



SUPPLY NETWORK LIMITED

ABN 12 003 135 680

141 - 151 Fairfield Road

Guildford NSW 2161

PO Box 460

Fairfield NSW 2165

Office: 61 2 9892 3888

Facsimile: 61 2 9892 2399

26 August 2005

The Manager
Companies Announcement Office
Australian Stock Exchange Limited
20 Bridge Street
Sydney NSW 2000

Dear Sir

Re: Preliminary Final Report Appendix 4E

Directors are pleased to announce the audited results for the year ended 30 June 2005 the details of which are included in the Appendix 4E - Preliminary Final Report attached.

In comparison with last year, total revenue increased by 5% to \$35.13m.

Net profit decreased by 12% to \$1.18m, which equates to 5.35 cents per share.

Directors have declared a fully franked final dividend of 1.5 cents per share, payable on 23 September 2005, to shareholders registered on 1 September 2005. This represents a total of 2.75 cents dividend for the full year, up from 2.5 cents the previous year.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Peter Gill', written over a white background.

Peter Gill
Company Secretary

Appendix 4E

Preliminary Final Report

1. Details of reporting period

| | |
|--------------------------------------|------------------------|
| Name of entity | Supply Network Limited |
| ABN | 12 003 135 680 |
| Financial year ended | 30 June 2005 |
| Previous corresponding period | 30 June 2004 |

2. Results for announcement to the market

| | 2005 \$'000 | 2004 \$'000 | % increase / (decrease) over corresponding period |
|------------------------------------------------------------------------------|--------------------------------|----------------------------------------|----------------------------------------------------------------------|
| Revenue from Ordinary activities | 35,134 | 33,518 | 4.8% |
| Profit from ordinary activities after tax attributable to members | 1,179 | 1,344 | (12.3)% |
| Net profit attributable to members | 1,179 | 1,344 | (12.3)% |
| Dividends | Amount per Security | Franked amount per security | |
| Final dividend | 1.50¢ | 1.50¢ | |
| Previous corresponding period | 1.50¢ | 1.50¢ | |
| Interim dividend | 1.25¢ | 1.25¢ | |
| Previous corresponding period | 1.00¢ | 1.00¢ | |
| Record date for determining entitlements to the dividends | 1 September 2005 | | |

Brief explanation of any of the figures reported above necessary to enable the figures to be understood.

Refer to ASX announcement correspondence attached.

3. Consolidated Statement of Financial Performance

Refer attached financial statements

4. Consolidated Statement of Financial Position

Refer attached financial statements

5. Consolidated Statement of Cash Flows

Refer attached financial statements

6. Dividends

The Directors have declared a fully franked (at 30%) final dividend of 1.5 cents per share amounting to \$332,000 and payable on 23 September 2005 to eligible shareholders

A fully franked interim dividend of 1.25 cent per share amounting to \$276,000 was paid on 31 March 2005.

A fully franked final dividend of 1.5 cent per share amounting to \$331,000 was paid on 6 September 2004 in respect of the year ended 30 June 2004.

| | |
|------------------------------------------------------------------------|--|
| Amount per security of foreign sourced dividend or distribution | |
|------------------------------------------------------------------------|--|

| |
|-----|
| Nil |
|-----|

7. Dividend Reinvestment Plans

No dividend reinvestment plans are in operation

8. Consolidated Retained Earnings

| | \$'000 |
|-------------------------------------|--------|
| Balance at beginning of year | 3,396 |
| Net Profit | 1,179 |
| Dividends paid | (607) |
| Balance at end of year | 3,968 |

9. Net tangible asset backing

| | Current Period | Previous corresponding period |
|---------------------------------------------------------|----------------|-------------------------------|
| Net tangible asset backing per ordinary security | 42.6¢ | 40.5¢ |

10. Details of entities over which control has been gained or lost during period

Nil

11. Details of associate and joint venture entities

Nil

12. Any other significant information needed by an investor to make an informed assessment of the entity's financial performance and financial position

Refer attached Managing Director's report and financial statements

13. Foreign entities

Not applicable

14. Commentary on results for period**Earnings per security and nature of any dilution aspects**

| | Current Period | Previous corresponding period |
|-------------------------------------------------------------------------|----------------|-------------------------------|
| Basic earnings per share | 5.35¢ | 6.22¢ |
| Diluted earnings per share | 5.33¢ | 6.19¢ |
| Dilutive securities - share options | 25,000 | 500,000 |
| See Statement of Financial Performance in attached financial statements | | |

14. Commentary on results for period (continued)

Returns to shareholders including distributions and buy backs

Refer to attached financial statements for details of returns and dividends.
There were no buy backs during the current period.

Significant features of operating performance

Refer attached Managing Director's Report and financial statements.

The results of segments

Refer Note 29 in the attached financial statements

Discussion of trends in performance

Refer to attached Managing Director's Report

Any other factors which have affected the result in the period or which are likely to affect results in the future including those where the effects could not be quantified

None

15. Statement in relation to accounts this report is based on

This report is based on accounts that have been audited and are not subject to dispute or qualification.

Signature



Date **26 August 2005**

Name **Peter Gill**

Position **Company Secretary**



Managing Director's Report

I have mixed feelings about our full year result. Clearly delivering a result that is less than last year and below our early full year forecast to shareholders is disappointing. Yet our progress on business fundamentals over the last 12 months was as solid as in any prior year.

In all business units we base our strategy on three principles: strong relationships with key suppliers, rational management of stock and stock distribution, and active sales teams with strong industry knowledge and a customer service focus. In my Review of Operations I will outline our progress on these strategic principles in each of our trading companies.

Review of Operations

Multispares Australia – European & Japanese Heavy Vehicle Parts

Sales revenue excluding one-off transactions and inter-company sales was up 5.7%. This is lower than expected but still within our forecast band of 5-10% p.a.

New cost management initiatives allowed us to convert this small growth in revenue into operating profit growth of around 25% excluding one-off transactions.

Our result is boosted by one-off transactions every year however as advised at the end of last year the one-off transactions towards the end of financial year 2003-2004 were abnormally high and contributed substantially to our record profit result. As expected abnormally high one-off transactions were not repeated in financial year 2004-2005, so despite an otherwise strong result, the Multispares Australia profit declined marginally.

Market conditions have been competitive across our full range of products and the nature of global supply is now such that we expect this competitive environment to continue. Within this environment we continue to differentiate by negotiating distribution agreements for high quality brands in key product segments. While it is still early days recent success at promoting these brands is very encouraging.

Group net inventories increased over the year by around \$1.5m and much of this growth occurred in Multispares Australia. The increase is largely attributable to our strategic decision to improve availability of key product segments in our branches plus preparation for the two new branches discussed below. Improved availability has had only a marginal impact on sales revenue but it has allowed us to raise customer service levels at a time of tighter cost management.

Finally the decision to open two new branches has meant a substantial investment in our future. New branches in regional markets take a number of years to reach the efficiency levels of established branches in major centres. However they immediately make a significant contribution

to our distribution and the strength of our staffing, with the opportunity to bring in new people with local industry knowledge. Opening new branches does impact earnings in the short term but if they are well supported then over a 5-10 year horizon the returns can be excellent. While there are limited opportunities, opening new branches in carefully selected regional markets remains an important part of our long-term outlook.

Multispares New Zealand – European, Japanese and Trailer Heavy Vehicle Parts

Sales revenue in New Zealand increased by less than 2% in NZD terms, which falls well short of our growth targets. Sales performance was particularly slow in the last two months and our results in the early months of the current financial year are below sales in the previous corresponding period. Two major contracts nearing the end of their life cycle and generally lower activity as a consequence of higher oil prices are considered to be the main contributing factors.

The projects to establish and integrate new national warehouse facilities in Auckland and to expand our NZ operations team have both concluded successfully. This gives us the capacity and the capability to pursue a number of growth strategies but these will take at least 12 months to feed into revenue and profit growth.

In the short term the impact of the capacity changes has been increased costs and reduced profits. In NZD terms New Zealand operating profits fell by 16% when compared with the prior year and we are forecasting a similar profit in the current financial year.

Globac – Heavy Vehicle Brake Friction, Foundation & Control

Disappointing sales in a market dominated by tough price competition resulted in Globac remaining in an operating loss position for most of last year. Significant sales growth in the second half helped Globac to reach break-even in the last month of the financial year but there remains a lot of work to lift Globac to sustained and satisfactory profitability.

We expect Globac to break-even in the current financial year and remain confident of significant long-term growth opportunities. The Globac commitment to quality products is consistent with our general business philosophy. We have established the right low cost, high quality operating structure and this will ensure good returns once the business reaches critical sales mass.

