

SUPPLY NETWORK LIMITED

ABN 12 003 135 680

**Annual Accounts
for the year ended 30 June 2004**

Contents	PAGE
Directors' Report	2
Corporate Governance Statement	6
Statement of Financial Performance	9
Statement of Financial Position	10
Statement of Cash Flows	11
Notes to the Financial Statements	12
Directors' Declaration	34
Independent Audit Report	35

SUPPLY NETWORK LIMITED

Directors' Report

The Directors of Supply Network Limited submit their report for the financial year ended 30 June 2004.

Directors

The names of the company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

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

Principal Activities

The principal activity of the consolidated entity during the financial year was the provision of after market parts to the commercial vehicle industry.

Results

The net profit of the consolidated entity after providing for income tax for the financial year was \$1,344,000 (2003: \$917,000).

Earnings Per Share

Basic earnings per share for the financial year are 6.22 cents per share (2003: 4.47 cents).

Diluted earnings per share for the financial year are 6.19 cents per share (2003: 4.47 cents).

Dividends

Dividends paid or declared for payment are as follows

Final dividend for 2003 of 1.0 cent per share paid 10 October 2003	216,000
Interim dividend of 1.0 cent per share paid 16 March 2004	216,000
Final dividend for 2004 of 1.5 cents per share declared 29 July 2004 and payable 6 September 2004	331,000

Review of Operations

The consolidated entity experienced an improvement in both sales and profits in this financial year.

Total consolidated sales revenue increased by 10.4% from last financial year. This was a result of 11.6% growth in sales by the Australian operation and 5.6% growth in New Zealand (measured in NZ\$ terms which excludes the impact of exchange rate fluctuations).

The consolidated entity net profit of \$1,344,000 represents an increase of 46.6% on last year.

Further information is detailed in the Managing Director's and Chairman's reports.

Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial year not otherwise disclosed in this report or the consolidated financial statements.

Significant Events after Balance Date

No matter or circumstance has arisen since the end of the financial year which is not otherwise dealt with in this report or the consolidated financial statements that has significantly affected or may significantly affect the operations of the consolidated entity, the result of those operations or the state of affairs of the consolidated entity in subsequent financial years.

Likely Developments and Expected Results

The directors expect the consolidated entity's future operating results will continue to improve with sales growth of 5-10%. After a number of years of strong organic growth the 2004/05 year will see a consolidation of the well established Multispares business. Further expansion of product model coverage and the branch network are ongoing considerations. The group will continue to investigate new specialist wholesale opportunities as a source of future growth.

SUPPLY NETWORK LIMITED

Directors' Report (continued)

Share Options

Unissued shares

As at the date of this report, there were 100,000 unissued ordinary shares under options. Refer to Note 19 of the financial statements for further details of the options outstanding.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the company or any related body corporate.

Shares issued as a result of the exercise of options

During the financial year, G D H Stewart a director, exercised the option to acquire 125,000 fully paid ordinary shares in Supply Network Limited at an exercise price of 15 cents.

Since the end of the financial year a further 400,000 options have been exercised. G D H Stewart 150,000 and employees 250,000 options both at an exercise price of 20 cents.

Information on Directors

Harry Robert Forsyth - Chairman

Chairman of the Board since 1986, Chief Executive until September 1993, member of the Audit and Remuneration Committees, and Chairman of those Committees until March 1998. Previously held senior executive positions with the British Leyland Group in Australia.

Geoffrey David Huston Stewart - Managing Director

Appointed Chief Executive Officer in November 1999 and Managing Director in November 2000. He is a Chartered Professional Engineer and has an MBA from Macquarie University. He also has over 12 years executive management experience in the Road Transport Industry.

Hugh Munro Outram Anderson

Non-executive Director since 1994, Chairman of the Audit Committee and a member of the Remuneration Committee. Over 25 years as a Public Company Director. Private Funds Manager. Experienced presenter and tutor for Australian Institute of Company Directors.

Garry Thomas Lingard

Non-executive Director since 1996, Chairman of the Remuneration Committee and a member of the Audit Committee. He has significant experience in managing and developing a diverse range of companies.

Directors' Meetings

The number of meetings of the Board of Directors and of Board Committees held during the year and the number of meetings attended by each director were as follows:

	Directors Meetings	Audit Committee	Remuneration Committee
Number of Meetings Held	11	2	1
Number of Meetings Attended			
H R Forsyth	11	2	1
H M O Anderson	10	2	-
G T Lingard	9	1	1
G D H Stewart	11	-	-

As at the date of this report the company had an Audit Committee of the Board of Directors which met twice during the year, and a remuneration committee which met once during the year.

