BENDIGO COMMUNITY TELCO LIMITED

A.B.N. 88 089 782 203

2007/08 FINANCIAL STATEMENTS

CORPORATE GOVERNANCE STATEMENT

Bendigo Community Telco Limited is committed to high standards of Corporate Governance. This commitment applies to the conduct of its business dealings with its customers and its dealings with its shareholders, employees, suppliers and the Community.

The Board of Bendigo Community Telco Limited have adopted the following principles of Corporate Governance. The policies may be viewed on the company website www.bendigotelco.com.au

1. A Board Charter which outlines the responsibilities of the Board by formalising and disclosing functions reserved to the Board and those delegated to management.
2. An Audit Committee Charter and the appointment of the Audit Committee as a sub-committee of the Board. The members of the Audit Committee are Directors Andrew Cairns and Geoff Michell.
3. A Share Trading policy which outlines directors and employees obligations in trading in its securities. The policy restricts directors and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the Company's security price.
4. A Remuneration policy which sets out the terms and conditions for the Chief Executive Officer and other senior managers. Directors Don Erskine and Geoff Michell are members of the Remuneration Committee.
5. A Continuous Disclosure policy which complies with the obligations imposed by Bendigo Stock Exchange (BSX) Listing Rules and the *Corporations Act 2001.* This policy requires immediate notification to the BSX of any information concerning the company, of which it is aware or becomes aware, which is not generally available and which a reasonable person would expect to have a material effect on the price or value of the company shares.

BOARD COMPOSITION

The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report and their term of office are detailed in the director's report.

DIRECTORS' REPORT

Your directors present their report on the Company for the financial year ended 30 June 2008.

DIRECTORS

The names of directors in office at any time during or since the end of the year are:

Mr R Hunt (Chairman)	Mr G Bastian
Mr A Cairns	Mr D Erskine
Dr L Kilmartin	Mr G Michell
Mrs M Spalding (appointed 28 August 2007)	

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

No Directors have material interests in contracts or proposed contracts with the company, except as disclosed in Note 22 on page 38.

INFORMATION ON DIRECTORS

Mr Robert George Hunt – Chairman

Age 57

Occupation Managing Director, Bendigo and Adelaide Bank Limited

Qualifications Fellow of Australian Institute of Company Directors (FAICD)
Doctor of LaTrobe University (honoris causa)

Experience In 1990 Rob Hunt was appointed Managing Director of Bendigo Building Society (which converted to bank status in July 1995). Rob has guided Bendigo and Adelaide Bank Limited through many innovations to become a unique regional and community banking organisation.

Based in Bendigo, Rob has led the Bank's development from a provincial building society to a nationally represented, uniquely positioned and diversified banking and financial services group which is in the top 100 companies listed on the Australian Stock Exchange.

Mr Hunt is the architect of the Bank's Community Banking™ model and other alliance arrangements. He is also Chairman of Bendigo Community Telco Ltd. He is a Councillor of the Australian Bankers Association and a member of the Business Council of Australia.

Interest in Shares Indirect – Hunters Ridge Pty Ltd (Hunt Family Trust) 421,004 Shares, Indirect – Bendigo and Adelaide Bank Limited 1,112,146 Shares and Indirect – Annette Hunt 30,044 Shares

Special Responsibilities Nil

Other Directorships
Adelaide Bank Limited
Tasmanian Banking Services Ltd
Lead On Australia Ltd
St Luke's Anglicare (Patron /ex Director)
Councillor of Australian Bankers Association
Business Council of Australia (Member)
Community Telco Australia Pty Ltd
Community Sector Enterprises Pty Ltd and subsidiary Community Sector Banking Pty Ltd
Community Enterprise Foundation (Patron-in-Chief)
Community Bank Strategic Advisory Board

Mr Hunt is also a director of a number of Bendigo and Adelaide Bank subsidiary companies.

Mr Graham William Bastian – Director

Age 56

Occupation Consultant

Qualifications Dip Engineering - Civil (Swinburne), Dip Ed (Hawthorn State College)

Experience Graham worked as a civil engineer with a private firm of surveyors and engineers until entering teaching. Following a period as an educational consultant focused on assisting schools in the effective use of computers, Graham became the Principal of Charlton College.

He then became the Regional Principal Consultant for Bendigo, the Principal of Golden Square Secondary College and recently retired as Principal of Bendigo Senior Secondary College. Since this career change, Graham has been providing consultancy services to the Department of Education Central Office as well as many schools across the state.

Interest in Shares Direct – 0 Shares, Indirect – Jeanette Bastian 2,000 Shares

Special Responsibilities Nil

Other Directorships Nil

Mr Andrew Cairns - Director

Age 46

Occupation Chief Executive Officer of Community Telco Australia Pty Ltd

Qualifications Bachelor of Engineering – Electrical (Footscray Institute of Technology)
Associate Fellow of the Australian Institute of Management
Member of Australian Institute of Company Directors

Experience Andrew Cairns has extensive experience in a variety of industries from manufacturing to television and telecommunications, both in Australia and internationally. In the past few years he has applied that experience to steering start-up organisations to success, including initially Bendigo Community Telco as Chief Executive Officer. The success of the Community Telco model, led by Andrew as Chief Executive Officer of Community Telco Australia has now resulted in the project being rolled out to regional communities across Australia.

Interest in Shares Direct – 24,600 Shares, Indirect – 0 Shares

Special Responsibilities Andrew Cairns is a Member of the Audit Committee

Other Directorships iTEL Community Telco; Coliban Region Water Authority

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Mr Donald James Erskine - Director

Age 62

Occupation Managing Director – Industrial Conveying (Aust.) Pty Ltd

Experience Don is trained as a mechanical engineer. He is Managing Director of Industrial Conveying (Aust.) Pty Limited which was formed by Don in 1979. His previous appointments include non-executive Director of Bendigo Bank and a member of the Bank's Credit, IT Strategy and Property Committees, Director of North West Country Credit Union Co-op Ltd, Director of Community Telco Australia and Director of Bendigo Economic Development Committee. Don is also chairman of the Australian Technical College and is actively involved in the Bendigo Community.

Interest in Shares Direct - 0 Shares, Indirect – Erskine Investments Pty Ltd 840,000 Shares

Special Responsibilities Don Erskine is a Member of the Remuneration Committee

Other Directorships
Chairman – Australian Technical College Pty Ltd
Director – Coliban Region Water Authority
Chairman – Bendigo +25 Community Reference Group

Dr Leslie Alan Kilmartin - Director

Age 64

Occupation Principal of The Insight Group

Qualifications B.A. Queensland, M.A. Aust. National University, PhD La Trobe University

Experience Les Kilmartin is the former head of the Bendigo campus of La Trobe University and he held the position of Professor of Regional and Urban Studies. He is now the Principal of The Insight Group. Dr Kilmartin's academic interests include a long-standing involvement in regional development, and he served on the Premier's Northern Region Forum and prepared a regional strategy plan for La Trobe University. In addition he also established and was Founding Director of the University's Centre for Sustainable Regional Communities, which conducts applied regional research and community service programs through central and northern Victoria.

