expense	(9,730)	(9,711)
Carrying amount at end of year	**65,969**	**75,699**
Plant and equipment		
Carrying amount at beginning of year	26,883	-
Additions	5,980	27,039
Depreciation expense	(8,598)	(156)
Carrying amount at end of year	**24,265**	**26,883**

Note 9. Intangible assets

	2008 $	2007 $
Franchise fee		
At cost	70,000	60,000
Less accumulated amortisation	(55,609)	(53,245)
	14,391	**6,755**
Preliminary expenses		
At cost	43,718	43,718
Less accumulated amortisation	(37,167)	(38,360)
	6,551	**5,358**
	20,942	**12,113**

	2008 $	2007 $

Note 10. Payables

	2008 $	2007 $
Current		
Trade creditors	**47,431**	**50,803**
Non current		
Bank loan	**292**	**150**

Note 11. Provisions

	2008 $	2007 $
Employee benefits	25,915	20,624
Number of employees at year end	**13**	**10**

Note 12. Share capital

	2008 $	2007 $
1,067,752 Ordinary Shares fully paid of $1 each	1,067,752	1,067,752
257,570 fully paid bonus shares issued for no consideration	-	-
	1,067,752	**1,067,752**
Movement in ordinary shares		
Balance at beginning of year	1,067,752	1,035,951
Issued during the year	-	31,801
Balance at end of year	**1,067,752**	**1,067,752**

Note 13. Accumulated losses

	2008 $	2007 $
Balance at the beginning of the financial year	(145,515)	(152,889)
Profit after income tax	79,324	7,374
Balance at the end of the financial year	**(66,191)**	**(145,515)**

	2008 $	2007 $

14. Cash flow statement

(a) Reconciliation of cash

Cash assets	**308,463**	**177,361**

(b) Reconciliation of profit after tax to net cash provided from operating activities

Profit after income tax	79,324	7,374
Non cash items		
- Depreciation	48,050	24,343
- Amortisation	1,171	19,117
Changes in assets and liabilities		
- (Increase) decrease in receivables	(20,290)	(28,072)
- Increase (decrease) in payables	(3,372)	3,045
- Increase (decrease) in provisions	5,291	4,490
- Increase (decrease) in income tax payable	23,584	-
- (Increase) decrease in deferred tax asset	13,182	13,277
Net cash flows from operating activities	**146,940**	**43,574**

Note 15. Director and related party disclosures

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

Noel Arthur Wisbey

Steven Hockey (appointed 27 September 2007)

Maureen Christine Faviell (resigned 24 January 2008)

Jenifer Frederick (appointed 27 September 2007)

Frank David Judge

Michelle Robison

Douglas William Smith

Allan Donnelly

Michael Andrews

Michael Fay

Caroline Suzette Spencer (resigned 25 October 2007)

Notes to the financial statements continued

Note 15. Director and related party disclosures (continued)

The Company entered into a rental agreement with an entity related to a Director (Michael Fay) for the rental of the Bungendore branch premises. The agreement is on commercial terms and commenced on 1 July 2006, with rent for the year ended 30 June 2008 being $21,815 (2007: $22,303). No other Director or related entity has entered into a material contract with the Company. No Director's fees have been paid as all positions are held on a voluntary basis.

Directors shareholdings	**2008**	**2007**
Noel Arthur Wisbey	6,001	6,001
Steven Hockey (appointed 27 September 2007)	5,750	5,750
Maureen Christine Faviell (resigned 24 January 2008)	1,501	1,501
Jenifer Frederick (appointed 27 September 2007)	-	-
Frank David Judge	750	750
Michelle Robison	1,500	1,500
Douglas William Smith	3,750	3,750
Allan Donnelly	5,000	5,000
Michael Andrews	200	200
Michael Fay	1,000	1,000
Caroline Suzette Spencer (resigned 25 October 2007)	-	-

There was no movement in Director shareholdings during the year. Each share held is valued at $1 and is fully paid.

Note 16. Subsequent events

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

Note 17. Contingent liabilities

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

Note 18. 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 the Palerang Shire (incorporating Braidwood and Bungendore) New South Wales.

Note 19. Corporate information

Palerang Financial Services Ltd is a Company limited by shares incorporated in Australia.

The registered office and principal place of business is:
95 Wallace Street,
Braidwood NSW 2622

Note 20. 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:

	2008 $	2007 $
Profit after income tax expense	**79,324**	**7,374**
Weighted average number of ordinary shares for basic and diluted earnings per share	**1,325,322**	**1,309,442**

Note 21. 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 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:

Note 21. Financial risk management (continued)

	Carrying amount	
	2008	2007
	$	$
Cash assets	308,463	177,361
Receivables	101,202	80,912
	409,665	**258,273**

The Company's exposure to credit risk is limited to Australia by geographic area. The entire 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.

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	47,431	(47,431)	(47,431)	-	-
Interest bearing liabilities	292	(292)	(292)	-	-
	47,723	**(47,723)**	**(47,723)**	**-**	**-**
30 June 2007					
Payables	50,803	(50,803)	(50,803)	-	-
Interest bearing liabilities	150	(150)	(150)	-	-
	50,953	**(50,953)**	**(50,953)**	**-**	**-**

Note 21. Financial risk management (continued)

(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	**2007**
	$	**$**
Fixed rate instruments		
Financial assets	220,000	-
Financial liabilities	-	-
	220,000	**-**
Variable rate instruments		
Financial assets	88,463	177,361
Financial liabilities	(292)	(150)
	88,171	**177,211**

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 2007 there was also no impact. As at both dates this assumes all other variables remain constant.

Note 21. Financial risk management (continued)

(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 Palerang 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; 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.

Noel Arthur Wisbey

Chairman

Signed at Braidwood on the 5 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 PALERANG 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 Palerang 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.

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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 Palerang 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 J Sinnott

W. J. SINNOTT
Partner
Bendigo

Date: 5 September 2008

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