Our confidence in the success of this model is highlighted by our decision to start another business with a similar operating model and similar market objectives.

Daconti – Specialist Vehicle Parts

Daconti is another start up company specialising in a market niche where we have significant supply opportunities and there are natural synergies with our established businesses. It is in the early stages of development and will require financial support for about two years before it

breaks even. Clearly the decision to start Daconti places pressure on profitability in the current year.

Like Globac, Daconti will be set up with a competitive operating model, focused on a market niche with significant growth potential. While not ruling out future acquisitions we believe this style of investment offers a better long-term return for our shareholders than any of the industry acquisitions that we have considered.

Looking Forward

Although our results over the past year include a mixed bag of positives and negatives we have made significant progress on our key principles of building strong relationships with key suppliers, rational management of stock and stock distribution, and active sales teams with strong industry knowledge. This progress bodes well for future growth.

Given the early stage in the lifecycle of a number of new investments including two new branches in Multispares Australia, recent capacity expansions in New Zealand and the decision to start Daconti, we are expecting operating profit to remain flat in the current year. Changes to stock management practices should improve our cash flow from established businesses enabling the Group to fund these investments without increasing debt levels significantly.

It has been another extraordinary year and one that has seen the maturing of our strategic principles. We have great teams of people across all business units and this has allowed us to bring key strategies into practice. I thank our staff for their contributions over the past year and look forward to working with them again.

SUPPLY NETWORK LIMITED

**Statement of Financial Performance
for the year ended 30 June 2005**

| | Note | Consolidated | | Parent | |
|-------------------------------------------------------------------------------------------------------------------------------------------------|------|---------------|---------------|---------------|---------------|
| | | 2005 \$000 | 2004 \$000 | 2005 \$000 | 2004 \$000 |
| Revenue from ordinary activities | 2 | 35,134 | 33,518 | 1,170 | 1,227 |
| Expenses from ordinary activities excluding borrowing costs | 3 | (33,139) | (31,436) | (237) | (228) |
| Borrowing costs | 3 | (263) | (177) | - | - |
| Profit from ordinary activities before income tax expense | | 1,732 | 1,905 | 933 | 999 |
| Income tax expense relating to ordinary activities | 4 | (553) | (561) | (2) | (1) |
| Profit from ordinary activities after income tax expense | | 1,179 | 1,344 | 931 | 998 |
| Net profit | | 1,179 | 1,344 | 931 | 998 |
| Net exchange difference on translation of financial statements of foreign controlled entity | | 3 | 66 | - | - |
| Total revenues, expenses and valuation adjustments attributable to members of Supply Network Limited and recognised directly in equity | | 3 | 66 | - | - |
| Total changes in equity other than those resulting from transactions with owners as owners | | 1,182 | 1,410 | 931 | 998 |
| Basic earnings per share (cents per share) | | 5.35 | 6.22 | | |
| Diluted earnings per share (cents per share) | | 5.33 | 6.19 | | |
| Weighted average number of ordinary shares used in the calculation of basic earnings per share | | 22,018,365 | 21,611,790 | | |
| Effect of dilutive securities: | | | | | |
| Share options | | 120,480 | 91,781 | | |
| Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share | | 22,138,845 | 21,703,571 | | |

SUPPLY NETWORK LIMITED

**Statement of Financial Position
at 30 June 2005**

| | Note | Consolidated | | Parent | |
|--------------------------------------|------|---------------|---------------|---------------|---------------|
| | | 2005 \$000 | 2004 \$000 | 2005 \$000 | 2004 \$000 |
| Current Assets | | | | | |
| Cash assets | 26 | 156 | 476 | - | - |
| Receivables | 5 | 5,108 | 4,855 | - | - |
| Inventories | 6 | 11,525 | 10,419 | - | - |
| Other | 7 | 14 | 13 | - | - |
| Total Current Assets | | 16,803 | 15,763 | - | - |
| Non-Current Assets | | | | | |
| Receivables | 8 | - | - | 7,144 | 6,846 |
| Other financial assets | 9 | - | - | 1,398 | 1,398 |
| Property, plant and equipment | 10 | 1,413 | 1,260 | - | - |
| Deferred tax assets | 11 | 700 | 682 | 560 | 506 |
| Total Non-Current Assets | | 2,113 | 1,942 | 9,102 | 8,750 |
| Total Assets | | 18,916 | 17,705 | 9,102 | 8,750 |
| Current Liabilities | | | | | |
| Payables | 12 | 4,616 | 5,411 | 24 | 24 |
| Interest bearing liabilities | 13 | 216 | 253 | - | - |
| Current tax liabilities | 14 | 77 | 197 | 123 | 199 |
| Provisions | 15 | 1,048 | 984 | 375 | 329 |
| Total Current Liabilities | | 5,957 | 6,845 | 522 | 552 |
| Non-Current Liabilities | | | | | |
| Interest bearing liabilities | 16 | 3,369 | 1,975 | - | - |
| Provisions | 17 | 160 | 124 | 20 | 56 |
| Total Non-Current Liabilities | | 3,529 | 2,099 | 20 | 56 |
| Total Liabilities | | 9,486 | 8,944 | 542 | 608 |
| Net Assets | | 9,430 | 8,761 | 8,560 | 8,142 |
| Equity | | | | | |
| Contributed equity | 18 | 5,395 | 5,301 | 5,395 | 5,301 |
| Reserves | 19 | 67 | 64 | - | - |
| Retained profits | 20 | 3,968 | 3,396 | 3,165 | 2,841 |
| Total Equity | | 9,430 | 8,761 | 8,560 | 8,142 |

SUPPLY NETWORK LIMITED

**Statement of Cash Flows
for the year ended 30 June 2005**

| Note | Consolidated | | Parent | | |
|---------------------------------------------|-----------------------------------------------------|---------------|---------------|---------------|-------|
| | 2005 \$000 | 2004 \$000 | 2005 \$000 | 2004 \$000 | |
| | Inflows (Outflows) | | | | |
| Cash flows from operating activities | | | | | |
| | Receipts from customers | 38,515 | 36,463 | - | - |
| | Payments to suppliers and employees | (38,223) | (34,601) | (1) | (28) |
| | Interest received | 4 | 10 | 2 | 1 |
| | Borrowing costs | (256) | (185) | - | - |
| | Income taxes paid | (689) | (835) | - | - |
| 26b | Net cash flows from (used in) operating activities | (649) | 852 | 1 | (27) |
| Cash flows from investing activities | | | | | |
| | Purchase of property, plant and equipment | (515) | (754) | - | - |
| | Proceeds from sale of property, plant and equipment | - | 18 | - | - |
| | Advances to and by wholly owned related parties | - | - | 511 | 340 |
| | Net cash flows from (used in) investing activities | (515) | (736) | 511 | 340 |
| Cash flows from financing activities | | | | | |
| | Proceeds from borrowings | 1,695 | 484 | - | - |
| | Proceeds from share issue | 94 | 19 | 95 | 19 |
| | Repayment of borrowings | (292) | (302) | - | - |
| | Payment of dividend on ordinary shares | (607) | (432) | (607) | (432) |
| | Net cash flows from (used in) financing activities | 890 | (231) | (512) | (413) |
| | Net increase (decrease) in cash held | (274) | (115) | - | (100) |
| | Add opening cash brought forward | 323 | 438 | - | 100 |
| 26a | Closing cash carried forward | 49 | 323 | - | - |

SUPPLY NETWORK LIMITED

Notes to the Financial Statements for the year ended 30 June 2005

1. Statement of Significant Accounting Policies

(a) Basis of Accounting

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

The financial report has been prepared in accordance with the historical cost convention and does not take into account changes in general purchasing power of the dollar or, except where stated, the price of specific assets.

(b) Principles of Consolidation

The consolidated financial statements are those of the consolidated entity, comprising Supply Network Limited (the parent entity) and all entities that Supply Network Limited controlled during the year and at reporting date. Information from the financial statement of subsidiaries is included from the date the parent company obtains control until such time as control ceases.

All inter company balances, including unrealised profits arising from intra group transactions have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Financial statements of foreign controlled entities presented in accordance with overseas accounting principles are, for consolidation purposes, adjusted to comply with group policy and generally accepted accounting principles in Australia.

(c) Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous year.

(d) Foreign Currency Transactions

Transactions in foreign currencies of entities within the consolidated entity are converted to local currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year.

A monetary item arising under a foreign currency contract outstanding at the reporting date where the exchange rate for the monetary item is fixed in the contract is translated at the exchange rate fixed in the contract.

Except for certain specific hedges, all resulting exchange differences arising on settlement or re-statement are recognised as revenues and expenses for the financial year. Any gain or cost on entering a hedge is deferred and amortised over the life of the contract.