Interest in Shares Direct – 5,000 Shares, Indirect - 0 Shares

Special Responsibilities Nil

Other Directorships Nil

Mr Geoffrey Ralph Michell - Director

Age 57

Occupation Retired

Qualifications Diploma of Civil Engineering, Masters of Business Administration (Deakin)

Experience After initially working in the construction industry, Geoff has spent the last 35 years in the water industry at various locations throughout Victoria. He has been involved in the construction and operation of water and wastewater infrastructure and management of water services.

Geoff has recently retired as Managing Director of Coliban Water, a position he held for 10 years and worked for the utility since its creation in 1992. Geoff was extensively involved in all aspects of Coliban Water's strategic use of the private sector to achieve its business objectives.

Interest in Shares Direct – 20,002 Shares

Special Responsibilities Geoff Michell is a Member of the Audit Committee and the Remuneration Committee

Other Directorships Nil

Mrs Margot Elizabeth Spalding – Director (appointed 28 August 2007)

Age 54

Occupation Director - Jimmy Possum Furniture Pty Ltd

Qualifications Diploma Teaching Primary (Ballarat)

Experience After a varied career in teaching, children's clothing manufacture and furniture manufacture Margot founded Jimmy Possum Furniture P/L with her husband Alan in 1995.

Margot is a Director of Jimmy Possum Melbourne Pty Ltd, Jimmy Possum Sydney Pty Ltd, Neron Pty Ltd and Jimmy Possum Adelaide Pty Ltd.

Interest in Shares Indirect – Alan Francis Spalding & Margot Elizabeth Spalding <A & M Spalding Superannuation Fund> 10,000 Shares

Special Responsibilities Nil

Other Directorships Nil

COMPANY SECRETARY

At the end of the financial year, Malcolm B. Campbell (Bachelor of Laws) held the position of Company Secretary. Mr Campbell is a Barrister and Solicitor of the Supreme Court of Victoria and has worked in government, private practice and in senior legal positions for the Bendigo Bank.

REMUNERATION REPORT

This report details the nature and amount of remuneration for each key management person of Bendigo Community Telco Limited, and for the executives receiving the highest remuneration.

Remuneration Policy

The remuneration policy of Bendigo Community Telco Limited has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and incentives based on key performance areas affecting the company's financial results. The board of Bendigo Community Telco Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the company, as well as create goal congruence between directors, executives and shareholders.

The board's policy for determining the nature and amount of remuneration for key management personnel of the company is as follows:

- The remuneration policy, setting the terms and conditions for the key management personnel, was developed by the remuneration committee and approved by the board.
- All key management personnel receive a base salary (which is based on factors such as length of service and experience), superannuation and performance incentives.
- The Chief Executive Officer reviews key management personnel packages annually. This review is subject to the remuneration policy set by the Board.

The performance of key management personnel is measured against criteria agreed annually with each executive and is based predominantly on the forecast growth of the company's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Key management personnel are also entitled to participate in the employee share plan.

The key management personnel receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to key management personnel is valued at the cost to the company and expensed. Shares given to key management personnel are expensed at the market price as listed on the Bendigo Stock Exchange at the date of granting of any shares under the employee share plan.

Performance-based remuneration

As part of each number of the key management personnel's remuneration package there is a performance-based component, consisting of key performance indicators (KPIs). The intention of this program is to facilitate goal congruence between key management personnel with that of the business and shareholders. The KPIs are set annually, with a certain level of consultation with key management personnel to ensure buy-in.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved.

Directors

From the inception of Bendigo Community Telco Limited, all Directors who have served have done so free of charge. It was put to the Annual General Meeting in October 2007, and approved, that a payment of $15,000 per director be made for each full year of service from 1 July 2007 onwards.

Employee Share Plan

In December 2007 an allocation of shares was made to all eligible staff under the Bendigo Community Telco Employee Share Plan No. 1. The share issue was valued and expensed in accordance with applicable accounting requirements, and further details can be found at Note 17 to the Financial Reports.

Key Management Personnel

(i) Directors

Robert Hunt	Chairman
Graham Bastian	Director
Andrew Cairns	Director
Donald Erskine	Director
Leslie Kilmartin	Director
Geoffrey Michell	Director
Margot Spalding	Director – appointed 28 August 2007

(ii) Executives

Philip Lazenby	Chief executive officer - appointed 8 October 2007
Andrew Cairns	Acting chief executive officer – between 2 July and 8 October 2007
Mandy Cooper	General manager - finance & operations
Stephen Culpitt	General manager - customer service
Bryan Pedersen	General manager - technology
Wayne Williams	General manager - business development

There were no change in respect to the Company's directors and executives between the reporting date and the date the financial report was authorised for issue.

Company performance, shareholder wealth and director and executive remuneration

The following table shows the gross revenue, profits and dividends for the last five years for Bendigo Community Telco Limited, as well as the share price at the end of the respective financial years (post listing on the Bendigo Stock Exchange which occurred in September 2005).

Analysis of the actual figures shows an increase in profits each year, with the exception of the period between 2004 and 2005. The company did not have a tax liability in 2004 which resulted in a higher net profit, however all tax losses were taken up in that year. The reduction in net profit in 2005 was the direct result of incurring a tax liability and this has been applicable for each year since that time.

There has also been an increase or maintenance of dividends paid to shareholders. The improvement in the company's performance over the past five years has been reflected in the company's share price post listing on the Bendigo Stock Exchange, with an increase each year. The board is of the opinion that these results can be attributed in part to the previously described remuneration policy and is satisfied that this continued improvement has lead to increased shareholder wealth over the past four years.

	2004	**2005**	**2006**	**2007**	**2008**
Revenue	$12.1M	$15.4M	$18.4M	$23.7M	$26.8M
Net profit	$771K	$552K	$553K	$692K	$950K
Share price at year end	n/a	n/a	$1.10	$1.20	$1.60
Dividends paid	-	10.6 cents	4.5 cents	9.0 cents	12.5 cents

Details of remuneration for year ended 30 June 2008

(i) Directors – the remuneration for each of the directors of the entity during the year was as follows:

	Short-term benefits		Post-employment benefits	
	Fees	**Salary**	**Superannuation**	**TOTAL**
Robert Hunt		13,761	1,239	15,000
Graham Bastian	15,000			15,000
Andrew Cairns		13,761	1,239	15,000
Donald Erskine			15,000	15,000
Leslie Kilmartin			15,000	15,000
Geoffrey Michell			15,000	15,000
Margot Spalding	12,661			12,661
	27,661	27,522	47,478	102,661

(ii) Executives - The remuneration for each of the five executive officers of the entity receiving the highest remuneration during the year was as follows:

	Short-term benefits		Post-employment benefits	Share-based Payment	
	Salaries	**Non-Cash Benefits**	**Superannuation**	**Equity**	**TOTAL**
Mandy Cooper	111,427	15,000	10,028	1,000	137,455
Wayne Williams	105,550	15,000	9,500	1,000	131,050
Neville Boyle	105,519	13,562	8,417	1,000	128,498
Bryan Pedersen	101,413	15,000	8,272	1,000	125,685
Stephen Culpitt	90,440	15,000	8,140	1,000	114,580
	514,349	73,562	44,357	5,000	637,268

It should be noted that the Philip Lazenby, the Chief executive officer has been excluded from the list of highest remunerated executives as he did not commence with the Company until 8 October 2007 and therefore a full year of payments were not made.

