

**BENDIGO COMMUNITY TELCO LIMITED**

**A.B.N. 88 089 782 203**

**2012 FINANCIAL REPORT**

## **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](http://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 Geoff Michell, Graham Bastian and Andrew Cairns.
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 National Stock Exchange (NSX) Listing Rules and the *Corporations Act 2001*. This policy requires immediate notification to the NSX 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 2012.

### **DIRECTORS**

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

Mr R Hunt (Chairman)	Mr D Erskine
Mr A Cairns	Mr G Michell
Mr G Bastian	Ms M O'Sullivan
Mrs M Spalding (retired 01/09/2011)	

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 23.

### **INFORMATION ON DIRECTORS**

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 below.

**Mr Robert George Hunt – AM, FAICD – Chairman**

<b>Occupation</b>	Bendigo and Adelaide Bank Limited – Consultant Treasury Corporation of Victoria – Chairman
<b>Qualifications</b>	Fellow of the Australian Institute of Company Directors, 2003 Doctor of the University (honoris causa), LaTrobe University, 1999
<b>Experience</b>	<p>Mr Hunt retired as Managing Director of Bendigo and Adelaide Bank on 3 July 2009 after 21 years as Chief Executive Officer. During his 36 years with the organisation, Mr Hunt guided Bendigo Bank through many challenges, but also through opportunities in the development and implementation of strategies as a regional and community banking organisation.</p> <p>Mr Hunt is the architect of the <b>Community Bank®</b> model, and has been instrumental in the development of a range of Community Enterprise and Engagement models, now utilised by communities across Australia to provide key infrastructure and essential services through local commercial structures. These Enterprises provide communities with a framework, the cashflow, capacity and flexibility to address new economic opportunities.</p> <p>Mr Hunt continues his involvement in a number of community organisations and enterprises on behalf of Bendigo and Adelaide Bank Limited – including Bendigo Community Telco, Community Telco Australia, the <b>Community Bank®</b> Strategic Advisory Board and Community Sector Banking – and he is passionate about the capacity of local Australian communities to contribute to improved national, state and local economic outcomes. Mr Hunt is also the current Chairman of Treasury Corporation of Victoria.</p>
<b>Interest in shares</b>	Indirect – Hunters Ridge Pty Ltd (Hunt Family Trust) 421,004 Shares Indirect – Annette Hunt 30,044 Shares
<b>Special Responsibilities</b>	Nil
<b>Other Directorships &amp; Appointments</b>	Chairman, Treasury Corporation of Victoria since 2010; Consultant (Community Engagement Programs & Strategic Enterprises) for Bendigo and Adelaide Bank Limited since 2009; Chairman, Bendigo Community Telco since 2000; Chairman, Community Telco Australia since 2001; Director, <b>Community Bank®</b> Strategic Advisory Board since 2008; Director, Community Sector Banking Pty Ltd since 2003; Director, Apollo Bay Central District Community Bank since 2011; Patron-in-Chief, Community Enterprise Foundation since 2005; Patron, St Luke's Anglicare since 2002.
<b>Honours and Awards</b>	Order of Australia Award /Member (AM) General Division, 2002; Paul Harris Fellowship Award, Rotary Club of Bendigo Sandhurst, 2000; Citizen of the Year Award, City of Greater Bendigo 1999; Key to the City Award, City of Greater Bendigo 2009.

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**Mr Graham William Bastian – Director**

<b>Occupation</b>	Consultant
<b>Qualifications</b>	Dip Engineering - Civil (Swinburne), Dip Ed (Hawthorn State College)
<b>Experience</b>	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. In addition he is the independent chair of the Bendigo Regional TAFE Audit and Risk committee and serves as an independent member of the Audit Committee of the City of Greater Bendigo.

**Interest in shares** Direct – 0 Shares  
Indirect – Jeanette Bastian 2,000 Shares  
**Special Responsibilities** Member of Audit and Risk Committee  
**Other Directorships** Nil

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#### **Mr Andrew Cairns - Director**

**Occupation** Head of Customer Led Connections Bendigo & Adelaide Bank  
**Qualifications** Bachelor of Engineering – Electrical (Footscray Institute of Technology)  
Member of Australian Institute of Company Directors  
**Experience** Andrew Cairns has extensive experience in a variety of industries including manufacturing, pay television and telecommunications. He has worked both nationally and internationally. In the past few years he has applied that experience to steering start-up organisations to success, including Bendigo Community Telco as its initial Chief Executive. The success of Bendigo Community Telco has now resulted in the Community Telco project being rolled out to regional communities across Australia by Community Telco Australia. Andrew is now the Head of Customer Led Connections at the Bendigo & Adelaide Bank. He remains a director of Bendigo Community Telco.

**Interest in Shares** Indirect – Bendigo & Adelaide Bank Limited 1,112,146  
**Special Responsibilities** Andrew Cairns is a Member of the Audit and Risk Committee  
**Other Directorships** Coliban Region Water Authority  
Community Solutions Australia Pty Limited  
Community Telco Australia Pty Ltd  
Loddon Mallee Housing Services Limited  
The Bendigo Affordable Housing Company Ltd

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#### **Mr Donald James Erskine - Director**

**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 Coliban Water, Director of Community Telco Australia and Director of Bendigo Economic Development Committee, Chairman of Australian Technical College and Director of Bendigo Regional Institute of TAFE. Don 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** Nil

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#### **Mr Geoffrey Ralph Michell - Director**

**Occupation** Director  
**Qualifications** Diploma of Civil Engineering, Masters of Business Administration (Deakin)  
**Experience** Geoff is a Director on a number of Boards. He previously spent some 35 years in senior management and engineering roles, including 10 years as Managing Director of Coliban Water.

**Interest in Shares** Direct – 20,002 Shares  
**Special Responsibilities** Member of the Audit and Risk Committee and the Remuneration Committee  
**Other Directorships** Bendigo Health  
Bendigo Tourism Board  
Lower Murray Water  
Wimmera Catchment Management Authority

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**Ms Michelle Kaye O’Sullivan – Director**

**Occupation** Lawyer – O’Sullivan Johanson Lawyers

**Qualifications** Bachelor of Laws (Hons)

Bachelor of Commerce

Certificate III in Fitness

**Experience** Michelle O’Sullivan has had experience on various boards including, Loddon Mallee Women’s Health and the Bendigo Street Surfer Board. Michelle was recently a committee member of the Bendigo Law Association Inc. and a past president of the Bendigo Law Association Inc. Michelle is the newest Director and Board member of Bendigo Community Telco.

**Interest in Shares** Nil

**Special Responsibilities** Nil

**Other Directorships** Nil

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**COMPANY SECRETARY**

The following person held the position of company secretary at the end of the financial year:

Mr Ken Belfrage FCA, MAICD, Dip. Bus.

Mr Belfrage is an experienced Company Director and Company Secretary who has extensive business, finance and general management skills including 34 years as a practicing public accountant.