Specific hedges

Where a purchase or sale is specifically hedged, exchange gains or losses on the hedging transaction arising up to the date of purchase or sale and costs, premiums and discounts relative to the hedging transaction are deferred and included in the measurement of the purchase or sale. Exchange gains and losses arising on the hedge transaction after that date are taken to net profit.

Translation of financial reports of overseas operations

All overseas operations are deemed self-sustaining, as each is financially and operationally independent of Supply Network Limited. The financial reports of overseas operations are translated using the current rate method and any exchange differences are taken directly to the foreign currency translation reserve.

(e) Cash and Cash Equivalents

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

For the purpose of the Statement of Cash Flows, cash includes cash on hand and in bank, net of outstanding bank overdrafts.

Bank overdrafts are carried at the principal amount. Interest is charged as an expense as it accrues.

(f) Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due.

SUPPLY NETWORK LIMITED

Notes to the Financial Statements for the year ended 30 June 2005

1. Statement of Significant Accounting Policies (continued)

(g) Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is weighted average into store cost. Obsolete and redundant inventories are provided for as appropriate.

(h) Recoverable Amount

Non-current assets measured using the cost basis are not carried at an amount above their recoverable amount, and where a carrying value exceeds this recoverable amount, the asset is written down. In determining recoverable amount, the expected net cash flows have been discounted to their present value using a market determined risk adjusted discount of 12%.

(i) Investments

Investments in controlled entities are valued in the parent entity's financial statements at cost. The carrying amounts of investments are reviewed annually to determine whether they exceed their recoverable amount. Investments other than in controlled entities are valued at the lower of cost or recoverable amount.

(j) Leased Assets

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis.

Finance leases

There were no finance leases during the year.

(k) Property, Plant and Equipment

Plant and equipment is measured at cost.

Depreciation is provided on a straight line basis on all property, plant and equipment. Major depreciation rates used are.

| | 2005 | 2004 |
|---------------------|------------|------------|
| Plant and Equipment | 2-10 years | 2-10 years |

(l) Employee Benefits

Provision is made for employee entitlements benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave, sick leave and long service leave.

Liabilities arising in respect of wages and salaries and annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee entitlement expenses arising in respect of the following categories

- wages and salaries, non monetary benefits, annual leave, long service leave, sick leave and other leave entitlements; and
 - other types of employee entitlements
- are charged against profits on a net basis in their respective categories.

Contributions are made to employee superannuation funds and are charged against profits when incurred (refer Note 25).

The value of the equity-based compensation scheme described in Note 25 is not being recognised as an employee benefits expense.

(m) Contributed Equity

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.

SUPPLY NETWORK LIMITED

Notes to the Financial Statements for the year ended 30 June 2005

1. Statement of Significant Accounting Policies (continued)

(n) Payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Payables to related parties are carried at the principal amount.

(o) Provisions

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

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

(p) Interest Bearing Liabilities

Loans are measured at the principal amount. Interest is charged as an expense as it accrues.

(q) Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Control of goods passes to the buyer on despatch.

Interest

Control of the right to receive the interest payment.

Dividends

Control of the right to receive the dividend payment.

(r) Taxes

Income taxes

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent that timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of being realised and timing differences are not carried forward unless the benefit is assured beyond reasonable doubt.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(s) Earnings Per Share

Basic earnings per share are calculated as net profit attributable to members, adjusted to exclude cost of servicing equity (other than dividends) divided by the weighted average number of ordinary shares.

Diluted earnings per share are calculated as net profit attributable to members, adjusted to exclude cost of servicing equity (other than dividends) divided by the weighted average number of ordinary shares and dilutive potential ordinary shares.

(t) Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

SUPPLY NETWORK LIMITED

**Notes to the Financial Statements
for the year ended 30 June 2005**

| | Consolidated | | Parent | |
|-------------------------------------------------------------------|---------------|---------------|---------------|---------------|
| | 2005 \$000 | 2004 \$000 | 2005 \$000 | 2004 \$000 |
| 2. Revenue from Ordinary Activities | | | | |
| Revenue from operating activities | | | | |
| Revenue from sale of goods | 35,051 | 33,434 | - | - |
| Revenues from non-operating activities | | | | |
| Dividends received from | | | | |
| - Wholly owned group | - | - | 928 | 998 |
| Interest received from | | | | |
| - Other persons | 4 | 10 | 2 | 1 |
| Net foreign exchange gains from non-speculative activities | 12 | 20 | - | - |
| Management fees received from | | | | |
| - Wholly owned group | - | - | 240 | 228 |
| Proceeds from sale of non-current assets (Note 3(a) below) | - | 18 | - | - |
| Other income | 67 | 36 | - | - |
| Total revenues from non-operating activities | 83 | 84 | 1,170 | 1,227 |
| Total revenues from ordinary activities | 35,134 | 33,518 | 1,170 | 1,227 |
| 3. Expenses and Losses (Gains) | | | | |
| Expenses | | | | |
| Cost of goods sold | 21,278 | 20,455 | - | - |
| Depreciation of non-current assets | | | | |
| - Plant and equipment | 355 | 287 | - | - |
| Other expenses | | | | |
| Salaries and employee benefit expenses | 6,324 | 5,804 | 148 | 155 |
| Operating lease expenses | 1,497 | 1,359 | - | - |
| Other expenses | 2,807 | 3,053 | 71 | 73 |
| Utility expenses | 288 | 362 | 2 | - |
| Bad and doubtful debt – Trade Debtors | 54 | 24 | - | - |
| Provision for inventory obsolescence | 157 | 62 | - | - |
| Insurance expense | 369 | - | 16 | - |
| Sale non-current asset expenses (Note 3(a) below) | 10 | 30 | - | - |
| Total other expenses | 11,506 | 10,694 | 237 | 228 |
| Total expenses from ordinary activities excluding borrowing costs | 33,139 | 31,436 | 237 | 228 |
| Borrowing Costs | | | | |
| Interest paid to or payable to | | | | |
| - Other persons | 263 | 177 | - | - |
| Total expenses from ordinary activities | 33,402 | 31,613 | 237 | 228 |
| (a) Revenue from sale of property, plant and equipment | - | 18 | - | - |
| Less expenses from sale of property, plant and equipment | 10 | 30 | - | - |
| Net (profit)/loss on disposal of property, plant and Equipment | (10) | (12) | - | - |

SUPPLY NETWORK LIMITED

**Notes to the Financial Statements
for the year ended 30 June 2005**

| | Consolidated | | Parent | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-------|--------|-------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$000 | \$000 | \$000 | \$000 |
| 4. Income Tax Expense | | | | |
| The prima facie tax, using tax rates applicable in the country of operation, on profit differs from income tax provided in the financial statements as follows | | | | |
| Profit from ordinary activities | 1,732 | 1,905 | 933 | 999 |
| Prima facie tax payable | 534 | 589 | 280 | 300 |
| Tax effect of permanent and other differences | | | | |
| Dividends received | - | - | (278) | (299) |
| Other items not deductible | 16 | 23 | - | - |
| Amount under / (over) provided in prior year | 3 | (51) | - | - |
| Income tax expense attributable to profit from ordinary activities | 553 | 561 | 2 | 1 |
| Total income tax expense comprises movements in | | | | |
| Current tax payable | 606 | 659 | (16) | 8 |
| Future income tax benefit | (53) | (5) | 18 | (7) |
| Provision for deferred income tax | - | (93) | - | - |
| | 553 | 561 | 2 | 1 |

Tax Consolidation

Effective 1 July 2003, for the purpose of income taxation, Supply Network Limited and its 100% owned Australian subsidiaries formed a tax consolidated group. Members of the group have entered into a tax sharing agreement in order to allocate income tax expense to the wholly-owned subsidiaries on a pro-rata basis. In addition, the agreement provides for the allocation of income tax liabilities between entities should the head entity default on its tax payment obligations. At the balance date, the possibility of default is remote. The head entity of the tax consolidated group is Supply Network Limited.

Supply Network Limited formally notify the Australian Taxation Office of its adoption of the tax consolidation regime on lodging its 30 June 2004 consolidated tax return.