PRINCIPAL ACTIVITIES

The principal activities of the Company during the course of the financial year were telecommunications services.

OPERATING RESULTS

The operating profit of the company for the financial year after providing for income tax was $950,240 (before tax profit $1,088,324). The 2007 operating profit was $692,338 (before tax profit $1,070,095).

DIVIDENDS PAID OR RECOMMENDED

	Year Ended 30 June 2008	
Dividends paid in the year:	**Cents**	**$**
Final – September 2007	6.5	363,091
Interim – March 2008	6.0	336,162
Total	**12.5**	**699,253**

FINANCIAL POSITION

The net assets of Bendigo Community Telco Limited have increased to $4,143,587 at 30 June 2008 (30 June 2007: $3,876,417). The change has largely resulted from the following factors:

1. Growth in revenue and trade and other receivables;
2. A reduction in cash or cash equivalents mainly due to the purchase of assets;
3. Growth in prepayments;
4. Growth in intangibles with additional goodwill and software development costs;
5. Purchase of assets including network computers and infrastructure;
6. Growth in expenses and trade and other payments;
7. Growth in employee provisions due to increased staff numbers;
8. Growth in borrowings with the leasing of additional assets; and
9. Growth in retained earnings.

The Company's working capital, being current assets less current liabilities, has reduced from $2,382,676 in 2007 to $1,647,344, which still maintains a healthy position.

The directors believe the Company is in a strong and stable financial position to expand and grow its current operations.

REVIEW OF OPERATIONS

Bendigo Community Telco Limited is now in its eighth year of operations and has continued to consolidate its position within the Bendigo and district market, providing a full range of products and services to its customers including full service (line rental, local calls, etc), broadband and dial up internet access, mobiles, data services and business continuity services. We also offer services and products through our Kangaroo Flat office including PABX and phone system sales and installation, UHF Radios, technical installation and servicing including cabling, with retail sales of mobile phones, etc at both the Kangaroo Flat and McLaren Street (Bendigo) outlets.

Bendigo Community Telco has continued in its Franchise Agreement with Community Developments Australia. Bendigo Community Telco Limited has also maintained wholesale agreements with Optus Singtel, Silk Telecom, Soul, Newsnet, RedCoal, and NextGen Pure Data.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS AND MATTERS SUBSEQUENT TO BALANCE DATE

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

There have not been any significant changes in the state of affairs of the Company during the financial year. Since the end of the financial year a final dividend in the amount of 7.0 cents per share was declared by the Board of Directors on 23 September 2008 which will be distributed to shareholders on 24 October 2008.

No other matters or circumstances have arisen since the end of the financial year, which 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 subsequent financial years.

ADOPTION OF AUSTRALIAN EQUIVALENTS TO IFRS

As a result of the introduction of Australian equivalents to International Financial Reporting Standards (AIFRS), the company's financial report has been prepared in accordance with those Standards.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

Disclosure of information relating to major development in the operations of the Company and the expected results of those operations in future financial years, which, in the opinion of the directors, will not unreasonably prejudice the interests of the Company, is contained in the Report by the Chairman and Chief executive officer on pages 2 to 4 of the Concise Annual Report.

ENVIRONMENTAL REGULATION

The company is not subject to any significant environmental regulation.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The company has indemnified all directors, officers and the managers in respect of liabilities to other persons (other than the company or related body corporate) that may arise from their position as directors, officers 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 BENEFITS AND INTEREST IN CONTRACTS

No director has received or become entitled to receive during or since the end of the financial year, a benefit because of a contract made by the company with the director, a firm of which the director is a member or an entity in which the 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, prepared in accordance with the Corporate Regulations, or the fixed salary of full-time employees of the company, controlled entity or related body corporate other than interests and benefits disclosed at Note 22 to the Financial Report.

SHARE OPTIONS

The Company has not issued any share options.

PROCEEDINGS

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

DIRECTORS' MEETINGS

During the financial year, thirteen meetings of directors (including committees of directors) were held. Attendances by each director during the year were as follows:

			Committee Meetings			
	Directors' Meetings		**Audit Committee**		**Remuneration Committee**	
Directors	No. eligible to attend	No. attended	No. eligible to attend	No. attended	No. eligible to attend	No. attended
Rob Hunt	10	9	-	-	-	-
Graham Bastian	10	8	-	-	-	-
Andrew Cairns	10	10	2	2	-	-
Don Erskine	10	8	-	-	1	1
Les Kilmartin	10	8	-	-	-	-
Geoff Michell	10	9	2	2	1	1
Margot Spalding	9	9	-	-	-	-

NON AUDIT SERVICES

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

The Board of Directors has considered the position, and is satisfied that the provision of the non audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

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

> All non audit services have been reviewed to ensure they do not impact on the integrity and objectivity of the auditor.
>
> The nature of the services provided do not compromise the general principles relating to auditor independence in accordance with the APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 12.

Signed in accordance with a resolution of the Board of Directors at Bendigo on 23 September 2008.

Rob Hunt	Andrew Cairns
Director	Director

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial statements of Bendigo Community Telco Limited for the year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been:

a. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

b. no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Bendigo Community Telco Limited.

Graeme Stewart
Auditor

Andrew Frewin & Stewart
Bendigo
VIC 3550

24 September 2008

DIRECTORS' DECLARATION

In the Directors opinion:

1. the financial statements and notes of the company are in accordance with the *Corporations Act 2001*, including:

    a. comply with Accounting Standards and the *Corporations Act 2001* and other mandatory professional reporting requirements; and
    b. give a true and fair view of the company's financial position as at 30 June 2008 and of its performance as presented by the results of its operations and its cash flows for the financial year ended on that date; and

2. the Chief Executive Officer and General Manager – Finance & Operations have each declared that:

    a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
    b. the financial statements and notes for the financial year comply with the Accounting Standards; and
    c. the financial statements and notes for the financial year give a true and fair view;

3. in the director's opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

On behalf of the directors

Rob Hunt
Chairman

Andrew Cairns
Director

Signed on 23 September 2008

partners in success
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INDEPENDENT AUDITOR'S REPORT

To the members of Bendigo Community Telco Limited

Report on the Financial Report

We have audited the accompanying financial report of Bendigo Community Telco Limited, which comprises the balance sheet at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of directors and executives (remuneration disclosures), required by Accounting Standard AASB 124: Related Party Disclosures, under the heading 'Remuneration Report' in the directors report and not in the financial report.

Directors' Responsibility for the Financial Report

The directors of Bendigo Community Telco Limited are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

The directors also are responsible for preparation and presentation of the remuneration disclosures contained in the directors' report in accordance with Corporations Regulations 2001.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with the relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and the remuneration disclosures in the directors' report comply with Accounting Standard AASB 124.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures in the directors' report.