**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 \$870,029 (30 June 2011: \$787,131).

**REVIEW OF OPERATIONS**

Bendigo Community Telco Limited has continued to consolidate its position within the Bendigo and Central Victorian market. The business provides high quality data and network services Australia wide as well as fixed and mobile telephone services and broadband internet access. We also manage the Bendigo Data Centre which is the major site for our own MPLS network and also delivers our business customers with cloud hosting services and secure data back-up. Bendigo Community Telco provides network management and monitoring services via its network operations centre and combined with our wholesale business we are able to offer these professional services on a national scale. The supply and installation of PABX and telephone systems, videoconferencing equipment, and data cabling are some of the additional services we provide.

Bendigo Community Telco has continued in its Franchise Agreement with Community Telco Australia and has maintained wholesale agreements with AAPT, SingTel Optus, Telstra and NextGen Pure Data.

## FINANCIAL POSITION

The net assets of Bendigo Community Telco Limited have increased to \$4,704,660 at 30 June 2012 (30 June 2011: \$4,354,119). The change has resulted from an increase in retained earnings.

The Company's working capital, being current assets less current liabilities, has increased from \$849,193 in 2011 to \$860,719 in 2012.

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

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

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 cents per share was declared by the Board of Directors on 5 September 2012 which will be distributed to shareholders on 8 October 2012.

## DIVIDENDS PAID

Ordinary Dividends paid in the year:	Year Ended 30 June 2012	
	Cents	\$
Final – September 2011	5.0	281,494
Interim – March 2012	5.0	281,494
<b>Total</b>	<b>10.0</b>	<b>562,988</b>

## EVENTS AFTER THE REPORTING PERIOD

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.

## 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 page 2 of the Concise Annual Report.

## ENVIRONMENTAL REGULATION

The company is not subject to any significant environmental regulation.

## MEETINGS OF DIRECTORS

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

Directors	Directors' Meetings		Audit & Risk Committee		Remuneration Committee	
	No. eligible to attend	No. attended	No. eligible to attend	No. attended	No. eligible to attend	No. attended
Rob Hunt	10	10	-	-	-	-
Graham Bastian	7	7	2	2	-	-
Andrew Cairns	10	8	3	2	-	-
Don Erskine	10	9	-	-	1	1
Geoff Michell	10	6	3	3	1	1
Michelle O'Sullivan	10	10	-	-	-	-

## 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 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 23 to the Financial Statements.

## SHARE OPTIONS

The Company has not issued any share options.

## PROCEEDINGS ON BEHALF OF BENDIGO COMMUNITY TELCO

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.

## 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; and

The nature of the services provided does 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.

Fees of \$6,818 were paid or payable to Andrew Frewin & Stewart for non-audit services provided during the year ended 30 June 2012.

#### **AUDITOR'S INDEPENDENCE DECLARATION**

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

#### **REMUNERATION REPORT**

The information provided in this remuneration report has been audited as required by Section 308 (3c) of the *Corporations Act 2001*.

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.

#### **Principles used to determine the nature and amount of remuneration**

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 remuneration committee, at their discretion, can refer their business to the full board for consideration.

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% of the individuals average weekly ordinary time earnings (AWOTE), 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 National Stock Exchange at the date of granting of any shares under the employee share plan.

### **Performance-based remuneration**

As part of each 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.

### **Key Management Personnel**

#### **(i) Directors**

Robert Hunt	Chairman
Graham Bastian	Director
Andrew Cairns	Director
Donald Erskine	Director
Geoffrey Michell	Director
Margot Spalding	Director - retired 1 September 2011
Michelle O'Sullivan	Director

#### **(ii) Executives**

Philip Lazenby	Chief Executive Officer
Peter Bowman	General Manager Finance
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.

Analysis of the actual figures shows an increase in profits each year, with the exception of the 2009 year. Dividends paid have been maintained at consistent levels apart from the 2010 year which followed the lower profit result in 2009. The board is satisfied with the company's progress which can be attributed in part to the previously described remuneration policy.

	2008	2009	2010	2011	2012
<b>Revenue</b>	\$26.6M	\$25.7M	\$27.0M	\$26.3M	\$23.9M
<b>EBITDA</b>	\$1.38M	\$1.43M	\$1.90M	\$1.97M	\$2.12M
<b>Net profit</b>	\$883K	\$545K	\$737K	\$787K	\$870K
<b>Share price at year end</b>	\$1.60	\$1.60	\$1.40	\$1.00	\$1.00
<b>Dividends paid</b>	12.5 cents	12.0 cents	8.0 cents	11.0 cents	10.0 cents

#### Details of remuneration for year ended 30 June 2012

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

		Short-term benefits		Post-employment benefits	TOTAL	Proportion of remuneration that is performance based %
		Cash Salary and Fees	Superannuation			
Robert Hunt	2012	13,761	1,239	15,000	-	
	2011	13,761	1,239	15,000	-	
Graham Bastian	2012	15,000	-	15,000	-	
	2011	15,000	-	15,000	-	
Andrew Cairns	2012	13,761	1,239	15,000	-	
	2011	13,761	1,239	15,000	-	
Donald Erskine	2012	-	15,000	15,000	-	
	2011	-	15,000	15,000	-	
Leslie Kilmartin	2012	-	-	-	-	
	2011	10,321	929	11,250	-	
Geoffrey Michell	2012	13,761	1,239	15,000	-	
	2011	3,440	11,560	15,000	-	
Margot Spalding	2012	-	-	-	-	
	2011	15,000	-	15,000	-	
Michelle O'Sullivan	2012	13,761	1,239	15,000	-	
	2011	-	-	-	-	
<b>Total</b>	2012	70,044	19,956	90,000	-	
	2011	71,283	29,967	101,250	-	

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

		Short-term benefits		Post employment benefits	Share-based payments	Total \$	Proportion of remuneration that is performance based %
		Salaries \$	Non-Cash Benefits \$	Super-annuation \$	Shares \$		
Philip	2012	148,801	15,000	42,182	1,000	206,983	12
Lazenby	2011	142,523	15,000	60,069	1,000	218,592	11
Bryan	2012	120,713	15,000	21,648	1,000	158,361	6
Pedersen	2011	117,007	15,000	21,170	1,000	154,177	6
Wayne	2012	118,924	15,000	10,540	1,000	145,464	7
Williams	2011	117,189	15,000	10,454	1,000	143,643	7
Peter	2012	141,382	-	11,220	1,000	153,602	7
Bowman	2011	141,464	-	11,214	1,000	153,678	7
Total	2012	529,820	45,000	85,590	4,000	664,410	
	2011	518,183	45,000	102,907	4,000	670,090	

This marks the end of the audited remuneration report.

This directors' report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors on 5 September 2012.



Rob Hunt  
 Director



Don Erskine  
 Director



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***Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the directors of Bendigo Community Telco Limited***

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2012 there has been:

- no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit, and
- no contraventions of any applicable code of professional conduct in relation to the audit.