5. Receivables (Current)

| | | | | |
|------------------------------|-------|-------|---|---|
| Trade debtors | 5,186 | 4,909 | - | - |
| Provision for doubtful debts | (88) | (84) | - | - |
| | 5,098 | 4,825 | - | - |
| Other debtors | 10 | 30 | - | - |
| | 5,108 | 4,855 | - | - |

(a) Terms and conditions

Terms and conditions relating to the above financial instruments

(i) Trade debtors are non-interest bearing and generally settled on 30 day terms

SUPPLY NETWORK LIMITED

**Notes to the Financial Statements
for the year ended 30 June 2005**

| | Consolidated | | Parent | |
|-------------------------------------------------------------|---------------|---------------|---------------|---------------|
| | 2005 \$000 | 2004 \$000 | 2005 \$000 | 2004 \$000 |
| 6. Inventories (Current) | | | | |
| Finished goods (at cost) | 11,395 | 9,709 | - | - |
| Provision for obsolescence | (1,002) | (845) | - | - |
| | <u>10,393</u> | <u>8,864</u> | | |
| Stock in transit (at cost) – finished goods | 1,132 | 1,555 | - | - |
| | <u>11,525</u> | <u>10,419</u> | | |
| 7. Other Current Assets | | | | |
| Prepayments | 14 | 13 | - | - |
| | <u>14</u> | <u>13</u> | | |
| 8. Receivables (Non Current) | | | | |
| Amounts receivable from wholly owned group (see Note 31) | - | - | 7,144 | 6,846 |
| | <u>-</u> | <u>-</u> | <u>7,144</u> | <u>6,846</u> |

9. Other Financial Assets

(a) Shares in controlled entities at cost in parent entity

| | Class of Shares | Percentage Holdings | 2005 \$ | 2004 \$ |
|---------------------------------|--------------------|------------------------|------------------|------------------|
| Multispares N.Z. Limited | ORD | 100% | 1,030,600 | 1,030,600 |
| Multispares Limited | ORD | 100% | 367,429 | 367,429 |
| Daconti Limited | ORD | 100% | 2 | 2 |
| Globac Limited | ORD | 100% | 2 | 2 |
| Supply Network Services Limited | ORD | 100% | 2 | 2 |
| | | | <u>1,398,035</u> | <u>1,398,035</u> |

The financial year of all controlled entities are the same as that of the parent entity. All companies are incorporated in Australia except Multispares NZ Limited which is incorporated in New Zealand. All entities operate solely in their country of incorporation.

(b) Supply Network Limited, Multispares Limited, Globac Limited, Daconti Limited and Supply Network Services Limited (Closed Group) have entered into a Deed of Cross Guarantee dated 5 June 1992 which provides that all parties to the deed will guarantee to each creditor payment in full of any debt of each company participating in the deed on winding-up of that company. As a result of the Class Order issued by the Australian Securities Commission, Multispares Limited, Globac Limited, Daconti Limited and Supply Network Services Limited are relieved from the requirement to prepare financial statements.

The Statement of Financial Performance and Statement of Financial Position of all entities included in the class order "Closed Group" are set out in Note (c).

SUPPLY NETWORK LIMITED

**Notes to the Financial Statements
for the year ended 30 June 2005**

9. Other Financial Assets (continued)

**(c) Financial information for class order closed group
Consolidated statement of financial performance for
the year ended 30 June 2005**

| | Closed Group | |
|-----------------------------------------------------------|---------------------|--------------|
| | 2005 | 2004 |
| | \$000 | \$000 |
| Profit from ordinary activities before income tax expense | 1,224 | 1,326 |
| Income tax expense relating to ordinary activities | (382) | (397) |
| Profit from ordinary activities after income tax | 842 | 929 |
| Retained profits at the beginning of the financial year | 2,818 | 2,321 |
| Dividends provided for or paid | (607) | (432) |
| Retained profits at end of the financial year | 3,053 | 2,818 |

**Consolidated statement of financial position
at 30 June 2005**

| | Closed Group | |
|--------------------------------------|---------------------|--------------|
| | 2005 | 2004 |
| | \$000 | \$000 |
| Current Assets | | |
| Cash assets | 154 | 474 |
| Receivables | 4,370 | 4,208 |
| Inventories | 9,505 | 8,595 |
| Other | 10 | 8 |
| Total Current Assets | 14,039 | 13,285 |
| Non-Current Assets | | |
| Other financial assets | 1,031 | 1,031 |
| Property, plant and equipment | 1,072 | 1,069 |
| Deferred tax assets | 560 | 562 |
| Total Non-Current Assets | 2,663 | 2,662 |
| Total Assets | 16,702 | 15,947 |
| Current Liabilities | | |
| Payables | 3,903 | 4,496 |
| Interest bearing liabilities | 109 | 100 |
| Current tax liabilities | 123 | 199 |
| Provisions | 1,002 | 934 |
| Total Current Liabilities | 5,137 | 5,729 |
| Non-Current Liabilities | | |
| Interest bearing liabilities | 2,957 | 1,975 |
| Provisions | 160 | 124 |
| Total Non-Current Liabilities | 3,117 | 2,099 |
| Total Liabilities | 8,254 | 7,828 |
| Net Assets | 8,448 | 8,119 |
| Equity | | |
| Contributed equity | 5,395 | 5,301 |
| Retained profits | 3,053 | 2,818 |
| Total Equity | 8,448 | 8,119 |

SUPPLY NETWORK LIMITED

**Notes to the Financial Statements
for the year ended 30 June 2005**

| | Consolidated | | Parent | |
|--------------------------------------------------|--------------|--------------|------------|------------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$000 | \$000 | \$000 | \$000 |
| 10. Property, Plant and Equipment | | | | |
| Property, plant and equipment at cost | | | | |
| Plant and equipment | | | | |
| Opening balance | 3,012 | 2,614 | - | - |
| Additions | 515 | 754 | - | - |
| Disposals | (115) | (370) | - | - |
| Currency translation difference | 3 | 14 | - | - |
| Closing balance | <u>3,415</u> | <u>3,012</u> | <u>-</u> | <u>-</u> |
| Accumulated Depreciation | | | | |
| Opening Balance | 1,752 | 1,796 | - | - |
| Depreciation for the year | 355 | 287 | - | - |
| Disposals | (105) | (340) | - | - |
| Currency translation difference | - | 9 | - | - |
| Closing balance | <u>2,002</u> | <u>1,752</u> | <u>-</u> | <u>-</u> |
| Net book value | <u>1,413</u> | <u>1,260</u> | <u>-</u> | <u>-</u> |
| Total property, plant and equipment | <u>1,413</u> | <u>1,260</u> | <u>-</u> | <u>-</u> |
| 11. Deferred Tax Assets (Non Current) | | | | |
| Future income tax benefits | | | | |
| Attributable to timing differences | | | | |
| - Provision for doubtful debts | 27 | 26 | 21 | 20 |
| - Provision for employee entitlements | 364 | 334 | 348 | 317 |
| - Provision for obsolescence | 190 | 160 | 117 | 99 |
| - Other | 119 | 162 | 74 | 70 |
| | <u>700</u> | <u>682</u> | <u>560</u> | <u>506</u> |
| 12. Payables (Current) | | | | |
| Unsecured Liabilities | | | | |
| Trade creditors and accruals | 2,200 | 2,722 | 24 | 24 |
| Foreign currency payable – Unhedged Note 30 | 1,317 | 1,198 | - | - |
| Foreign currency payable – Hedged Note 30 | 1,099 | 1,491 | - | - |
| | <u>4,616</u> | <u>5,411</u> | <u>24</u> | <u>24</u> |

(a) Terms and conditions

Terms and conditions relating to the above financial instruments

(i) Trade creditors and foreign currency payables are non interest bearing and are generally settled on 60 day terms

SUPPLY NETWORK LIMITED

**Notes to the Financial Statements
for the year ended 30 June 2005**

| | | Consolidated | | Parent | |
|---------------------------------------------------|-----|---------------|---------------|---------------|---------------|
| | | 2005 \$000 | 2004 \$000 | 2005 \$000 | 2004 \$000 |
| 13. Interest Bearing Liabilities (Current) | | | | | |
| Bank overdraft – secured | (a) | 107 | 153 | - | - |
| Bank loans – secured | (a) | 100 | 100 | - | - |
| Other loans – secured | (b) | 9 | - | - | - |
| | | <u>216</u> | <u>253</u> | <u>-</u> | <u>-</u> |

(a) Refer Note 16(a) for details of bank loans

(b) Other loans comprises a hire purchase agreement secured on certain asset of certain controlled entity. The agreement is for four years and subject to monthly repayment and matured in April 2009. The interest rate on the agreement is 9.2%

14. Current Tax Liabilities

| | | | | | |
|--------------------------|--|-----------|------------|------------|------------|
| Current year tax payable | | <u>77</u> | <u>197</u> | <u>123</u> | <u>199</u> |
|--------------------------|--|-----------|------------|------------|------------|

15. Provisions (Current)

| | | | | | |
|-----------------------|---------|--------------|------------|------------|------------|
| Employee entitlements | Note 25 | <u>1,048</u> | <u>984</u> | <u>375</u> | <u>329</u> |
|-----------------------|---------|--------------|------------|------------|------------|

16. Interest Bearing Liabilities (Non Current)

| | | | | | |
|-----------------------|-----|--------------|--------------|----------|----------|
| Bank loans – secured | (a) | 3,337 | 1,975 | | |
| Other loans – secured | (b) | 32 | - | | |
| | | <u>3,369</u> | <u>1,975</u> | <u>-</u> | <u>-</u> |

(a) Bank overdrafts and bank loans are secured by fixed and floating charges over the assets of Supply Network Limited and controlled entities.