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

Independence

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

Auditor's Opinion

In our opinion:

a. the financial report of Bendigo Community Telco Limited is in accordance with the *Corporations Act 2001*, including:

    i. giving a true and fair view of the company's financial position as at 30 June 2008 and of its performance for the year ended on that date; and

    ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1; and

c. the remuneration disclosures that are contained in the directors' report comply with Accounting Standard AASB 124.

GRAEME STEWART

ANDREW FREWIN & STEWART
61-65 Bull Street, Bendigo, VIC 3550
Dated this 24th day of September 2008

INCOME STATEMENT
FOR YEAR ENDED 30 JUNE 2008

	Notes	2008 $	2007 $
Revenue	3	26,478,440	23,534,654
Cost of products sold		(18,467,400)	(16,604,351)
Other revenue	3	168,924	121,817
Salaries and employee benefit costs		(3,236,111)	(2,851,667)
Occupancy and associated costs		(457,757)	(287,216)
General administration costs		(1,356,844)	(1,108,374)
Depreciation and amortisation costs	4, 10	(387,216)	(270,617)
Advertising and promotion costs		(373,889)	(341,755)
Systems costs		(1,247,025)	(1,101,672)
Borrowing costs	4	(32,798)	(20,724)
Profit before income tax expense		1,088,324	1,070,095
Income tax expense	6	(138,084)	(377,757)
Profit attributable to members of the entity		950,240	692,338
Overall Operations		cents	cents
Basic earnings per share		16.96	12.39
Diluted earnings per share		16.96	12.39

The accompanying notes form an integral part of this Income Statement

BALANCE SHEET
AS AT 30 JUNE 2008

	Notes	2008 $	2007 $
Current Assets			
Cash and cash equivalents	7	2,342,413	2,699,589
Trade and other receivables	8	3,169,758	3,172,186
Prepayments		744,196	568,842
Inventories	9	241,381	215,418
Total Current Assets		**6,497,748**	**6,656,035**
Non Current Assets			
Property, plant and equipment	10	1,677,115	1,120,695
Intangibles	11	1,005,561	530,933
Deferred Tax Asset	15(b)	164,857	-
Total Non Current Assets		**2,847,534**	**1,651,628**
TOTAL ASSETS		**9,345,282**	**8,307,663**
Current Liabilities			
Trade and other payables	12	4,086,205	3,521,683
Financial Liabilities	13	148,703	105,763
Provisions	14	312,184	263,951
Taxation	15(a)	303,312	381,962
Total Current Liabilities		**4,850,404**	**4,273,359**
Non Current Liabilities			
Financial Liabilities	13	314,179	106,932
Provisions	14	37,112	50,955
Total Non Current Liabilities		**351,291**	**157,887**
TOTAL LIABILITIES		**5,201,696**	**4,431,246**
NET ASSETS		**4,143,587**	**3,876,417**
EQUITY			
Issued capital	16	3,366,861	3,350,678
Retained earnings		776,726	525,739
TOTAL EQUITY		**4,143,587**	**3,876,417**

The accompanying notes form an integral part of this Balance Sheet

STATEMENT OF CHANGES IN EQUITY
FOR YEAR ENDED 30 JUNE 2008

	Notes	2008 $	2007 $
Equity			
Total equity at the beginning of the financial year		3,876,417	3,686,820
Net profit for the year		950,240	692,338
Dividends provided for or paid		(699,253)	(502,741)
Shares issued during period		20,055	-
Cost of issuing shares		(3,872)	-
Total equity at the end of the financial year		4,143,587	3,876,417
Retained earnings			
Retained earnings at the beginning of the period		525,739	336,142
Net profit attributable to members		950,240	692,338
Dividends paid to members		(699,253)	(502,741)
Retained earnings at the end of the period		776,726	525,739

The accompanying notes form an integral part of this Statement of Changes in Equity

CASH FLOW STATEMENT
FOR YEAR ENDED 30 JUNE 2008

	Notes	2008 $	2007 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received in course of operations		29,084,975	25,176,924
Interest paid		(32,798)	(20,724)
Cash paid in course of operations		(27,345,539)	(23,570,293)
Income tax paid		(381,592)	(138,263)
Interest received		168,924	121,817
Net cash provided by operating activities	**18**	**1,493,970**	**1,569,461**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(655,561)	(720,474)
Purchase of intangible assets		(474,628)	(530,933)
Net cash used in investing activities		**(1,130,189)**	**(1,251,407)**
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		20,054	-
Proceeds from borrowings		82,535	33,419
Repayment of finance lease		(120,421)	(49,765)
Dividends paid		(699,253)	(502,741)
Cost of Shares Issued		(3,872)	-
Net cash used in financing activities		**(720,957)**	**(519,087)**
Net decrease in cash held during the financial year		**(357,176)**	**(201,033)**
Cash at beginning of financial year		2,699,589	2,900,622
Cash at the end of the financial year	**7**	**2,342,413**	**2,699,589**

The accompanying notes form an integral part of this Statement of Cash Flows

NOTES TO AND FORMING PART OF THE FINANCIAL REPORT

1. STATEMENT OF ACCOUNTING POLICIES

Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001.*

Australian Accounting Standards set out the accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards (IFRS). Material accounting policies adopted in the preparation of the financial report are presented below. The accounting policies have been consistently applied, unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

(a) Business Combinations

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the purchase method. The purchase method requires an acquirer of a business to be identified and for the cost of the acquisition and fair values of identifiable assets, liabilities and contingent liabilities to be determined at acquisition date, being the date that control is obtained. Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control together with costs directly attributable to the business combination. Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate.

Goodwill is recognised initially at the excess of cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in profit or loss.

(b) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no affect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

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 and comply with the conditions of deductibility imposed by the law.

(c) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term financial liabilities in current liabilities on the balance sheet.

(d) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

The carrying amount of property, plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

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

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

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

	Depreciation Rate (%)	
Asset Class	**2008**	**2007**
Office Furniture & Equipment		
Advertising Collateral	7.5	7.5
Furniture & Fittings	7.5 – 37.5	4.5 – 37.5
Office Equipment	7.5 - 40	7.5 – 40
Office Computer Equipment	37.5 – 66.67	30 – 50
Satellite Equipment	50	50
Software	33 - 80	33 – 40
Retail/Display Equipment	11.25	11.25
Installation/Servicing Equipment	11.25 - 30	11.25 – 30
Business Continuity Centre	2.5 - 50	2.5 – 37.5
Motor Vehicles	18.75 - 25	18.75 - 22.5
Leasehold	2.5 - 25	4.5 – 25
Telecommunications & Infrastructure		
Infrastructure	7.59	7.59
Network Computer & Infrastructure	37.5 - 50	37.5
Connectivity Links	7.5 - 50	7.5 - 33

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(e) Impairment of Assets

At each reporting date, the company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is also performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(f) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. These cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

Contributions are made to employee Superannuation Funds and are charged as expenses when incurred. The company has no legal obligations to cover any shortfall in the fund's obligation to provide benefits to employees on retirement.

Equity-settled compensation

The Company has operated an equity-settled share-based payment employee share scheme. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense in the period of the grant date, with the corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price.

(g) Revenue

Revenue from the sale of goods and services is recognised upon delivery of goods and services to customers. Interest revenue is recognised as it accrues. All revenue is stated net of the amount of Goods and Services Tax (GST).