**GRAEME STEWART**

**ANDREW FREWIN STEWART**  
61-65 Bull Street, Bendigo, VIC 3550  
Dated this 5<sup>th</sup> day of September 2012

**STATEMENT OF COMPREHENSIVE INCOME  
 FOR THE YEAR ENDED 30 JUNE 2012**

	Notes	2012 \$	2011 \$
Revenue	2	23,909,362	26,328,180
Cost of products sold		(13,967,788)	(16,534,282)
Other revenue	2	74,240	46,474
Salaries and employee benefit costs		(4,276,133)	(4,074,704)
Occupancy and associated costs		(519,051)	(538,135)
General administration costs		(1,011,075)	(1,216,957)
Depreciation and amortisation costs	3	(969,449)	(823,620)
Advertising and promotion costs		(247,426)	(246,138)
Systems costs		(1,540,113)	(1,641,170)
Borrowing costs	3	<u>(234,732)</u>	<u>(170,778)</u>
Profit before income tax		1,217,835	1,128,870
Income tax expense	5	<u>(347,806)</u>	<u>(341,739)</u>
Net Profit for the year		870,029	787,131
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		<u>870,029</u>	<u>787,131</u>
Total comprehensive income attributable to members of Bendigo Community Telco Limited		<u>870,029</u>	<u>787,131</u>
 <b>Earnings per share</b>			
Basic earnings per share (cents)		15.45	14.00
Diluted earnings per share (cents)		15.45	14.00

**The accompanying notes form part of these financial statements**

**STATEMENT OF FINANCIAL POSITION  
 AS AT 30 JUNE 2012**

	Notes	2012 \$	2011 \$
<b>Current Assets</b>			
Cash and cash equivalents	9	768,001	1,576,393
Trade and other receivables	10	2,216,696	2,183,232
Prepayments		1,090,302	1,333,659
Inventories	11	135,746	110,886
<b>Total Current Assets</b>		<b>4,210,745</b>	<b>5,204,170</b>
<b>Non Current Assets</b>			
Property, plant and equipment	12	2,134,819	2,170,383
Intangibles	13	1,672,956	1,340,284
Deferred tax asset	17(b)	204,040	177,299
<b>Total Non Current Assets</b>		<b>4,011,815</b>	<b>3,687,966</b>
<b>TOTAL ASSETS</b>		<b>8,222,560</b>	<b>8,892,136</b>
<b>Current Liabilities</b>			
Trade and other payables	14	2,730,287	3,551,076
Financial liabilities	15	60,970	103,683
Provisions	16	505,339	427,970
Taxation	17(a)	53,430	272,248
<b>Total Current Liabilities</b>		<b>3,350,026</b>	<b>4,354,977</b>
<b>Non Current Liabilities</b>			
Financial liabilities	15	77,965	123,059
Provisions	16	89,909	59,981
<b>Total Non Current Liabilities</b>		<b>167,874</b>	<b>183,040</b>
<b>TOTAL LIABILITIES</b>		<b>3,517,900</b>	<b>4,538,017</b>
<b>NET ASSETS</b>		<b>4,704,660</b>	<b>4,354,119</b>
<b>EQUITY</b>			
Issued capital	18	3,437,522	3,394,022
Retained earnings		1,267,138	960,097
<b>TOTAL EQUITY</b>		<b>4,704,660</b>	<b>4,354,119</b>

The accompanying notes form part of these financial statements

**STATEMENT OF CHANGES IN EQUITY  
 FOR YEAR ENDED 30 JUNE 2012**

	Notes	Ordinary Share Capital \$	Retained Earnings \$	Total \$
<b>Balance at 1 July 2010</b>		3,366,860	790,623	4,157,483
<b>Comprehensive Income</b>				
Profit for the period		-	787,131	787,131
Other comprehensive income for the year		-	-	-
<b>Total comprehensive income for the year</b>		-	787,131	787,131
<b>Transaction with owners, in their capacity as owners, and other transfers</b>				
Dividends recognised for the year	7	-	(617,657)	(617,657)
Shares issued during the period		27,162	-	27,162
<b>Total transactions with owners and other transfers</b>		27,162	(617,657)	(590,495)
<b>Balance at 30 June 2011</b>		<b>3,394,022</b>	<b>960,097</b>	<b>4,354,119</b>
<b>Balance at 1 July 2011</b>		3,394,022	960,097	4,354,119
<b>Comprehensive Income</b>				
Profit for the year		-	870,029	870,029
Other comprehensive income for the year		-	-	-
<b>Total comprehensive income for the year</b>		-	870,029	870,029
<b>Transaction with owners, in their capacity as owners, and other transfers</b>				
Dividends recognised for the year	7	-	(562,988)	(562,988)
Shares issued during the period		43,500	-	43,500
<b>Total transactions with owners and other transfers</b>		43,500	(562,988)	(519,488)
<b>Balance at 30 June 2012</b>		<b>3,437,522</b>	<b>1,267,138</b>	<b>4,704,660</b>

The accompanying notes form part of these financial statements

**STATEMENT OF CASH FLOWS  
 FOR YEAR ENDED 30 JUNE 2012**

	Notes	2012 \$	2011 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		26,809,230	28,863,210
Interest paid		(234,733)	(170,778)
Payments to suppliers and employees		(24,946,412)	(26,485,817)
Income tax paid		(593,365)	(165,668)
Interest received		38,549	46,474
<b>Net cash provided by operating activities</b>	19	<b>1,073,269</b>	<b>2,087,421</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of intangible assets		(561,356)	(189,958)
Purchase of property, plant and equipment		(747,662)	(768,216)
Proceeds from sale of property, plant and equipment		78,152	34,136
<b>Net cash used in investing activities</b>		<b>(1,230,866)</b>	<b>(924,038)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings		-	-
Repayment of finance lease		(87,807)	(247,286)
Dividends paid		(562,988)	(617,657)
<b>Net cash used in financing activities</b>		<b>(650,795)</b>	<b>(864,943)</b>
<b>Net increase (decrease) in cash held during the financial year</b>		<b>(808,392)</b>	<b>298,440</b>
Cash at beginning of financial year		1,576,393	1,277,953
<b>Cash at the end of the financial year</b>	9	<b>768,001</b>	<b>1,576,393</b>

**The accompanying notes form part of these financial statements**



## NOTES TO THE FINANCIAL REPORT

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The Company is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

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

Except for cash flow information, the financial statements have been prepared on an accruals basis and are 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 reported within short-term financial liabilities in current liabilities on the statement of financial position.

**(d) Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Trade receivables are generally due for settlement within 14 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debt, probability that the debt will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivables are impaired. The amount of the provision is the difference between the assets carrying amount, and the present value of the estimated future cash flows.