SUPPLY NETWORK LIMITED

Directors' Report (continued)

Directors' Interests

At the date of this report the interest of each director in the shares of the company are:

- (a) H R Forsyth is deemed to have a relevant interest in shares held by Hergfor Enterprises Pty Ltd, a substantial shareholder (6,097,314 shares).
- (b) H M O Anderson is deemed to have a relevant interest in shares held by Birubi Super Fund (514,000 shares).
- (c) G T Lingard is deemed to have a relevant interest in shares held by GT Lingard Holdings Pty Ltd (207,842 shares).
- (d) G D H Stewart holds 414,000 ordinary shares of the company and is deemed to have a relevant interest in shares held by D G Stewart (214,000 shares).

Directors' and Senior Executives' Remuneration

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.

Details of remuneration provided to Directors and the most highly remunerated executive officers are as follows:

	Salary	Directors' Fees	Bonus	Options Granted (a)	Superannuation	Other	Total
	\$	\$	\$	Number	\$	\$	\$
Directors							
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	-	18,554	30,583	280,244
Officers							
B A McKenna	133,466	-	33,689	-	17,225	30,583	214,963
P W Gill	121,434	-	26,055	-	31,350	30,583	209,422

- (a) No options were granted during the year. Options were granted in the year ended 30 June 2002 to G D H Stewart 150,000, B A McKenna 100,000 and P W Gill 100,000. These options were valued at grant date at 1 cent each and disclosed as part of their remuneration in that year.

Indemnification of Directors

During the financial year the company paid an insurance premium insuring the directors and officers of the company and any related body corporate against a liability incurred as such a director or officer, to the extent permitted by the Corporations Act 2001. The company has not otherwise, during or since the financial year indemnified or agreed to indemnify an officer of the company or any related body corporate against a liability incurred as such an officer. The contract of insurance prohibits the disclosure of the amount of premium.

Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

SUPPLY NETWORK LIMITED

Directors' Report (continued)

Tax Consolidation

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

Corporate Governance

In recognition of the need for high standards of corporate behaviour and accountability the directors support the principles of corporate governance. The company's corporate governance statement is contained in the following section of this annual report.

Signed in accordance with a resolution of directors.

A handwritten signature in black ink, appearing to read 'H R Forsyth', with a horizontal line extending to the right.

H R Forsyth
Director

Sydney
26 August 2004

SUPPLY NETWORK LIMITED

Corporate Governance Statement

As we said in last year's report, SNL's Board members, as representatives of the shareholders, are committed to setting a cultural framework within the organization that engenders responsible citizenship amongst all employees, with an attitude of "doing the right thing" by all stakeholders.

The Board promotes a corporate governance framework that achieves the objectives of the business and discharges all responsibilities. It intends to direct the business so that it is managed in a manner consistent with the interests of shareholders, its business partners, and the wider community.

The Board of SNL does not comply with many of the Best Practice Recommendations put forward by the ASX Corporate Governance Council. While we support their objectives we do not believe that it is appropriate for a company of our size and stage of development to be governed through a set of formal policies, procedures and codes of conduct that have been designed for companies far more complex than SNL.

Below we address each of the ASX Corporate Governance Council's 10 Principles of Good Corporate Governance. In each case where we state non-compliance it is because we believe the costs and rigidity of implementing and managing compliance would be contrary to serving the interests of our shareholders.

Principle 1 – Lay solid foundations for management and oversight

Whilst no formal "Charter of Board Responsibility" has been adopted, the Board has made clear to management which functions are to be reserved for it. These functions are:

- Ratification of strategy and monitoring management's implementation.
- Any appointment or removal of the Chief Executive Officer.
- Approving the conditions of service and succession planning for all Executives.
- Approval of budgets including all capital expenditure and monitoring financial outcomes.
- Setting authority limits for managers, particularly those relating to expenditure and contracts.
- Audit, risk management and compliance systems.
- Ethical standards.
- Continuous disclosure to shareholders.

With a small Board, it is relatively easy to gather Board and management to address particular issues. This process is helped by the effective relationship existing between the Managing Director and the Chairman.

Principle 2 – Structure the Board to add value

We aim to have Directors whose skills meet business needs and are complementary to each other. Where appropriate Directors may seek approval from the Chairman to take independent professional advice at the company's expense.

The skills of the four current Board members and their terms of office are detailed in our Annual Report. Two of our four members are considered independent and three are in non-executive roles.

We support the ASX recommendation that a majority of Directors be independent and will consider this for future appointments. We do not believe that the addition of a fifth Board member is justified at this point of time.

Whilst the Chairman is not independent under the ASX definition (being a major shareholder), his approach to meetings is to seek consensus and to give all parties ample opportunity to speak and debate. The Board has approved the Chairman's job specification and in his role as Chairman, he continues to enjoy the support of the Board. The Chairman and Managing Director have regular contact, and the MD will attest that the Chairman does not interfere in his management.

With a small Board, there is no need for a formal Nomination Committee, but the Board spends considerable time on succession planning. The last time the Board sought to fill a vacancy, it drew up a matrix of skill sets and aimed to appoint someone with complementary skills.