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs are assigned on the basis of the cost at time of purchase.

(i) Leases

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the company are classified as finance leases.

Finance leases are capitalised, recording an asset and a liability at the lower of the amount equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

(j) Financial Instruments

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provision of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Classification and Subsequent Measurement

(i) *Financial assets at fair value through profit or loss*

Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value in accordance with the documented risk management or investment strategy. Realised and unrealised gains and losses arising from change in fair value are included in profit and loss in the period in which they arise.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at the principal amount. Interest is recognised as an expense as it accrues.

(iii) *Financial Liabilities*

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Impairment

At each reporting date, the company assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the income statement.

(k) Intangibles

Goodwill

Goodwill is initially recorded at the amount by which the purchase price for a business exceeds the fair value attributed to its net assets at date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

Research and development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have an indefinite life and will be tested annually for impairment and carried at cost less accumulated impairment losses.

(l) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of the acquisition of the asset or as part of an item of the expense.

Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are included in the statement of cash flows on a gross basis, except for the GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO which are disclosed as operating cash flows.

(m) Provisions

Provisions are recognised when the company has a legal or constructive obligation as a result of past transactions or other past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

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.

(n) Issued 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.

(o) Comparative Information

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

Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the company.

Key Estimates – Impairment

The company assesses impairment at each reporting date by evaluating conditions specific to the company that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined.

Value in use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

No impairment has been recognised in respect of goodwill for the year ended 30 June 2008. Should the projected turnover figures be outside 90% of budgeted figures incorporated into value in use calculations, an impairment loss would be recognised up to the maximum carrying value of goodwill at 30 June 2008 amounting to $916,491.

Key Judgments – Provision for impairment of receivables

Included in the accounts receivable at 30 June 2008 are amounts that equate to approximately $85,000 which are currently progressing through our debt collection process and are therefore classified as impaired. A provision has been made in the balance sheet at 30 June 2008.

2. BUSINESS COMBINATIONS

On 19 October 2006 Bendigo Community Telco Limited acquired all the assets of Bendigo Communications Pty Ltd, a telecommunications and ancillary services business, for the cash consideration of $650,000. At the completion of the contract term a further cash consideration of $325,000 was made for the achievement of targets in the contract. Details of net assets acquired and goodwill for the entire contract are as follows:

Purchase consideration	
Cash Paid	$975,000
Direct costs relating to the acquisition	$141,763
Total Purchase consideration	$1,116,763
Fair value of net identifiable assets acquired (refer below)	$200,272
Goodwill	$774,728
Direct costs relating to the acquisition	$141,763
	$1,116,763

The goodwill is attributable to the strong position and profitability in trading in the telecommunications and ancillary services market of Bendigo Communications Pty Ltd and the benefits that are currently and are expected to continue to flow to Bendigo Community Telco Limited from the acquisition.

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's Carrying Amount	Fair Value
	$	$
Computers	25,000	25,000
Furniture	21,884	21,884
Office Equipment	20,358	20,358
Retail/Display Equipment	3,480	3,480
Servicing Equipment	39,050	39,050
Vehicles	90,500	90,500
Total net identifiable assets acquired	200,272	200,272

Details of the acquired business contributed revenue and net profit is shown below. The 2007 results have been annualised to comply with the requirements of Accounting Standard AASB 3: Business Combinations. It should be noted that the results are attributed to the cash-generating unit that was developed as a result of the acquisition and includes both direct and indirect costs and overheads (which have been apportioned as a percentage of revenue).

	2008 $	2007 $
Revenue	3,433,030	2,319,811
Costs	(3,181,565)	(1,953,207)
Profit before tax	251,465	366,604

3. REVENUE

	2008 $	2007 $
Sales revenue	26,404,583	23,441,570
Other revenue	73,857	93,084
Interest received	168,924	121,817
Total revenue	26,647,364	23,656,471

4. PROFIT FOR THE YEAR

	2008 $	2007 $
Depreciation of non current assets:		
Office furniture & equipment	123,760	192,672
Motor vehicles	125,462	67,269
Leasehold	7,605	5,072
Telecommunications & infrastructure	130,389	5,604
	387,216	270,617
Borrowing expenses:		
Interest paid	268	3,873
Finance costs	32,342	16,712
Other	188	139
	32,798	20,724
Bad debts	77,011	62,339
Impaired debts	-	20,000
	77,011	82,339
Loss of sale of assets	24,401	41,949

5. AUDITORS' REMUNERATION

	2008 $	2007 $
Amounts received, or due and receivable by the auditors for		
Auditing the financial statements	29,812	20,452
Other services	8,932	24,519
	38,744	44,971

6. INCOME TAX EXPENSE

	2008 $	2007 $
a. The components of tax expense comprise:		
Current tax	319,762	394,102
Deferred tax	5,573	-
Over provision in respect of prior years	(187,251)	(16,345)
	138,084	377,757
b. The prima facie tax on profit from activities before income tax is reconciled to the income tax expenses as follows:		
Operating profit		
Prima facie tax on profit from ordinary activities @ 30%	326,497	321,029
Add:		
Tax effect of:		
- Movement in provision for impairment	-	6,000
- Movement in provision for employee benefits	10,317	67,074
- Movement in deferred tax	5,573	-
	15,890	73,074
Less:		
Tax effect of:		
- Capital raising costs deductible	17,052	-
- Over provision in respect of prior years	187,251	16,346
	204,303	16,346
Income tax on operating profit	138,084	377,757

7. CASH AND CASH EQUIVALENTS

	2008 $	2007 $
Cash at bank	1,064,413	1,421,589
Cash on hand	3,000	3,000
Short term bank deposits	1,275,000	1,275,000
	2,342,413	2,699,589

The effective interest rate on short term bank deposits was 7.13% (2007: 6.23%); these deposits had an average maturity of 33 days.

Reconciliation of cash

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:

	2008 $	2007 $
Cash and cash equivalents	2,342,413	2,699,589

8. TRADE AND OTHER RECEIVABLES

	2008 $	2007 $
Trade debtors	3,254,758	3,257,186
Provision for impairment	(85,000)	(85,000)
	3,169,758	3,172,186

9. INVENTORIES

	2008 $	2007 $
Inventory	241,381	215,418
	241,381	215,418

10. PROPERTY PLANT AND EQUIPMENT

	2008 $	2007 $
Office, Furniture & Equipment		
At Cost	1,003,200	908,136
Accumulated depreciation	(531,143)	(438,923)
Total Office, Furniture & Equipment	472,057	469,213
Motor Vehicles		
At Cost	710,619	521,615
Accumulated depreciation	(188,923)	(162,532)
Total Motor Vehicles	521,696	359,083
Leasehold		
At Cost	114,389	101,342
Accumulated depreciation	(12,208)	(4,603)
Total Leasehold	102,181	96,739
Telecommunications & Infrastructure		
At Cost	822,537	306,627
Accumulated depreciation	(185,399)	(55,010)
Accumulated impairment losses	(55,957)	(55,957)
Total Telecommunications & Infrastructure	581,181	195,660
Total Property, Plant & Equipment	1,677,115	1,120,695