**(e) 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.

**(f) 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:

Asset Class	Depreciation Rate (%)	
	2012	2011
Office Furniture & Equipment		
Advertising Collateral	7.5	7.5
Furniture & Fittings	7.5 – 37.5	7.5 – 37.5
Office Equipment	7.5 - 40	7.5 - 40
Office Computer Equipment	20 – 66.67	20 – 66.67
Satellite Equipment	50	50
Software	33 - 80	33 - 80
Retail/Display Equipment	11.25	11.25
Installation/Serviceing Equipment	11.25 - 30	11.25 - 30
Data Centre	2.5 - 50	2.5 - 50
Motor Vehicles	18.75 - 25	18.75 - 25
Leasehold	2.5 - 40	2.5 – 40
Telecommunications & Infrastructure		
Infrastructure	7.59	7.59
Network Computer & Infrastructure	8 - 50	8 - 50
Connectivity Links	7.5 - 50	7.5 - 50
Customer Premise Equipment	40	40

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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 statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

#### **(g) 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 statement of comprehensive income.

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.

#### **(h) Employee Benefits**

Provision is made for the company's liability for employee benefits arising from services rendered by employees at the end of the reporting period. 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. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy any vesting requirements. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows attributable to employee benefits.

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.

#### **(i) Revenue**

Revenue from the sale of goods is recognised upon delivery of goods to customers. Service revenue is recognised on a stage of completion basis. Interest revenue is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rate which is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial asset. All revenue is stated net of the amount of Goods and Services Tax (GST).

#### **(j) 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.

#### **(k) 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 a 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 repayments 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 statement of comprehensive income.

## **(l) 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 a finite life and are amortised on a systematic basis based on the future economic benefits over the useful life of the project.

Computer software development costs have been assessed as having a useful life of four years and will be tested annually for impairment and carried at cost less accumulated amortisation and impairment losses.

Projects that have not been completed by the end of the financial year have not yet been assessed for a useful life, this will be completed at the end of the project, therefore costs for these projects are recorded in the Balance Sheet without any amortisation. Once a useful life is established, amortisation will commence, and the projects will also be tested annually for impairment and carried at cost less accumulated amortisation and impairment losses.

### **(m) 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. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

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.

### **(n) 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.

### **(o) 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.

### **(p) Comparative Information**

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

### **(q) 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 2012. 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 2012 amounting to \$916,491.

## **Key Judgments – Provision for impairment of receivables**

Included in the accounts receivable at 30 June 2012 are amounts that equate to approximately \$46,659 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 2012.

### **(r) Segment Reporting**

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different for those segments operating in other economic environments. Refer to Note 25.

### **(s) Share Based Payments**

The Company measures the goods and services received by equity-settled share based payment transactions as an increase in equity, directly, at the fair value of the goods or services rendered, unless that fair value cannot be estimated reliably. If the Company cannot estimate reliably the fair value of the goods or services rendered, the Company shall measure their value, and the corresponding increase in equity, indirectly by reference to the fair value of the equity instruments granted.

If the equity instruments granted vest immediately, are unconditional and are not required to complete a specified period of service, the Company shall presume that the services rendered by the counterparty as consideration for the equity instruments have been received. On grant date, the Company recognises the services rendered in full, with a corresponding increase in equity.

If the equity instruments do not vest until the counterparties completes a specified period of service, the Company shall presume that the services to be rendered by the counterparty as consideration for those equity instruments will be received in the future, during the vesting period. The Company accounts for these services as they are rendered by the counterparty during the vesting period, with a corresponding increase to equity.

Share-based payment arrangements in which the company received goods or services as consideration for its own equity instruments are accounted for as equity-settled share based payment transactions, regardless of how the equity instruments are obtained by the Company.

For the Companies policy on share based payments, please refer to Note 1 (h).

### **(t) Trade payables**

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year, which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

### **(u) Earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**(v) New accounting standards for application in future periods**

The Australian Accounting Standards Board has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Company. The Company has decided not to early adopt any of the new and amended pronouncements. The Companies assessment of the new and amended pronouncements that are relevant to the Company but applicable in future reporting periods is set out below:

AASB 9: Financial Instruments (December 2010) and AASB 20107: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and interpretations 2, 5, 10, 12, 19 & 127] (applicable for annual reporting periods commencing on or after 1 January 2013).

These standards are applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments.

The key changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
- simplifying the requirements for embedded derivatives;
- removing the tainting rules associated with held-to-maturity assets;
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
- requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

The Company has not yet been able to reasonably estimate the impact of these pronouncements on its financial statements.

AASB 13: Fair Value Measurement and AASB 20118: Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3, 4, 5, 7, 9, 200911, 20107, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023, 1038 and interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132] (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosures about fair value measurement.



AASB 13 requires:

- inputs to all fair value measurements to be categorised in accordance with a fair value hierarchy; and
- enhanced disclosures regarding all assets and liabilities (including, but not limited to, financial assets and financial liabilities) to be measured at fair value.

These Standards are not expected to significantly impact the Company.

AASB 20119: Amendments to Australian Accounting Standards Presentation of Items of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039, & 1049] (applicable for annual reporting periods commencing on or after 1 July 2012).

The main change arising from this Standard is the requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently.

The Standard affects presentation only and is therefore not expected to significantly impact the Company.

AASB 119: Employees Benefits (September 2011) and AASB 201110: Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) [AASB 1, AASB 8, AASB 101, AASB 124, AASB 134, AASB 1049 & AASB 20118 and Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2013).

These Standards introduce a number of changes to accounting and presentation of defined benefit plans. The Company does not have any defined benefit plans and so is not impacted by the amendment.

AASB 119 (September 2011) also includes changes to the accounting for termination benefits that require an entity to recognise an obligation for such benefits at the earlier of:

- (i) for an offer that may be withdrawn when the employee accepts;
- (ii) for an offer that cannot be withdrawn when the offer is communicated to affected employees; and
- (iii) when the termination is associated with a restructuring of activities under AASB 137: Provisions, Contingent Liabilities and Contingent Assets, and if earlier than the first two conditions when the related restructuring costs are recognised.

The Company has not yet been able to reasonably estimate the impact of these changes to AASB 119.

**2. REVENUE**

	2012 \$	2011 \$
Sales revenue	23,813,383	26,249,936
Other income	95,979	78,244
Total revenue	23,909,362	26,328,180
Interest revenue	38,550	46,474
Profit on sale of assets	35,690	-
Total other income	74,240	46,474
Total revenue and other income	23,983,602	26,374,654

**3. EXPENSES**

	2012 \$	2011 \$
Depreciation and amortisation costs:		
Office furniture & equipment	217,001	159,263
Motor vehicles	152,765	137,320
Leasehold	48,682	46,946
Telecommunications & infrastructure	322,317	308,274
Amortisation of intangibles	228,684	171,817
	969,449	823,620
Borrowing expenses:		
Interest paid	3,401	8,371
Finance costs	228,892	162,336
Other	2,439	71
	234,732	170,778
Bad debts	41,252	41,978
Impaired debts	7,342	(53,475)
	48,594	(11,497)
Rental expense on operating leases	319,507	316,597
Loss on sale of assets	-	51,656