Bank overdrafts have no specific term and are subject to annual review in November each year.

Interest rates on overdrafts are variable and during the year average interest rate was 9.9%.

Bank loans comprise fixed interest only loans of \$2,762,000 with effective interest rate of 8.05% to 8.46% maturing between February 2006 to February 2008; fixed interest loan of \$675,000 at 8.1% maturing November 2007 and repayable by quarterly instalments.

(b) Refer Note 13 (b) for details of other loans

17. Provisions (Non Current)

| | | | | | |
|-----------------------|---------|------------|------------|-----------|-----------|
| Employee entitlements | Note 25 | <u>160</u> | <u>124</u> | <u>20</u> | <u>56</u> |
|-----------------------|---------|------------|------------|-----------|-----------|

SUPPLY NETWORK LIMITED

**Notes to the Financial Statements
for the year ended 30 June 2005**

| | Consolidated | | Parent | |
|-----------------------------------------------------------------------------------------------|--------------|-------|--------|-------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$000 | \$000 | \$000 | \$000 |
| 18. Contributed Equity | | | | |
| (a) Issued and Paid Up Capital 22,113,845 ordinary shares fully paid (2004: 21,638,845) | 5,395 | 5,301 | 5,395 | 5,301 |

| | 2005 | | 2004 | |
|-------------------------------------------|---------------------|--------------|---------------------|--------------|
| | Number of Shares | \$000 | Number of Shares | \$000 |
| (b) Movements in Shares on Issue | | | | |
| Balance at beginning of year | 21,638,845 | 5,301 | 21,513,845 | 5,282 |
| Issue of shares under share purchase plan | - | - | - | - |
| Issue of shares under share option plan | 475,000 | 94 | 125,000 | 19 |
| Balance at end of the year | <u>22,113,845</u> | <u>5,395</u> | <u>21,638,845</u> | <u>5,301</u> |

(c) Share Options

Options over ordinary shares:

At the end of the year there were 25,000 (2004: 500,000) unissued ordinary shares in respect of which options were outstanding.

(d) Terms and conditions of contributed equity

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of surplus assets in proportion to the number of, and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

| | Consolidated | | Parent | |
|-----------------------------------------------------|--------------|-----------|----------|----------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$000 | \$000 | \$000 | \$000 |
| 19. Reserves | | | | |
| Foreign Currency Translation | | | | |
| Balance at beginning of year | 64 | (2) | - | - |
| Gain on translation of overseas controlled entities | 3 | 66 | - | - |
| Balance at end of year | <u>67</u> | <u>64</u> | <u>-</u> | <u>-</u> |

Foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of self-sustaining foreign operations.

SUPPLY NETWORK LIMITED

**Notes to the Financial Statements
for the year ended 30 June 2005**

| | Consolidated | | Parent | |
|-----------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|--------------|--------------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$000 | \$000 | \$000 | \$000 |
| 20. Retained Profits | | | | |
| Retained Profits | | | | |
| Balance at beginning of year | 3,396 | 2,484 | 2,841 | 2,275 |
| Net profit | 1,179 | 1,344 | 931 | 998 |
| Total available for appropriation | 4,575 | 3,828 | 3,772 | 3,273 |
| Less dividends provided or paid | 607 | 432 | 607 | 432 |
| Balance at end of year | <u>3,968</u> | <u>3,396</u> | <u>3,165</u> | <u>2,841</u> |
| 21. Dividends Paid or Provided for on Ordinary Shares | | | | |
| (a) Dividends paid during the year | | | | |
| Current year interim fully franked dividend (1.25 cent per share) (2004: 1.00 cent) | 276 | 216 | 276 | 216 |
| Previous year final fully franked dividend (1.50 cent per share) (2004: 1.00 cent) | 331 | 216 | 331 | 216 |
| Total dividends paid | <u>607</u> | <u>432</u> | <u>607</u> | <u>432</u> |
| (b) Dividends proposed subsequent to 30 June and not recognised as a liability | | | | |
| Current year final fully franked dividend (1.5 cents per share) (2004: 1.5 cent) | 332 | 331 | 332 | 331 |
| (c) Franking credit balance | | | | |
| The amount of franking credits available for the subsequent financial year are: | | | | |
| - franking account balance as at the end of the financial year at 30% (2004: 30%) | | | 3,474 | 3,275 |
| - franking credits that will arise from the payment of income tax payable as the end of the financial year | | | 120 | 199 |
| | | | <u>3,594</u> | <u>3,474</u> |
| The tax rate at which paid dividends have been franked is 30% (2004: 30%). Dividends proposed will be franked at the rate of 30% (2004: 30%). | | | | |
| 22. Lease Commitments | | | | |
| Operating lease commitments payable | | | | |
| - not later than one year | 1,602 | 1,536 | - | - |
| - later than one year and not later than five years | 2,207 | 3,081 | - | - |
| | <u>3,809</u> | <u>4,617</u> | <u>-</u> | <u>-</u> |

Operating leases have been entered into for motor vehicles, office equipment and property and have an average lease term of 4 years. Rental payments on motor vehicles and office equipment are fixed. Rental payments on property are generally fixed, but with inflation escalation clauses. No purchase option exists in relation to operating leases and no operating leases contain restrictions on financing or other leasing activities.

SUPPLY NETWORK LIMITED

**Notes to the Financial Statements
for the year ended 30 June 2005**

| | Consolidated | | Parent | |
|-------------------------------------------------------------------------------------|---------------------|-------------|---------------|-------------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$ | \$ | \$ | \$ |
| 23. Auditors Remuneration | | | | |
| Amounts received or due and receivable for audit or review of the financial reports | | | | |
| Ernst & Young | 86,007 | 79,825 | 12,000 | 12,950 |
| Amounts received or due and receivable by the auditors for other services | | | | |
| Ernst & Young – tax compliance | 10,380 | 5,270 | - | - |

24. Directors and Executives Disclosures

(a) Details of Specified Directors and Specified Executives

(i) Specified Directors

| | |
|----------------|-------------------------------|
| H R Forsyth | Chairman (non-executive) |
| H M O Anderson | Director (non-executive) |
| G T Lingard | Director (non-executive) |
| G D H Stewart | Managing Director (executive) |

(ii) Specified Executives

| | |
|-------------|-----------------------------------------------|
| B A McKenna | Operations Manager |
| P W Gill | Chief Financial Officer and Company Secretary |

(b) Remuneration of Specified Directors and Specified Executives

(i) Remuneration Policy

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policies and packages applicable to the Board members and senior executives of the consolidated entity. Remuneration is determined as part of an annual review which includes performance evaluation, regard to comparative remuneration and independent remuneration advice. The broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people.

Senior executives may receive incentives based on the achievement of specific goals related to the performance of the consolidated entity. Non-executive directors do not receive any performance related remuneration.