Movement in carrying amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year

	Office, Furniture & Equipment	Motor Vehicles	Leasehold	Telecommunications & Infrastructure	TOTAL
Balance at 1 July 2006	338,844	245,409	17,685	68,900	670,838
Additions	195,568	118,767	99,182	169,725	583,242
Disposals	(19,660)	(28,324)	(15,056)	-	(63,040)
Additions through business acquisition	109,772	90,500	-	-	200,272
Depreciation	(155,311)	(67,269)	(5,072)	(42,965)	(270,617)
Impairment	-	-	-	(55,957)	-
Balance at 30 June 2007	469,213	359,083	96,739	195,660	1,120,695
Additions	134,758	355,819	13,047	515,910	1,019,534
Disposals	(8,154)	(67,744)	-	-	(75,898)
Depreciation	(123,760)	(125,462)	(7,605)	(130,389)	(387,216)
Impairment	-	-	-	-	-
Balance at 30 June 2008	472,057	521,696	102,181	581,181	1,677,115

11. INTANGIBLES

	2008 $	2007 $
Computer software development costs		
Cost	89,070	-
Accumulated Impairment Losses	-	-
Net Carrying Value	89,070	-
Goodwill		
Cost	916,491	530,933
Accumulated Impairment Losses	-	-
Net Carrying Value	916,491	530,933
Total Intangibles	1,005,561	530,933

	Software	**Goodwill**
Year ended 30 June 2007		
Balance at the beginning of year	-	-
Additions	-	-
Acquisitions via business combinations	-	530,933
Impairment losses	-	-
Closing value at end of year	-	530,933
Year ended 30 June 2008		
Balance at the beginning of year	-	530,933
Additions	89,070	-
Acquisitions via business combinations	-	385,558
Impairment losses	-	-
Closing value at end of year	89,070	916,491

The computer software development costs have an infinite life. In making this assessment consideration has been given to the period during which the software can be used, and at the date of this report it has been determined that an end date for its use is unknown, and it has become an integral component of our operating systems and processing. An impairment test will be completed annually, along with a review of the useful life of the software taking into account factors such as operational use and obsolescence. The computer software development costs have been valued using the cost method.

Goodwill has an infinite life.

Impairment Disclosures

Goodwill is allocated to a cash-generating unit which was acquired through a business combination in 2006.

	2008 $	2007 $
Kangaroo Flat segment	916,491	530,933
Total Goodwill	916,491	530,933

The recoverable amount of the cash generating unit above is determined based on value in use calculations. The value in use is calculated based on the present value of cash flow projections over a 10 year period with the period extending beyond 5 years extrapolated using an estimated growth rate. The estimated growth rate used is a weighted average of (5%). The cash flows are discounted using the yield of 10 year government bonds at the beginning of the budget period which was 6.45%.

Management has based the value in use calculations on budgets for the reporting segment. These budgets use historical weighted average growth rates to project revenue across all aspects of the operational segment. Costs are calculated taking into account historical gross margins as well as estimating weighted average inflation rates over the period which are consistent with inflation rates applicable to the locations in which the segments operate. Discount rates are pre-tax and are adjusted to incorporate risks associated with a particular segment.

12. TRADE AND OTHER PAYABLES

	2008 $	2007 $
Unsecured liabilities:		
Trade payables	2,594,113	2,413,541
Sundry payables and accrued expenses	1,492,092	1,108,142
	4,086,205	3,521,683

13. FINANCIAL LIABILITIES

	2008 $	2007 $
Current		
Secured by fixed and floating registered mortgage debenture		
Lease liabilities	148,703	105,763
Total current	148,703	105,763
Non current		
Secured by fixed and floating registered mortgage debenture		
Lease liabilities	314,179	106,932
Total non current	314,179	106,932

The company has two facilities provided by the Bendigo and Adelaide Bank Limited.

1. Commercial Business (Overdraft) Facility to a maximum value of $500,000.
2. Standard Lease Facility to a maximum value of $1,000,000.

Both facilities are secured by a Registered First Company Debenture charge from Bendigo Community Telco Limited in its own right and as Trustee of any trust of which it acts as Trustee to secure the Facilities to the Borrower.

14. PROVISIONS

	2008 $	2007 $
Current		
Employee Benefits	312,184	263,951
Non Current		
Employee Benefits	37,112	50,955
	349,296	314,906

	Long-term Employee Benefits $
Opening balance at 1 July 2007	314,906
Additional provisions	267,564
Amounts used	(216,540)
Unused amounts reversed	(16,634)
Increase in the discounted amount arising because of time and the effect of any change in the discount rate	-
Balance at 30 June 2008	349,296

Provision for Long-term Employee Benefits

A provision has been recognised for employee entitlements relating to long service leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits has been included in Note 1 to this report.

15. TAX

	2008 $	2007 $
a. Liabilities		
Current		
Provision for income tax	303,312	381,962
Non Current		
Deferred Tax Liability	-	-
	-	-
b. Deferred Tax Assets		
Balance as at 30 June	164,857	-
Represented by tax effect of:		
- Provision for impaired debts	25,500	-
- Provision for annual leave	72,656	-
- Provision for long service leave	22,980	-
- Provision for sick leave	9,154	-
- Capital raising costs deductible	34,567	-
	164,857	-

16. ISSUED CAPITAL

	No. of Shares	2008 $	2007 $
Issued and paid up capital ordinary shares of $1 each	1,955,005	3,631,005	3,631,005
Bonus ordinary shares (issued 16 November 2004)	1,955,005	-	-
Shares issued on 10 August 2005	1,675,000	-	-
Shares issued on 10 April 2006	1,000	-	-
Shares issued on 21 December 2007	16,712	20,055	-
Less cost of equity raised		(284,199)	(280,327)
TOTAL	5,602,722	3,366,861	3,350,678

17. SHARE-BASED PAYMENTS

During the period ended 30 June 2008, the Company had one share-based payment arrangement, which is described below:

Type of arrangement	Employee Share Plan
Date of grant	21 December 2007
Number granted	16,712
Contractual Life	n/a
Vesting Conditions	n/a

During the reporting period, Bendigo Community Telco Limited issued 16,712 ordinary shares for $20,055 (2007: nil) to eligible employees under the Bendigo Community Telco Limited Employee Share Plan. These shares had a fair value, which is based on the market price on the Bendigo Stock Exchange at the date of approval of the Share Plan (as per the Plan Rules), of $1.20 per share (2007: nil).

The cost of allocation of the shares of $20,055 is reflected in the Salaries and employee benefits costs in the Income Statement contained in this Report. The costs associated with the allocation of the share based payment have been recognised in equity under issued capital.