**4. AUDITORS' REMUNERATION**

	2012 \$	2011 \$
Amounts received, or due and receivable by the auditors, Andrew Frewin & Stewart for:		
Auditing the financial statements	49,304	46,957
Other services	6,818	4,974
	56,122	51,931

## 5. INCOME TAX EXPENSE

	2012	2011
	\$	\$
a. The components of tax expense comprise:		
Current tax	405,168	370,433
Deferred tax	(26,741)	(29,373)
Under / (over) provision	(30,621)	679
	347,806	341,739
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 payable on profit from ordinary activities before income tax at 30% (2011: 30%)	365,351	338,661
Add:		
Tax effect of:		
- Movement in provision for impairment	2,203	(16,043)
- Movement in provision for employee benefits	32,189	22,245
- Movement in deferred tax	(26,741)	(29,373)
- Capital allowances	(2,689)	18,886
- Non-deductible expenses	8,346	6,916
	13,308	2,631
Less:		
Tax effect of:		
- Capital raising costs deductible	232	232
- Investment allowance costs deductible	-	-
- Over provision in respect of prior years	30,621	(679)
	30,853	(447)
Income tax on operating profit	347,806	341,739

## 6. KEY MANAGEMENT PERSONNEL COMPENSATION

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Companies key management personnel (KMP) for the year ended 30 June 2012.

The totals of remuneration paid to KMP of the company during the year are as follows:

	2012	2011
	\$	\$
Short-term employee benefits	644,864	634,466
Post-employment benefits	105,546	132,874
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	4,000	4,000
Total KMP compensation	754,410	771,340

### KMP Shareholdings

The number of ordinary shares in Bendigo Community Telco Limited held by each KMP of the Company during the financial year is as follows:

<b>30 June 2012</b>	<b>Balance at beginning of year</b>	<b>Granted as remuneration during year</b>	<b>Other changes during year</b>	<b>Balance at end of year</b>
Robert Hunt	451,048	-	-	451,048
Graham Bastian	2,000	-	-	2,000
Andrew Cairns	-	-	-	-
Don Erskine	840,000	-	-	840,000
Geoffrey Michell	20,002	-	-	20,002
Margot Spalding	10,000	-	-	10,000
Michelle O'Sullivan	-	-	-	-
Philip Lazenby	8,455	1,000	-	9,455
Bryan Pedersen	1,833	1,000	-	2,833
Wayne Williams	1,833	1,000	-	2,833
Peter Bowman	1,000	1,000	-	2,000
	<u>1,336,171</u>	<u>4,000</u>	<u>-</u>	<u>1,340,171</u>

<b>30 June 2011</b>	<b>Balance at beginning of year</b>	<b>Granted as remuneration during year</b>	<b>Other changes during year</b>	<b>Balance at end of year</b>
Robert Hunt	451,048	-	-	451,048
Graham Bastian	2,000	-	-	2,000
Andrew Cairns	24,600	-	(24,600)	-
Don Erskine	840,000	-	-	840,000
Leslie Kilmartin	5,000	-	-	5,000
Geoffrey Michell	20,002	-	-	20,002
Margot Spalding	10,000	-	-	10,000
Michelle O'Sullivan	-	-	-	-
Philip Lazenby	7,455	1,000	-	8,455
Bryan Pedersen	833	1,000	-	1,833
Wayne Williams	833	1,000	-	1,833
Peter Bowman	-	1,000	-	1,000
	<u>1,361,771</u>	<u>4,000</u>	<u>(24,600)</u>	<u>1,341,171</u>

## 7. DIVIDENDS

	2012	2011
	\$	\$
Distributions paid:		
Final fully franked ordinary dividend of 5.0 (2011: 6.0) cents per share franked at the rate of 30% (2011: 30%)	281,494	336,163
Interim fully franked ordinary dividend of 5.0 (2011: 5.0) cents per share franked at the rate of 30% (2011: 30%)	<u>281,494</u>	<u>281,494</u>
	<u>562,988</u>	<u>617,657</u>

## 8. EARNINGS PER SHARE

	2012	2011
	\$	\$
a. Reconciliation of earnings to profit or loss		
Profit for the year	870,029	787,131
Earnings used in calculation of basic and diluted EPS	<u>870,029</u>	<u>787,131</u>

b. Weighted average number of ordinary shares

Weighted average number of ordinary shares outstanding during the year used in calculating basic and diluted EPS	5,630,957	5,621,028
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**9. CASH AND CASH EQUIVALENTS**

	2012	2011
	\$	\$
Cash at bank	766,501	1,374,893
Cash on hand	1,500	1,500
Short term bank deposits	-	200,000
	<u>768,001</u>	<u>1,576,393</u>

Cash on hand is non interest bearing.

Cash at bank earned interest rates between 0% and 4.00% (2011: 0% and 4.00%) depending on the level of funds from time to time. Cash at bank is subject to interest rate risk, as it earns interest at floating rates. In 2012 the average floating interest rates for the Company were 3.44% (2011: 2.80%).

The effective interest rate on short term bank deposits was 5.30% (2011: 5.27%); these deposits had an average maturity of 60 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:

	2012	2011
	\$	\$
Cash and cash equivalents	<u>768,001</u>	<u>1,576,393</u>

**10. TRADE AND OTHER RECEIVABLES**

	2012	2011
	\$	\$
Trade debtors	2,263,355	2,222,549
Provision for impairment	(46,659)	(39,317)
	<u>2,216,696</u>	<u>2,183,232</u>

**Impairment of receivables**

The average credit period on sale of goods and rendering of services is 14 days. No interest is charged on trade receivables exceeding normal credit terms. An allowance has been made for estimated non-recoverable trade receivable amounts arising from the past sale of goods and rendering of services, determined by reference to past default experience.

Before accepting any new customers, the Company internally reviews the potential customer's credit quality. Included in the Company's trade receivable balances are debtors with a carrying amount of \$128,817 (2011: \$255,849) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Company does not hold any collateral over these balances. The average age of these receivables is 22 days (2011: 23 days).

Ageing of trade receivables is as follows:

a. Ageing of past due but not impaired

	2012	2011
	\$	\$
0 – 30 days	90,901	202,622
30 – 60 days	27,208	39,019
60 – 90 days	10,708	14,208
Over 91 days	-	-
	128,817	255,849

b. Movement in the provision for impairment

	2012	2011
	\$	\$
Balance at beginning of the year	39,317	92,792
Impairment recognised during the year	48,594	(13,094)
Amounts written off as uncollectable	(41,252)	(41,978)
Amounts recovered during the year	-	1,597
Balance at the end of the year	46,659	39,317

In determining the recoverability of a trade receivable, the Company considers any recent history of payments and the status of the projects to which the debt relates to. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Fair value of receivables: Fair value of receivables at year end is measured to be the same as receivables net of provision for impairment.