SUPPLY NETWORK LIMITED

**Notes to the Financial Statements
for the year ended 30 June 2005**

24. Directors and Executives Disclosures (continued)

(ii) Remuneration of Specified Directors and Specified Executives

| | Salary & Fees | Primary Cash Bonus | Non Monetary Benefits | Post Employment Superannuation | Total |
|-----------------------------|------------------------------|-----------------------------------|--------------------------------------|-----------------------------------------------|----------------|
| Specified Directors | | | | | |
| 2005 | | | | | |
| H R Forsyth | - | - | - | 58,700 | 58,700 |
| H M O Anderson | - | - | - | 40,000 | 40,000 |
| G T Lingard | 36,696 | - | - | 3,304 | 40,000 |
| G D H Stewart | 195,977 | 21,804 | 25,952 | 19,877 | 263,610 |
| Total | 232,673 | 21,804 | 25,952 | 121,881 | 402,310 |
| 2004 | | | | | |
| H R Forsyth | 27,300 | - | - | 28,596 | 55,896 |
| H M O Anderson | - | - | - | 37,704 | 37,704 |
| G T Lingard | 34,584 | - | - | 3,120 | 37,704 |
| G D H Stewart | 172,152 | 58,955 | 30,583 | 18,554 | 280,244 |
| Total | 234,036 | 58,955 | 30,583 | 87,974 | 411,548 |
| Specified Executives | | | | | |
| 2005 | | | | | |
| B A McKenna | 137,412 | 12,460 | 39,382 | 18,055 | 207,309 |
| P W Gill | 124,788 | 7,787 | 30,583 | 35,193 | 198,351 |
| Total | 262,200 | 20,247 | 69,965 | 53,248 | 405,660 |
| 2004 | | | | | |
| B A McKenna | 133,466 | 33,689 | 30,583 | 17,225 | 214,963 |
| P W Gill | 121,434 | 26,055 | 30,583 | 31,350 | 209,422 |
| Total | 254,900 | 59,744 | 61,166 | 48,575 | 424,385 |

SUPPLY NETWORK LIMITED

**Notes to the Financial Statements
for the year ended 30 June 2005**

24. Directors and Executives Disclosures (continued)

(c) Remuneration Options: Granted and vested during the year

No options were granted or vested during the year

(d) Shares issued on exercise of remuneration options

| | Shares Issued | Paid \$ per share | Unpaid \$ per share |
|-----------------------------|--------------------------|----------------------------------|------------------------------------|
| Specified Directors | Number | | |
| G D H Stewart | 150,000 | 0.20 | - |
| Specified Executives | | | |
| B A McKenna | 100,000 | 0.20 | - |
| P W Gill | <u>100,000</u> | 0.20 | - |
| | <u>350,000</u> | | |

(e) Option holdings of specified directors and specified executives

| | Balance 1 July 2004 | Options exercised | Balance 30 June 2005 |
|-----------------------------|--------------------------------|------------------------------|---------------------------------|
| Specified Directors | | | |
| G D H Stewart | 150,000 | (150,000) | - |
| Specified Executives | | | |
| B A McKenna | 100,000 | (100,000) | - |
| P W Gill | <u>100,000</u> | <u>(100,000)</u> | - |
| | <u>350,000</u> | <u>(350,000)</u> | - |

(f) Shareholdings of specified directors and specified executives in Supply Network Limited

| | Balance 1 July 2004 | Options exercised | Balance 30 June 2005 |
|-----------------------------|--------------------------------|------------------------------|---------------------------------|
| Specified Directors | | | |
| H R Forsyth | 6,097,314 | - | 6,097,314 |
| H M O Anderson | 514,000 | - | 514,000 |
| G T Lingard | 207,842 | - | 207,842 |
| G D H Stewart | 478,000 | 150,000 | 628,000 |
| Specified Executives | | | |
| B A McKenna | 52,425 | 100,000 | 152,425 |
| P W Gill | <u>190,500</u> | <u>100,000</u> | <u>290,500</u> |
| | <u>7,540,081</u> | <u>350,000</u> | <u>7,890,081</u> |

SUPPLY NETWORK LIMITED

**Notes to the Financial Statements
for the year ended 30 June 2005**

| 25. Employee Entitlements | Consolidated | | Parent | |
|-----------------------------------------|---------------|---------------|---------------|---------------|
| | 2005 \$000 | 2004 \$000 | 2005 \$000 | 2004 \$000 |
| Accrued salaries and wages and on costs | 170 | 267 | - | - |
| Provision current | 1,048 | 984 | 375 | 329 |
| Provision non current | 160 | 124 | 20 | 56 |
| | <u>1,378</u> | <u>1,375</u> | <u>395</u> | <u>385</u> |
| Number of employees at year end | 102 | 100 | 3 | 3 |

Share Option Plan

A share option plan has been established where executive directors and certain members of staff of the consolidated entity are issued with options over ordinary shares of Supply Network Limited. The options, issued for nil consideration are issued when certain performance guidelines established by the directors of Supply Network Limited are achieved. The options are generally issued for terms ranging from 2 years to 5 years and are generally exercisable on the second anniversary of the date of issue. The option cannot be transferred and will not be quoted on the ASX. There is currently one executive director and five staff participating in this plan.

Information with respect to the number of options granted under the share option plan is as follows:

| | 2005 | | 2004 | |
|------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Balance at beginning of year | 500,000 | 0.20 | 625,000 | 0.19 |
| Issued | - | - | - | - |
| Exercised | (475,000) | 0.20 | (125,000) | 0.15 |
| Balance at end of year | <u>25,000</u> | <u>0.20</u> | <u>500,000</u> | <u>0.20</u> |
| Exercisable at end of year | 25,000 | 0.20 | 500,000 | 0.20 |

(a) Options held at beginning of year

The following table summarises information about options held by employees at 1 July 2004

| Number of Options | Grant Date | Vesting Date | Expiry Date | Weighted Average Exercise Price |
|-------------------|------------|--------------|-------------|---------------------------------|
| 500,000 | 24/4/2002 | 24/4/2004 | 24/4/2007 | 0.20 |

(b) Options granted

There were no options granted during reporting period.

(c) Options exercised

The following table summarises information about options exercised by employees during the year.

| Number of Options | Grant Date | Vesting Date | Expiry Date | Weighted Average Exercise Price | Proceeds from Shares Issued | Number of Shares Issued | Issue Date | Fair Value of Shares Issued |
|---------------------|------------|--------------|-------------|---------------------------------|-----------------------------|-------------------------|------------|-----------------------------|
| 30 June 2005 | | | | | | | | |
| 400,000 | 24/4/2002 | 24/4/2004 | 24/4/2007 | \$0.20 | \$80,000 | 400,000 | 10/8/2004 | \$0.51 |
| 75,000 | 24/4/2002 | 24/4/2004 | 24/4/2007 | \$0.20 | \$15,000 | 75,000 | 18/9/2003 | \$0.65 |
| 30 June 2004 | | | | | | | | |
| 125,000 | 21/3/2001 | 21/3/2001 | 21/3/2004 | \$0.15 | \$18,750 | 125,000 | 18/9/2003 | \$0.34 |

Fair value of shares issued during the reporting period is estimated to be the market price of shares of Supply Network Limited on the ASX as at close of trading on issue date.

SUPPLY NETWORK LIMITED

**Notes to the Financial Statements
for the year ended 30 June 2005**

25. Employee Entitlements (continued)

(d) Options held as at the end of the reporting period

The following table summarises information about options held by employees at 30 June 2005.

| Number of Options | Grant Date | Vesting Date | Expiry Date | Weighted Average Exercise Price |
|------------------------------|-------------------|-------------------------|--------------------|----------------------------------------------------|
| 25,000 | 24/4/2002 | 24/4/2004 | 24/4/2007 | 0.20 |

Superannuation Commitments

The consolidated entity maintains superannuation funds covering Australian employees. Each Australian entity in the consolidated entity has a legal obligation to contribute 9% of the employees' ordinary earnings to the funds, with employees contributing various percentages of their gross salary. The funds are accumulation funds and have been established to provide benefits to employees on retirement, death or disability.

No superannuation benefits are provided for employees of Multispares NZ Limited.

SUPPLY NETWORK LIMITED

**Notes to the Financial Statements
for the year ended 30 June 2005**

| | Consolidated | | Parent | |
|--|--------------|-------|--------|-------|
| | 2005 | 2004 | 2005 | 2004 |
| | \$000 | \$000 | \$000 | \$000 |

26. Notes to the Statement of Cash Flows

(a) Reconciliation of Cash

Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

| | | | | |
|--------------------------|-------|-------|---|---|
| Cash on hand and at bank | 156 | 476 | - | - |
| Bank overdraft | (107) | (153) | - | - |
| | 49 | 323 | - | - |

(b) Reconciliation of net profit after tax to the net cash flows from operations

| | | | | |
|----------------------------------------------------------|---------|---------|-------|-------|
| Net profit after income tax | 1,179 | 1,344 | 931 | 998 |
| Adjustments for non-cash income and expense items | | | | |
| Dividends received | - | - | (928) | (998) |
| (Profit)/Loss on sale of property, plant and equipment | 10 | 12 | - | - |
| Depreciation of property, plant and equipment | 355 | 287 | - | - |
| Other | - | - | 119 | (30) |
| Transfers to provisions | | | | |
| - Inventory obsolescence | 157 | 8 | - | - |
| - Employee entitlements | 99 | 34 | 9 | 18 |
| - Doubtful debts | 4 | (123) | - | - |
| Increase (decrease) in provision for: | | | | |
| - Income tax payable | (120) | (163) | (76) | (15) |
| - Deferred taxes | (16) | (111) | (54) | (7) |
| Changes in assets and liabilities | | | | |
| (Increase) decrease in: | | | | |
| Accounts receivable | (277) | (531) | - | - |
| Inventories | (1,263) | (1,133) | - | - |
| Other assets | 19 | (16) | - | - |
| (Decrease) increase in: | | | | |
| Trade creditors and accruals | (796) | 1,244 | - | 7 |
| Net cash flow from operating activities | (649) | 852 | 1 | (27) |