18. CASH FLOW INFORMATION

	2008 $	2007 $
Reconciliation of net cash provided by operating activities with profit after income tax		
Profit after income tax	950,240	692,338
Non cash flows in profit:		
Depreciation and amortisation of non current assets	387,216	270,617
Change in assets and liabilities		
(Increase)/decrease in assets		
Trade and other receivables	2,428	(376,611)
Prepayments	(175,356)	(160,286)
Inventories	(25,963)	(165,015)
Deferred Tax Asset	(164,857)	-
Increase/(decrease) in liabilities		
Trade and other payables	564,522	847,730
Provisions	34,390	223,582
Taxation	(78,649)	237,106
Net cash flow from operating activities	1,493,970	1,569,461

19. CAPITAL AND LEASING COMMITMENTS

(a) Finance Leases

	2008 $	2007 $
Finance lease liabilities		
No later than 1 year	148,703	105,764
Later than 1 year and not later than 5 years	369,037	127,044
Minimum finance lease payments	517,740	232,808
Less future finance charges	(54,858)	(20,113)
Finance lease liabilities	462,882	212,695
Represented by:		
Current financial liabilities	148,703	105,763
Non current financial liabilities	314,179	106,932
	462,882	212,695

Leasing arrangements

Finance leases relate to Computer Equipment and Motor Vehicles, all with lease terms of either two or three years. The economic entity has options to purchase the equipment for a nominal amount at the conclusion of the lease arrangements.

(b) Operating Leases

Non-cancellable operating leases	2008 $	2007 $
No later than 1 year	880,621	850,627
Later than 1 year and not later than 5 years	1,784,955	2,295,041
	2,665,576	3,145,668

Leasing arrangements

The operating leases relate to the rental of the business premises including:

1. 23 McLaren Street, Bendigo - five year lease term beginning 31 October 2006, with rent payable monthly in advance. An annual CPI review will be conducted in October of each year of the lease. An option is also available to negotiate a further lease of the building by giving notice between 3-6 months prior to the end of the current lease period.

2. 219 High Street, Kangaroo Flat - three year lease term beginning 13 October 2006, with rent payable monthly in advance. An annual CPI review will be conducted in October of each year of the lease. There is also an option for 3 further terms of five years each, and each of those options must be exercised six months in advance.

3. Business Continuity Centre, 121 Edwards Road, Flora Hill - five years lease term expiring on 31 August 2008. Renegotiations are underway for a further five years commencing on 1 September 2008 with rent payable monthly in advance and an annual CPI review during the Term on 1 September each year.

Operating leases for computer network/infrastructure equipment for customer use continued in this financial period with terms of either three or five years. Approximately 67% of the overall liability relates to these leases which will generate revenues in excess of the expenses noted below.

The company does not have an option to purchase the leased asset at the expiry of any lease period.

(c) **Capital Expenditure Commitments**

	2008	2007
Capital expenditure commitments contracted for:	$	$
Leasehold	3,136	-
Furniture	-	1,598
Office Computer	7,250	1,321
Vehicles	77,386	-
Business Continuity Centre	529,375	3,710
Computer Network & Infrastructure	3,700	-
	620,847	6,629
Payable:		
Not later than 1 year	620,847	6,629
Between 1 year and 5 years	-	-
Later than 1 year and not later than 5 years	-	-
	620,847	6,629

20. FINANCIAL RISK MANAGEMENT

(a) Financial Risk Management Policies

The company's financial instruments consist mainly of deposits with bank, short-term investments, accounts receivable and payable and leases. The main purpose of non-derivative financial instruments is to raise finance for company operations.

The company's activities expose it to a limited variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The company's overall risk management programme focuses on the unpredictability of telecommunications market and seeks to minimise potential adverse effects on the financial performance of the entity. The entity does not use derivative instruments.

Risk management is carried out by the Board of Directors and senior management.

(ii) Market Risk – the company has no exposure to any transactions denominated in a currency other than Australian dollars.

(iii) Price Risk – the company is not exposed to equity securities price risk as it does not hold investments for sale or at fair value. The company is not exposed to commodity price risk.

(iv) Credit Risk – the company has no significant concentrations of credit risk. It has policies in place to ensure that customers have an appropriate credit history and credit rating.

(v) Liquidity Risk – the company maintains prudent liquidity management by maintaining sufficient cash and the availability of funding from credit facilities.

(vi) Cash flow and fair value interest rate risk – interest-bearing assets are held with Bendigo and Adelaide Bank Limited and subject to movements in market interest. The company has mitigated risk on long-term interest-bearing liabilities by negotiating fixed rate contracts.

The accounting policies including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at balance date, are as follows:-

Recognised	**Accounting Policies**	**Terms and Conditions**
Financial assets		
Notes, coin and cash at bank	Notes, coin and cash at bank are stated at cost and any interest is taken up as income on an accrual basis	These items are cash or are readily convertible to cash.
Accounts Receivable – Debtors	Debtors are carried at the nominal amounts due less any provision for impairment. An impairment provision is made for any amounts which are considered unlikely to be collected.	Credit is allowed for a 30 day term.
Financial liabilities		
Creditors and Accruals	Liabilities are recognised for amounts to be paid in the future for goods and services.	Trade creditors are normally settled on 30 day terms, or in accordance with agreement with individual creditors.

(b) Financial Instruments

Financial instrument composition and maturity analysis

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments.

	Fixed Interest Rate Maturing			
	Weighted Average Effective Interest Rate		Floating Interest Rate	
	2008	2007	2008	2007
	%	%	$	$
Financial Assets				
Cash or Cash Equivalents	-	-	1,067,413	1,424,589
Short-term deposits	7.13	6.23	1,275,000	1,275,000
Accounts Receivable - Debtors	-	-	-	-
Total Financial Assets	7.13	6.23	2,342,413	2,699,589
Financial Liabilities				
Creditors & Accruals	-	-	-	-
Finance Leases	8.6	7.7	-	-
Total Financial Liabilities	8.6	7.7	-	-

	Within 1 Year		1 to 5 years	
	2008	2007	2008	2007
	$	$	$	$
Financial Assets				
Cash or Cash Equivalents	-	-	-	-
Short-term deposits	-	-	-	-
Accounts Receivable - Debtors	-	-	-	-
Total Financial Assets	-	-	-	-
Financial Liabilities				
Creditors & Accruals	-	-	-	-
Finance Leases	148,703	105,763	369,037	127,044
Total Financial Liabilities	148,703	105,763	369,037	127,044

	Over 5 years		Non Interest Bearing	
	2008	2007	2008	2007
	$	$	$	$
Financial Assets				
Cash or Cash Equivalents	-	-	-	-
Short-term deposits	-	-	-	-
Accounts Receivable - Debtors	-	-	3,169,758	3,172,186
Total Financial Assets	-	-	3,169,758	3,172,186
Financial Liabilities				
Creditors & Accruals	-	-	4,086,205	3,521,683
Finance Leases	-	-	-	-
Total Financial Liabilities	-	-	4,086,205	3,521,683

	Total	
	2008	2007
	$	$
Financial Assets		
Cash or Cash Equivalents	1,067,413	1,424,589
Short-term deposits	1,275,000	1,275,000
Accounts Receivable - Debtors	3,169,758	3,172,186
Total Financial Assets	5,512,171	5,871,775
Financial Liabilities		
Creditors & Accruals	4,086,205	3,521,683
Finance Leases	462,883	212,695
Total Financial Liabilities	4,549,088	3,734,378

Creditors and accruals are expected to be paid as follows:

	2008	2007
	$	$
Less than 6 months	4,071,205	3,506,683
6 months to 1 year	15,000	15,000
1 – 5 years	-	-
Over 5 years	-	-
	4,086,205	3,521,683

Credit Risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

The credit risk on financial assets of Bendigo Community Telco which have been recognised on the balance sheet is the carrying amount net of any provisions for impairment.