**11. INVENTORIES**

	2012	2011
	\$	\$
Inventory	135,746	110,886

**12. PROPERTY PLANT AND EQUIPMENT**

	2012	2011
	\$	\$
<b>Office, Furniture &amp; Equipment</b>		
At Cost	793,282	792,639
Accumulated depreciation	(553,143)	(399,356)
Total Office, Furniture & Equipment	240,139	393,283
<b>Motor Vehicles</b>		
At Cost	811,264	696,319
Accumulated depreciation	(375,331)	(358,344)
Total Motor Vehicles	435,933	337,975
<b>Leasehold</b>		
At Cost	500,241	451,701
Accumulated depreciation	(123,654)	(74,972)
Total Leasehold	376,587	376,729

**Telecommunications & Infrastructure**

At Cost	2,634,759	2,331,219
Accumulated depreciation	(1,496,642)	(1,212,866)
Accumulated impairment losses	(55,957)	(55,957)
<b>Total Telecommunications &amp; Infrastructure</b>	<b>1,082,160</b>	<b>1,062,396</b>

**Total Property, Plant & Equipment**

	<b>2,134,819</b>	<b>2,170,383</b>
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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	Telecommuni- cations & Infrastructure	TOTAL
Balance at 1 July 2010	331,510	385,385	299,680	1,123,217	2,139,792
Additions	255,463	133,285	125,393	254,075	768,216
Disposals	(34,427)	(43,375)	(1,398)	(6,622)	(85,822)
Depreciation	(159,263)	(137,320)	(46,946)	(308,274)	(651,803)
Impairment	-	-	-	-	-
<b>Balance at 30 June 2011</b>	<b>393,283</b>	<b>337,975</b>	<b>376,729</b>	<b>1,062,396</b>	<b>2,170,383</b>
Additions	69,121	286,380	48,540	343,621	747,662
Disposals	(5,264)	(35,657)	-	(1,540)	(42,461)
Depreciation	(217,001)	(152,765)	(48,682)	(322,317)	(740,765)
Impairment	-	-	-	-	-
<b>Balance at 30 June 2012</b>	<b>240,139</b>	<b>435,933</b>	<b>376,587</b>	<b>1,082,160</b>	<b>2,134,819</b>

**13. INTANGIBLES**

	2012 \$	2011 \$
<b>Computer software development costs</b>		
Cost	680,646	526,396
Accumulated Amortisation	(324,251)	(137,603)
<b>Net Carrying Value</b>	<b>356,395</b>	<b>388,793</b>
<b>Goodwill</b>		
Cost	916,491	916,491
Accumulated Impairment Losses	-	-
<b>Net Carrying Value</b>	<b>916,491</b>	<b>916,491</b>
<b>Other Projects</b>		
Cost	407,104	177,089
Accumulated Amortisation	(32,034)	(177,089)
<b>Net Carrying Value</b>	<b>375,070</b>	<b>-</b>
<b>Franchise Fee</b>		
Cost	50,000	50,000
Accumulated Amortisation	(25,000)	(15,000)
<b>Net Carrying Value</b>	<b>25,000</b>	<b>35,000</b>
<b>Total Intangibles</b>	<b>1,672,956</b>	<b>1,340,284</b>

	Goodwill	Software	Project Development	Franchise Fee	TOTAL
<b>Year ended 30 June 2011</b>					
Balance at 1 July 2010	916,491	265,655	94,964	45,002	1,322,112
Additions	-	189,989	-	-	189,989
Amortisation	-	(66,851)	(94,964)	(10,002)	(171,817)
Balance at 30 June 2011	<u>916,491</u>	<u>388,793</u>	<u>-</u>	<u>35,000</u>	<u>1,340,284</u>
<b>Year ended 30 June 2012</b>					
Balance at 1 July 2011	916,491	388,793	-	35,000	1,340,284
Additions	-	154,250	407,106	-	561,356
Amortisation	-	(186,648)	(32,036)	(10,000)	(228,684)
Balance at 30 June 2012	<u>916,491</u>	<u>356,395</u>	<u>375,070</u>	<u>25,000</u>	<u>1,672,956</u>

Intangible assets, other than goodwill, have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense per the statement of comprehensive income.

Goodwill has an infinite life.

#### Impairment Disclosures

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

	2012 \$	2011 \$
Acquired segment	916,491	916,491
Total Goodwill	<u>916,491</u>	<u>916,491</u>

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 cash flows are discounted using the yield of 10 year government bonds at the beginning of the budget period which was 3%.

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.

#### 14. TRADE AND OTHER PAYABLES

	2012 \$	2011 \$
Unsecured liabilities:		
Trade payables	1,313,226	1,843,046
Sundry payables and accrued expenses	<u>1,417,061</u>	<u>1,708,030</u>
	<u>2,730,287</u>	<u>3,551,076</u>



**15. FINANCIAL LIABILITIES**

	2012	2011
	\$	\$
Current		
Secured by fixed and floating registered mortgage debenture		
Lease Liabilities	60,970	103,683
Total current	60,970	103,683
Non current		
Secured by fixed and floating registered mortgage debenture		
Lease Liabilities	77,965	123,059
Total non current	77,965	123,059

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.

**16. PROVISIONS**

	2012	2011
	\$	\$
Current		
Employee Benefits	505,339	427,970
Non Current		
Employee Benefits	89,909	59,981
	595,248	487,951

**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.

**17. TAX**

	2012	2011
	\$	\$
a. Liabilities		
Current		
Provision for income tax	53,430	272,248
Non Current		
Deferred Tax Liability	-	-
	-	-
b. Deferred Tax Assets		
Balance as at 30 June	204,040	177,299

Represented by tax effect of:		
- Provision for impaired debts	13,998	11,795
- Provision for annual leave	92,444	83,944
- Provision for long service leave	73,987	51,867
- Provision for sick leave	12,143	10,574
- Capital allowances	11,468	18,886
- Capital raising costs deductible	-	233
	<u>204,040</u>	<u>177,299</u>

**18. ISSUED CAPITAL**

	No. of Shares	2012 \$	2011 \$
Fully paid ordinary shares at beginning of period	5,602,722	3,678,221	3,651,059
Shares issued on 28 October 2010	27,162	-	27,162
Shares issued on 21 June 2012	43,500	43,500	-
Less cost of equity raised	-	(284,199)	(284,199)
	<u>5,673,384</u>	<u>3,437,522</u>	<u>3,394,022</u>

On 21 June 2012, the company issued 43,500 ordinary shares under the Staff Share Plan.