(c) Financing Facilities Available:

At reporting date the following facilities had been negotiated and were available:

| | | | | |
|-------------------------------------|---------|---------|---|---|
| Total credit facilities | 4,161 | 3,435 | - | - |
| Facilities used at reporting date | (3,585) | (2,228) | - | - |
| Facilities unused at reporting date | 576 | 1,207 | - | - |

The major facilities are summarised as follows:

| | | | | |
|-------------------------------------|---------|---------|---|---|
| Bank overdrafts | 683 | 682 | - | - |
| Facilities used | (107) | (153) | - | - |
| Facilities unused at reporting date | 576 | 529 | - | - |
| Bank loans | 3,478 | 2,753 | - | - |
| Facilities used | (3,478) | (2,075) | - | - |
| Facilities unused at reporting date | - | 678 | - | - |

SUPPLY NETWORK LIMITED

**Notes to the Financial Statements
for the year ended 30 June 2005**

27. Contingent Liabilities

As explained in Note 9 the parent entity has entered a Deed of Cross Guarantee in accordance with a Class Order issued by the Australian Securities & Investments Commission. The parent entity and all the controlled entities which are a party to the Deed have guaranteed the repayment of all current and future creditors in the event that any of these companies are wound-up.

28. Subsequent Events

No matter or circumstance has arisen since the end of the financial year that has significantly or may significantly affect the operations of the consolidated entity, the result of those operations or the state of affairs of the consolidated entity.

29. Segment Information

The consolidated entity operates predominantly in one business segment being the provision of after market parts for the commercial vehicle market.

| Geographical segments | Australia | | New Zealand | | Eliminations | | Consolidated | |
|----------------------------------------------------------------------------------------------|---------------|---------------|---------------|---------------|----------------|----------------|---------------|---------------|
| | 2005 \$000 | 2004 \$000 | 2005 \$000 | 2004 \$000 | 2005 \$000 | 2004 \$000 | 2005 \$000 | 2004 \$000 |
| Revenue | | | | | | | | |
| Sales to customers outside the consolidated entity | 28,318 | 27,106 | 6,733 | 6,328 | - | - | 35,051 | 33,434 |
| Other revenues from outside the consolidated entity | 71 | 80 | 12 | 4 | - | - | 83 | 84 |
| Intersegment revenues | 1,202 | 1,016 | 48 | 3 | (1,250) | (1,019) | - | - |
| Total segment revenues | <u>29,591</u> | <u>28,202</u> | <u>6,793</u> | <u>6,335</u> | <u>(1,250)</u> | <u>(1,019)</u> | <u>35,134</u> | <u>33,518</u> |
| Results | | | | | | | | |
| Segment results | <u>1,225</u> | <u>1,323</u> | <u>522</u> | <u>585</u> | <u>(15)</u> | <u>(3)</u> | <u>1,732</u> | <u>1,905</u> |
| Consolidated entity profit from ordinary activities before income tax expense | | | | | | | 1,732 | 1,905 |
| Income tax expense | | | | | | | (553) | (561) |
| Consolidated entity profit from ordinary activities after income tax expense | | | | | | | <u>1,179</u> | <u>1,344</u> |
| Net profit | | | | | | | <u>1,179</u> | <u>1,344</u> |
| Assets | | | | | | | | |
| Segment assets | <u>16,675</u> | <u>15,945</u> | <u>3,374</u> | <u>3,162</u> | <u>(1,133)</u> | <u>(1,402)</u> | <u>18,916</u> | <u>17,705</u> |
| Liabilities | | | | | | | | |
| Segment liabilities | <u>8,254</u> | <u>7,828</u> | <u>1,257</u> | <u>1,420</u> | <u>(25)</u> | <u>(304)</u> | <u>9,486</u> | <u>8,944</u> |
| Other segment information | | | | | | | | |
| Acquisition of property, plant and equipment, intangible assets and other non-current assets | 311 | 694 | 205 | 60 | - | - | 516 | 754 |
| Depreciation | 299 | 237 | 56 | 50 | - | - | 355 | 287 |
| Non-cash expenses other than depreciation | 333 | 144 | 33 | 41 | - | - | 366 | 185 |

Segment accounting policies are the same as the consolidated entity's policies described in Note 1. During the year, there were no changes in segment accounting policies that had a material effect on the segment information.

The sale of goods between segments is at cost of the item plus a commercial margin.

Revenue is attributed to geographical areas based on location of the assets producing the revenues.

SUPPLY NETWORK LIMITED

**Notes to the Financial Statements
for the year ended 30 June 2005**

30. Financial Instruments

(a) Interest Rate Risk

The consolidated entity is exposed to interest rate risk through financial assets and liabilities.

The following table summarises interest rate risk for the consolidated entity together with effective interest rates as at balance date.

| Financial Instruments | Fixed interest rate maturing | | | | | Total \$000 | Weighted Average interest rate | |
|--------------------------------------|-------------------------------------------|----------------------------|--------------------------|--------------------------|--------------------------------------|----------------|-----------------------------------|------------|
| | Floating interest rate (i) \$000 | 1 year or less \$000 | 1 to 5 years \$000 | Over 5 years \$000 | Non- interest bearing \$000 | | Floating % | Fixed % |
| 30 June 2005 | | | | | | | | |
| Financial assets | | | | | | | | |
| Cash | 150 | - | - | - | 6 | 156 | 1.0 | - |
| Receivables | - | - | - | - | 5,186 | 5,186 | - | - |
| Other debtors | - | - | - | - | 10 | 10 | - | - |
| | <u>150</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>5,202</u> | <u>5,352</u> | <u>-</u> | <u>-</u> |
| Financial liabilities | | | | | | | | |
| Payables | - | - | - | - | 2,200 | 2,200 | - | - |
| Foreign currency payables – unhedged | - | - | - | - | 1,317 | 1,317 | - | - |
| Bank loans and overdrafts | 107 | 100 | 3,337 | - | - | 3,544 | 9.9 | 8.2 |
| Other loans | - | 9 | 32 | - | - | 41 | - | 9.2 |
| Forward exchange contracts | - | - | - | - | 1,099 | 1,099 | - | - |
| | <u>107</u> | <u>109</u> | <u>3,369</u> | <u>-</u> | <u>4,616</u> | <u>8,201</u> | <u>-</u> | <u>-</u> |
| 30 June 2004 | | | | | | | | |
| Financial assets | | | | | | | | |
| Cash | 469 | - | - | - | 7 | 476 | 1.0 | - |
| Receivables | - | - | - | - | 4,909 | 4,909 | - | - |
| Other debtors | - | - | - | - | 30 | 30 | - | - |
| | <u>469</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>4,946</u> | <u>5,415</u> | <u>-</u> | <u>-</u> |
| Financial liabilities | | | | | | | | |
| Payables | - | - | - | - | 2,722 | 2,722 | - | - |
| Foreign currency payables – unhedged | - | - | - | - | 1,198 | 1,198 | - | - |
| Bank loans | 153 | 100 | 1,975 | - | - | 2,228 | 9.6 | 7.5 |
| Other loans | - | - | - | - | - | - | - | - |
| Forward exchange contracts | - | - | - | - | 1,491 | 1,491 | - | - |
| | <u>153</u> | <u>100</u> | <u>1,975</u> | <u>-</u> | <u>5,411</u> | <u>7,639</u> | <u>-</u> | <u>-</u> |

(i) Floating interest rates are the most recently determined rate applicable to the instrument at balance date.

SUPPLY NETWORK LIMITED

Notes to the Financial Statements for the year ended 30 June 2005

30. Financial Instruments (continued)

(b) Foreign Exchange Risk

The consolidated entity is exposed to the risk of adverse movements in the Australian dollar relative to certain foreign currencies. To manage this risk the consolidated entity enters into forward exchange contracts to hedge certain purchases undertaken in foreign currencies. The terms of these commitments are not more than six months.

The following table summarises by currency the Australian dollar value of forward exchange agreements.

| Currency | | Average exchange rate | | 2005 | 2004 |
|---------------------|------------------|-----------------------|------|--------------|--------------|
| | | 2005 | 2004 | Buy \$000 | Buy \$000 |
| Japanese yen | 3 months or less | 81.2 | 74.1 | 158 | 198 |
| Great British pound | 3 months or less | 0.41 | 0.37 | 5 | 5 |
| Euro currency | 3 months or less | 0.61 | 0.57 | 852 | 1,191 |
| US currency | 3 months or less | 0.77 | 0.68 | 84 | 97 |
| Total | | | | <u>1,099</u> | <u>1,491</u> |

(c) Credit Risk Exposure

The consolidated entity's maximum exposures to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position.