Bendigo Community Telco has no significant concentrations of credit risk. It has policies in place to ensure that customers have an appropriate credit history and credit rating.

Fair Values

The aggregate net fair values of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

	Total Carrying Amount per Balance Sheet		Aggregate Net Fair Values	
	2008	2007	2008	2007
Financial Instruments	$	$	$	$
Financial assets				
Cash or cash equivalents	1,067,413	1,424,589	1,067,413	1,424,589
Short-term bank deposits	1,275,000	1,275,000	1,275,000	1,275,000
Accounts receivable - debtors	3,169,758	3,172,186	3,169,758	3,172,186
Total financial assets	5,512,171	5,871,775	5,512,171	5,871,775
Financial liabilities				
Creditors and accruals	4,086,205	3,521,683	4,086,205	3,521,683
Finance leases	462,883	212,695	462,883	212,695
Total financial liabilities	4,549,088	3,734,378	4,549,088	3,734,378

The following methods and assumptions are used to determine the net fair values of Financial Assets and Financial Liabilities:

Recognised Financial Instruments

Cash and Short Term Investments	These financial instruments have a short term to maturity. Accordingly it is considered that carrying amounts reflect fair values.
Receivable and Creditors and Accruals	Carrying amounts reflect fair values.
Long Term Investments	Carrying amounts reflect fair values.

Sensitivity Analysis

Interest Rate Risk

The company has performed sensitivity analysis relating to its exposure to interest rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in this risk.

Interest Rate Sensitivity Analysis

At 30 June 2008, the effect on profit and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	2008	2007
	$	$
Change in profit		
Increase in interest rate by 1.0%	1,104	803
Decrease in interest rate by 1.0%	(1,104)	(803)
Change in equity		
Increase in interest rate by 1.0%	1,104	803
Decrease in interest rate by 1.0%	(1,104)	(803)

21. RETIREMENT BENEFITS AND SUPERANNUATION PAYMENTS

	2008 $	2007 $
Amounts of a prescribed benefit given during the year by the Company or a related party to a director or prescribed superannuation fund in connection with the retirement from a prescribed office.	Nil	Nil

22. DIRECTORS RELATED PARTY DISCLOSURES

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

Robert Hunt
Graham Bastian
Andrew Cairns
Don Erskine
Les Kilmartin
Geoff Michell
Margot Spalding

No director or related entity has entered in to a material contract with the company.

Directors Shareholdings	2008 No.	2007 No.
Robert Hunt	451,048	431,004
Graham Bastian	2,000	2,000
Andrew Cairns	24,600	24,600
Don Erskine	840,000	844,000
Les Kilmartin	5,000	5,000
Geoff Michell	20,002	20,002
Margot Spalding	10,000	n/a

Mr Hunt is a Director and Chairman of Community Telco Australia (CTA) and Community Developments Australia (CDA), and Mr Cairns is the Chief Executive Officer of CTA. Bendigo Community Telco has been engaged with CTA throughout the financial year assisting with the development of the Community Telco Project.

The Community Telco Project involves granting to entities majority owned or controlled by communities the right to use certain intellectual property and shared services to enable the establishment and operation of a business of providing telecommunications services to customers. CTA is a company established by Bendigo and Adelaide Bank Limited which it jointly owns as a joint venture with AAPT Limited. Bendigo Community Telco has entered into a binding licence with CTA in relation to the use of the Community Telco Project.

Bendigo Community Telco is provided banking overdraft and lending facilities by Bendigo and Adelaide Bank Ltd. The banking services are provided in accordance with Bendigo and Adelaide Bank's prevailing product terms and conditions.

23. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

24. SEGMENT REPORTING

The company operates in predominantly one business and geographical segment, being the telecommunications industry providing telecommunications services to customers in the Bendigo region.

25. EVENTS SUBSEQUENT TO BALANCE DATE

Since the end of the financial year a final dividend in the amount of 7.0 cents per share was declared by the Board of Directors on 23 September 2008 which will be distributed to shareholders on 24 October 2008.

No matters or circumstances have arisen since the end of the financial year, which 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 subsequent financial years.

26. CHANGE IN ACCOUNTING POLICY

The following Australian Accounting Standards have been issued or amended and are applicable to the company but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date:

AASB amendment	Standards affected		Outline of amendment	Application date of standard	Application date for company
AASB 2007–3 Amendments to Australian Accounting Standards	AASB 5	Non-current Assets Held for Sale and Discontinued Operations	The disclosure requirements of AASB 114: Segment Reporting have been replaced due to the issuing of AASB 8: Operating Segments in February 2007. These amendments will involve changes to segment reporting disclosures within the financial report. However, it is anticipated there will be no direct impact on recognition and measurement criteria amounts included in the financial report	1.1.2009	1.7.2009
	AASB 6	Exploration for and Evaluation of Mineral			
	AASB 102	Inventories			
	AASB 107	Cash Flow Statements			
	AASB 119	Employee Benefits			
	AASB 127	Consolidated and Separate Financial Statements			
	AASB 134	Interim Financial Reporting			
	AASB 136	Impairment of Assets			
	AASB 1023	General Insurance Contracts			
	AASB 1038	Life Insurance Contracts			
AASB 8 Operating Segments	AASB 114	Segment Reporting	As above	1.1.2009	1.7.2009
AASB 2007–6 Amendments to Australian Accounting Standards	AASB 1	First time adoption of AIFRS	The revised AASB 123: Borrowing Costs issued in June 2007 has removed the option to expense all borrowing costs. This amendment will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or	1.1.2009	1.7.2009
	AASB 101	Presentation of Financial Statements			
	AASB 107	Cash Flow Statements			
	AASB 111	Construction Contracts			

AASB amendment	Standards affected		Outline of amendment	Application date of standard	Application date for company
	AASB 116	Property, Plant and Equipment	production of a qualifying asset. However, there will be no direct impact to the amounts included in the financial group as they already capitalise borrowing costs related to qualifying assets.		
	AASB 138	Intangible Assets			
AASB 123 Borrowing Costs	AASB 123	Borrowing Costs	As above	1.1.2009	1.7.2009
AASB 2007–8 Amendments to Australian Accounting Standards	AASB 101	Presentation of Financial Statements	The revised AASB 101: Presentation of Financial Statements issued in September 2007 requires the presentation of a statement of comprehensive income.	1.1.2009	1.7.2009
AASB 101	AASB 101	Presentation of Financial Statements	As above	1.1.2009	1.7.2009

27. REGISTERED OFFICE/PRINCIPAL PLACES OF BUSINESS

Registered Office

23 McLaren Street, Bendigo, Victoria.

Principal Places of Business

Bendigo Office – 23 McLaren Street, Bendigo, Victoria.
Kangaroo Flat Office – 219 High Street, Kangaroo Flat, Victoria.
Business Continuity Centre - 121 Edwards Road, Bendigo, Victoria.