**19. CASH FLOW INFORMATION**

	2012 \$	2011 \$
Reconciliation of net cash provided by operating activities with profit after income tax		
Profit after income tax	870,029	787,131
Non cash flows in profit:		
Depreciation and amortisation of non current assets	969,449	823,620
Loss on sale of assets	(35,690)	51,656
Staff share issue	43,500	27,162
Change in assets and liabilities		
(Increase)/decrease in assets		
Receivables	(33,464)	57,660
Prepayments	243,357	(368,008)
Inventories	(24,860)	19,783
Deferred tax asset	(26,741)	(24,856)
Increase/(decrease) in liabilities		
Accounts payable	(820,789)	438,197
Provisions	107,296	74,149
Taxation	(218,818)	200,927
Net cash flow from operating activities	<u>1,073,269</u>	<u>2,087,421</u>

## 20. CAPITAL AND LEASING COMMITMENTS

### (a) Finance Lease Commitments

	2012	2011
	\$	\$
Payable minimum lease payments:		
No later than 1 year	60,970	103,683
Later than 1 year and not later than 5 years	88,979	149,949
Minimum lease payments	149,949	253,632
Less future finance charges	(11,014)	(26,890)
Present value of minimum lease payments	138,935	226,742
Represented by:		
Current financial liabilities	51,256	87,807
Non current financial liabilities	87,679	138,935
	138,935	226,742

#### 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 Lease Commitments

	2012	2011
	\$	\$
Non-cancellable operating leases contracted		
No later than 1 year	790,858	963,701
Later than 1 year and not later than 5 years	1,749,519	1,135,799
	2,540,377	2,099,500

#### Leasing arrangements

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

1. 23 McLaren Street, Bendigo - Lease term renegotiated to commencing 1 May 2012 and ending on 30 June 2017, with rent payable monthly in advance. There is also an option for 3 further terms of five years each, and each of those options must be exercised at least 3 months in advance. Fixed reviews of 2.5% increases will take place on 1 July 2015 and 1 July 2016.
2. Business Continuity Centre, 121 Edwards Road, Flora Hill - five years lease term expiring on 31 August 2013. Rent is payable monthly in advance and an annual CPI review during the term on 1 September each year. There is an option for 2 further terms of five years each by giving notice at least 3 months in advance.
3. 113 Williamson Street, Bendigo – Lease term renegotiated to commencing 1 May 2012 and ending 30 June 2017, with rent payable monthly in advance. There is an option for 3 further terms of five years each by giving notice at least 3 months in advance. Fixed reviews of 2.5% increases will take place on 1 July 2015 and 1 July 2016.

Operating leases for computer network/infrastructure equipment for customer use continued in this financial period with terms of either three or five years. Approximately 59% 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**

	2012	2011
	\$	\$
Capital expenditure commitments contracted for:		
Leasehold	-	-
Furniture	-	-
Office Computer	-	-
Vehicles	-	122,082
Business Continuity Centre	-	-
Computer Network & Infrastructure	-	-
	-	122,082
Payable:		
No later than 1 year	-	122,082
Later than 1 year and not later than 5 years	-	-
	-	122,082

**21. 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 the 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.

- (i) Market Risk – the company has no exposure to any transactions denominated in a currency other than Australian dollars.
- (ii) Price Risk – the company is not exposed to equity securities price risk as it does not hold investments for sale or at fair value. The company is not exposed to commodity price risk.
- (iii) Credit Risk – the company has no significant concentrations of credit risk. It has policies in place to ensure that customers have an appropriate credit history and credit rating.
- (iv) Liquidity Risk – the company maintains prudent liquidity management by maintaining sufficient cash and the availability of funding from credit facilities.
- (v) 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
<i>Financial assets</i>		
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.	Trade receivables are generally due for settlement within 14 days.
<i>Financial liabilities</i>		
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		Floating Interest Rate	
	2012	2011	2012	2011
	%	%	\$	\$
<b>Financial Assets</b>				
Cash or Cash Equivalents	-	-	768,001	1,376,393
Short-term Deposits	2.66	2.84	-	200,000
Accounts Receivable - Debtors	-	-	-	-
<b>Total Financial Assets</b>	<b>2.66</b>	<b>2.84</b>	<b>768,001</b>	<b>1,576,393</b>
<b>Financial Liabilities</b>				
Creditors & Accruals	-	-	-	-
Finance Leases	8.95	8.58	-	-
<b>Total Financial Liabilities</b>	<b>8.95</b>	<b>8.58</b>	<b>-</b>	<b>-</b>
	Within 1 Year		1 to 5 years	
	2012	2011	2012	2011
	\$	\$	\$	\$
<b>Financial Assets</b>				
Cash or Cash Equivalents	-	-	-	-
Short-term Deposits	-	-	-	-
Accounts Receivable - Debtors	-	-	-	-
<b>Total Financial Assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Financial Liabilities</b>				
Creditors & Accruals	-	-	-	-
Finance Leases	60,970	103,863	88,979	149,949
<b>Total Financial Liabilities</b>	<b>60,970</b>	<b>103,863</b>	<b>88,979</b>	<b>149,949</b>

	Over 5 years		Non Interest Bearing	
	2012	2011	2012	2011
	\$	\$	\$	\$
<b>Financial Assets</b>				
Cash or Cash Equivalents	-	-	-	-
Short-term Deposits	-	-	-	-
Accounts Receivable - Debtors	-	-	2,216,696	2,183,232
<b>Total Financial Assets</b>	-	-	<b>2,216,696</b>	<b>2,183,232</b>
<b>Financial Liabilities</b>				
Creditors & Accruals	-	-	2,730,287	3,551,076
Finance Leases	-	-	-	-
<b>Total Financial Liabilities</b>	-	-	<b>2,730,287</b>	<b>3,551,076</b>

	Total	
	2012	2011
	\$	\$
<b>Financial Assets</b>		
Cash or Cash Equivalents	768,001	1,376,393
Short-term Deposits	-	200,000
Accounts Receivable - Debtors	2,216,696	2,183,232
<b>Total Financial Assets</b>	<b>2,984,697</b>	<b>3,759,625</b>
<b>Financial Liabilities</b>		
Creditors & Accruals	2,730,287	3,551,076
Finance Leases	138,935	226,742
<b>Total Financial Liabilities</b>	<b>2,869,222</b>	<b>3,777,818</b>

Creditors and accruals are expected to be paid as follows:

	2012	2011
	\$	\$
Less than 6 months	2,730,287	3,551,076
6 months to 1 year	-	-
1 – 5 years	-	-
Over 5 years	-	-
	<b>2,730,287</b>	<b>3,551,076</b>

**(c) 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.

**Exposure to Credit Risk**

The carrying amount of the Company's financial assets represents the maximum credit exposure. The Company's maximum exposure to credit risk at the reporting date was:

	Carrying Amount	
	2012	2011
	\$	\$
Cash or Cash Equivalents	768,001	1,576,393
Trade & Other Receivables	2,216,696	2,183,232
	<b>2,984,697</b>	<b>3,759,625</b>

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

Cash or Cash Equivalents	768,001	1,576,393
Trade & Other Receivables	2,216,696	2,183,232
	<u>2,984,697</u>	<u>3,759,625</u>

The Company's entire exposure to credit risk for Trade Receivables was attributable to customers located in Australia.