The company minimises concentrations of credit risk in relation to trade receivables by undertaking transactions with a large number of customers from across the range of business segments in which the group operates.

Credit risk in trade receivables is managed in the following ways:

- payment terms are cash or 30 days;
- a risk assessment process is used for customers trading outside agreed terms;
- all new accounts are reviewed for past credit performance

(d) Net Fair Value of Financial Assets and Liabilities

All financial assets and liabilities have been recognised at the balance date at their net fair values.

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities

Recognised financial instruments

Cash and cash equivalents: The carrying value approximates fair value because of their short-term to maturity.

Trade receivables and trade creditors: The carrying amount approximates fair value.

Short-term borrowings: The carrying amount approximates fair value because of their short-term to maturity.

Long-term bank borrowings: The fair values of long-term borrowings are estimated using discounted cash flow analysis, based on current incremental borrowing rates for similar types of borrowing arrangements.

Forward exchange contracts: The fair values of forward exchange contracts are determined as the recognised gain or loss at reporting date calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

SUPPLY NETWORK LIMITED

Notes to the Financial Statements for the year ended 30 June 2005

31. Related Party Transactions

(a) The parent entity entered into the following transactions during the year with related parties in the wholly owned group.

Loans were advanced and repayments received on short term intercompany accounts. Dividends and management fees were received from wholly owned controlled entities (see Note 2).

These transactions were undertaken on commercial terms and conditions.

(b) Amounts due to and receivable from related parties in the wholly owned group are set out in the respective notes to the financial statements.

(c) The ownership interests in related parties in the wholly owned group are disclosed in Note 9.

(d) The ultimate controlling entity of the consolidated entity is Supply Network Limited.

(e) The names of each person holding the position of Director of Supply Network Limited during the last two financial years were H R Forsyth, H M O Anderson, G T Lingard and G D H Stewart.

(e) Mr G T Lingard is a director and shareholder in a company which leases premises on normal commercial terms and conditions to a wholly owned controlled entity. Total payments in 2005: \$390,000 (2004: \$368,000).

(f) Directors' Shareholdings

| Shares and share options held by Directors and their Director-related entities in parent entity at end of the year | 2005 | 2004 |
|-------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|
| Ordinary shares | 7,447,156 | 7,297,156 |
| Ordinary share options | - | 150,000 |

SUPPLY NETWORK LIMITED

Notes to the Financial Statements for the year ended 30 June 2005

32. Impact of adopting AASB equivalents to International Financial Reporting Standards

(a) Management of the transition to AIFRS

Supply Network Limited is in the process of transitioning its accounting policies and financial reporting from current Australian Standards (AGAAP) to Australian equivalents to International Financial Reporting Standards (AIFRS) which will be applicable for the financial year ending 30 June 2006. In 2004, the company allocated internal resources to identify key areas that will be impacted by the transition to AIFRS. Priority has been given to considering the preparation of an opening balance sheet in accordance with AIFRS as at 1 July 2004, Supply Network Limited's transition date to AIFRS. This will form the basis of accounting for Australian equivalents of IFRS in the future, and is required when Supply Network Limited prepares its first fully AIFRS compliant financial report for the year ended 30 June 2006, including prior year comparative information.

(b) Explanatory notes to the likely impacts of transitioning to AIFRS

Set out below are the key areas, identified to date, where accounting policies are currently expected to change and these changes may have an impact on the financial report of Supply Network Limited.

The figures disclosed are management's best estimates of the quantitative impact of the changes as at the date of preparing the 30 June 2005 financial report. The actual effects of transition of AIFRS may differ from the estimates disclosed due to (a) ongoing work being undertaken by the company on AIFRS; (b) potential amendments to AIFRSs and Interpretations thereof being issued by the standard-setters and IFRIC; and (c) emerging accepted practice in the interpretation and application AIFRS and UIG Interpretations.

Financial Instruments

The Directors have decided to apply the exemption provided in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* which permits entities not to apply the requirements of AASB 132 *Financial Instruments: Presentation and Disclosures* and AASB 139 *Financial Instruments: Recognition and Measurements* for the financial year ended 30 June 2005. The standards will be applied from 1 July 2005. Management is in the process of determining the impact that adopting the standards would have on the consolidated financial report. It is anticipated that Supply Network Limited may not meet the criteria required for application of hedge accounting, however based on the value of the forward contracts outstanding at transition date, the impact of this is not anticipated to be significant.

Impairment of Assets

Under AASB 136 *Impairment of Assets* the recoverable amount of an asset is determined as the higher of net selling price and value in use. At present the group's accounting policy assesses the recoverable amount of an asset on the basis of discounted cash flows, which is consistent with value in use. As Supply Network Limited does not have any intangibles, the application of this standard is limited to investments and plant and equipment. It is anticipated that there was no impairment of assets recognised on transition.

Share Based Payments

Under AASB 2 *Share based Payments*, the company would recognise the fair value of options issued to employees as remuneration and recognise an expense on a pro-rata basis over the vesting period in the income statement with a corresponding adjustment to equity. Therefore future earnings may be reduced for any future share based remuneration. Supply Network Limited has not granted any share based payments other than those detailed in note 25.

The Directors have taken the option to apply the exemption provided under AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards* not to apply the requirements of AASB 2 *Share based Payments*. Since the outstanding share options have vested, it is anticipated no adjustment is required on transition.

Income Taxes

Under AASB 112 *Income Taxes*, the company would be required to use a balance sheet liability method, rather than the current income statement method which recognises deferred tax balances where there is a difference between the carrying value of an asset or liability and its tax base. It is anticipated that there will be no material impact on the financial statements from the adoption of this standard.

SUPPLY NETWORK LIMITED

**Notes to the Financial Statements
for the year ended 30 June 2005**

32. Impact of adopting AASB equivalents to International Financial Reporting Standards (continued)

(b) Explanatory notes to the likely impacts of transitioning to AIFRS (continued)

Leases

Under AASB 117 *Leases*, the company would be required to recognise as an expense, on a straight line basis over the lease term, total operating lease payments including fixed rate increases.

There were no operating leases with fixed rate increase clauses on 1 July 2004.

It is anticipated in respect of the year ended 30 June 2005 the company would recognise, as a liability, fixed rate increases on operating leases amounting to \$11,000. It is also anticipated that there will be no material impact on the financial statements from the adoption of this standard.

Property Plant and Equipment

Under AASB 116 *Property, Plant and Equipment*, Supply Network Limited would be required to include as part of its leasehold improvements, an estimate of the costs to remove those improvements at the end of the lease term where such an obligation exists to the lessor. These costs are not recognised under AGAAP. The impact of the change would be the recognition of \$50,000 of Make Good Provision on leased properties which would be depreciated resulting in a charge to the income statement. A corresponding Make Good Provision would also be recognised under AIFRS in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*. The increase in the Make Good Provision relating to the unwinding of the discount would be recognised in the income statement. It is anticipated that there will be no material impact on the financial statements from the adoption of this standard.

Inventory

Under AASB 102 *Inventories*, the company would be required in determining the cost of inventory to deduct from the cost of purchase any trade discounts, rebates and other similar items received. The impact of this will result in the reclassification, in respect of the year ended 30 June 2005 of supplier rebates of \$45,000 from other income to cost of goods sold and a further \$7,000 reduction in the value of inventory at balance date. It is anticipated that there will be no material impact on the financial statements from the adoption of this standard.

(c) Reconciliation of equity as presented under AGAAP to that under AIFRS in respect of differences identified to date

| | Consolidated | | Parent | |
|------------------------------------------------------|--------------------------|-------------------------|--------------------------|-------------------------|
| | 30 June 2005 \$000 | 1 July 2004 \$000 | 30 June 2005 \$000 | 1 July 2004 \$000 |
| Total equity under AGAAP | 9,430 | 8,761 | 8,560 | 8,142 |
| Adjustments to retained earnings (net of tax) | | | | |
| Reclassification of rebate income | (5) | (2) | - | - |
| Recognition of make good provision | (10) | (4) | - | - |
| Recognition of operating lease costs | (1) | - | - | - |
| | <hr/> 9,414 | <hr/> 8,755 | <hr/> 8,560 | <hr/> 8,142 |

Adjustments at 1 July 2004 are as at date of transition to AIFRS.

Adjustments at 30 June 2005 are cumulative adjustments as at date of transition and those for the year ended 30 June 2005.