#### (d) Liquidity Risk

The following are the contractual maturities of financial liabilities, including estimated interest payments, for the Company:

	Carrying Amount \$	Contract C/Flows \$	1 year or less \$	1-5 years \$	Over 5 years \$
<b>30 June 2012</b>					
<b>Financial Liabilities</b>					
Trade and other payables	1,313,226	1,313,226	1,313,226	-	-
Lease liabilities	138,935	149,949	60,970	88,979	-
<b>Total financial liabilities</b>	<u>1,452,161</u>	<u>1,463,175</u>	<u>1,374,196</u>	<u>88,979</u>	<u>-</u>

#### (e) 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	
	2012 \$	2011 \$	2012 \$	2011 \$
<b>Financial Instruments</b>				
<b>Financial assets</b>				
Cash or cash equivalents	768,001	1,376,393	768,001	1,376,393
Short-term bank deposits	-	200,000	-	200,000
Accounts receivable - debtors	2,216,696	2,183,232	2,216,696	2,183,232
<b>Total financial assets</b>	<u>2,984,697</u>	<u>3,759,625</u>	<u>2,984,697</u>	<u>3,759,625</u>
<b>Financial liabilities</b>				
Creditors and accruals	2,730,287	3,551,076	2,730,287	3,551,076
Finance leases	138,935	226,742	138,935	226,742
<b>Total financial liabilities</b>	<u>2,869,222</u>	<u>3,777,818</u>	<u>2,869,222</u>	<u>3,777,818</u>

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.

**(f) 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 2012, 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:

	2012 \$	2011 \$
Change in profit		
Increase in interest rate by 4%	1,079	1,301
Decrease in interest rate by 4%	(1,079)	(1,301)
Change in equity		
Increase in interest rate by 4%	1,079	1,301
Decrease in interest rate by 4%	(1,079)	(1,301)

**22. RETIREMENT BENEFITS AND SUPERANNUATION PAYMENTS**

	2012 \$	2011 \$
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

**23. 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	Michelle O'Sullivan	Geoff Michell
Margot Spalding		

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

	2012 No.	2011 No.
Directors Shareholdings		
Robert Hunt	451,048	451,048
Graham Bastian	2,000	2,000
Andrew Cairns	-	-
Don Erskine	840,000	840,000
Geoff Michell	20,002	20,002
Margot Spalding	10,000	10,000
Michelle O'Sullivan	-	-

Mr Hunt is a Director and Chairman of Community Telco Australia (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.

## 24. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

## 25. SEGMENT REPORTING

The company has adopted AASB 8 Operating Segments from 1 July 2009 whereby segment information is presented using a 'management approach'; that is, segment information is provided on the same basis as information used for internal reporting purposes by the chief operating decision maker (the board that makes strategic decisions).

This has resulted in the departments of Fixed Telephone, Data Network, Mobile Telephone, Traditional Internet and Broadband services being aggregated into one reportable segment. Goodwill has been reallocated accordingly to cash generating units which cannot be greater than a segment as defined in AASB 8 Operating Segments. On reallocation, no additional goodwill impairment was required.

### (a) Description of Segments

Management has determined the operating segments based on reports reviewed by the board for making strategic decisions. The board monitors the business based on product factors and have identified five business segments: Fixed Telephone, Data Network, Mobile Telephone, and Broadband services. Each of these segments involves the delivery of communication services to customers.

### (b) Information about reportable segments

#### Aggregated Communications Departments

	2012	2011
	\$	\$
External segment revenues	23,909,362	26,328,180
Segment expenses	<u>(21,512,992)</u>	<u>(24,262,883)</u>
Net segment profit/(loss)	<u>2,396,370</u>	<u>2,065,297</u>

### (c) Reconciliation of Reportable Segment Revenue, Profit/(Loss), Assets & Liabilities and Other Material Items

#### Aggregated Communications Departments

	2012	2011
	\$	\$
<b>Revenues</b>		
Total revenue for reportable segments (aggregated)	23,909,362	26,328,180
Other revenue	74,240	46,474
Consolidated revenue	<u>23,983,602</u>	<u>26,374,654</u>

### Profit or Loss

Total profit/(loss) for reportable segments (aggregated)	2,396,370	2,065,297
Other profit/(loss)	74,240	46,474
Unallocated amounts:		
Finance expense	(234,732)	(170,778)
Depreciation & amortisation	(969,449)	(823,620)
Impairment	(48,594)	11,497
Consolidated profit/(loss) before income tax	<u>1,217,835</u>	<u>1,128,870</u>

### Assets & Liabilities

No information is disclosed for segment assets as no measure of segment assets is regularly provided to the chief operating decision maker.

## 26. EVENTS AFTER THE REPORTING PERIOD

Since the end of the financial year a final dividend in the amount of 7 cents per share was declared by the Board of Directors on 5 September 2012 which will be distributed to shareholders on 8 October 2012.

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.

## 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.

Business Advisory Centre – 113 Williamson Street, Bendigo, Victoria.

Data Centre - 121 Edwards Road, Bendigo, Victoria.

### DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Bendigo Community Telco Limited, the directors of the company declare that:

1. the financial statements and notes of the company are in accordance with the *Corporations Act 2001*, and:
  - a. comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with the International Financial Reporting Standards (IFRS); and
  - b. give a true and fair view of the financial position as at 30 June 2012 and of the performance for the year ended on that date of the company;
2. 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; and
3. the directors have been given the declarations required by s 295A of the *Corporations Act 2001* from the Chief Executive Officer and General Manager Finance.
4. the audited remuneration report set out in the Directors Report (as part of the remuneration report), for the year ended 30 June 2012, comply with section 300A of the *Corporations Act 2001* and the Corporations Regulation 2001.

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

On behalf of the directors



Rob Hunt

Director



Don Erskine

Director

Signed on 5 September 2012



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ABN 51 061 795 337

## 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 statement of financial position as at 30 June 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 establishing 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 2012 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 and s300a of the *Corporations Act 2001*.



**GRAEME STEWART**

**ANDREW FREWIN STEWART**  
61-65 Bull Street, Bendigo, VIC 3550  
Dated this 5<sup>th</sup> day of September 2012

## SHAREHOLDER INFORMATION

The shareholder information set out below was current as at 22 August 2012.

### Distribution of Shareholders

Category	Number of Holders
1 - 1,000	143
1,001 - 5,000	204
5,001 - 10,000	58
10,001 - 100,000	47
100,001 and over	4
	<u>456</u>

The number of shareholdings held in less than marketable parcels is 24.

### Top 10 Shareholders

Name of Shareholder	Number of Shares	% of Total Shares
Bendigo and Adelaide Bank	1,112,146	19.6
Erskine Investments Pty Ltd	840,000	14.8
Hunters Ridge Pty Ltd	421,004	7.4
Ron Poyser Administrators Pty Ltd	372,000	6.6
Bendigo Senior Secondary College	100,000	1.8
Community Telco Syndicate	98,000	1.7
MGR Property Pty Ltd	90,000	1.6
Bendigo Regional Institute of TAFE	86,000	1.5
Latrobe University	84,000	1.5
Kirstow Nominees Pty Ltd	64,000	1.1
Total shares held by top 10 holders	<u>3,267,150</u>	<u>57.6</u>