Principle 3 - Promote ethical and responsible decision making

Whilst the Board has no formal code of conduct for Directors or Executives it believes one of a company's best assets is its reputation, and accordingly is adamant that both its members and all staff act with high standards in all their dealings. The Board encourages long-term decision making and not a "quick fix" approach to problems.

Directors are prohibited from buying or selling the Company's securities outside of certain windows (they can trade only within a period of 20 days after a General Meeting or after certain ASX announcements or, in special circumstances, with the permission of the Chairman), and senior management are made aware of the prohibition on trading in shares while they are in possession of confidential information likely to have a material effect on share price.

SUPPLY NETWORK LIMITED

Corporate Governance Statement (continued)

Principle 4 – Integrity in financial reporting

The Company practices high standards of financial reporting, with well-developed checks and balances in place. The Board requires the Managing Director and the most senior finance Executive to state in writing to the Board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.

The Audit Committee consists of all three Non-Executive Directors, two of whom are independent, and has an independent Chairman. The Audit Committee is responsible for annually reviewing the appointment of the Auditors and recommending to the full Board their reappointment or replacement. It has no formal charter.

Principle 5 – Make timely and balanced disclosure

The Board is sensitive to the requirements of an informed market. It seeks to keep its Shareholders informed through:

- Reports to the ASX.
- Half and full-year profit announcements.
- Annual Reports.
- Continuous disclosure to the ASX pursuant to the ASX Listing Rules.

Whilst there is no written list of policies and procedures concerning disclosure, the Board believes its track record verifies its diligent approach.

Principle 6 – Respect the rights of Shareholders

The Board members recognise and honour their responsibility to consider the interests of all shareholders. Accordingly they are available for shareholders to speak with, particularly at General Meetings, and promptly make available market announcements on SNL's website. The Board requests the external auditor to attend the annual general meeting and to be available to answer shareholder questions.

The company's communication with Shareholders is based on statutory reporting requirements, continuous disclosure to the ASX and all Board members attend annual general meetings where possible.

Principle 7 – Recognise and manage Risk

The Board as a whole annually reviews the Company's risk matrix. Senior management is involved in drawing up this document, which addresses the likelihood and severity of risks as well as contingency planning.

While there is no formalised internal compliance and control system policy, in a company of SNL's size there is close interaction between the executive and staff, and risk is minimised through staff training and monitoring at all levels. Where circumstances dictate, matters are brought to the Board earlier than at scheduled meetings.

The Managing Director and the most senior finance Executive have stated to the Board in writing that:

- The integrity of financial statements is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.
- The Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

Principle 8 – Encourage enhanced performance

An annual review of the performance of the Board as a unit and of its members is undertaken internally by the Board. Hitherto each year on a scheduled date Board members have been given the opportunity to detail individually issues they see as strengths and weaknesses of the Board, of its meetings, and of its members. These views are discussed by all members but the details and any related reports are not made public.

Each year on another scheduled date the Board formally reviews with the Managing Director the performance of Executives over the prior year. The Board encourages management to conduct periodic performance reviews of all senior staff.

Principle 9 – Remunerate fairly and responsibly

Board members are remunerated by reference to industry standards.

The Non-Executive Directors are entitled to a retiring allowance as approved by shareholders in 1997. They have resolved to freeze the salary rate on which this entitlement is calculated at the level as of 30 June 2004. In other words Non-Executive Directors will continue to receive a fixed fee, which is reviewed annually, but their retiring allowances will not rise with increasing fees.

They have also resolved to pay future Non-Executive Directors a fee only, with no provision for a retiring allowance.

SUPPLY NETWORK LIMITED

Corporate Governance Statement (continued)

Senior management receives annually a base salary package and a performance bonus relating to the year just finished. The bonus component is based on results in excess of predetermined performance hurdles and the structure of these hurdles is common throughout the company.

The Board has not used equity-based remuneration for Executives over the past year and has no plans to introduce it at this stage. Should this change the Board would seek to have plans approved in advance by shareholders.

The Remuneration Committee, consisting solely of Non-Executive Directors and having an independent Chairman, monitors industry practice and advises the Board, which sets the remuneration levels of Executives.

Principle 10 – Recognise the legitimate interest of stakeholders

Whilst there is no formalised code of conduct regarding stakeholders, the Board recognises legitimate interests of the community with which the Company interacts. It encourages all staff to act likewise.

Board members periodically attend customer functions, wherein they can observe how well the company is serving the wider community.

Other Issues

Board Meetings

The Company is a small size to be listed on the ASX, which gives its people the agility to make decisions in a timely manner. While Board meetings are generally scheduled once a month, with a small Board, other meetings are held as necessary. Any director is free to seek to have items added to the agenda, which is set by the Chairman.

Conflicts of interest are handled in the appropriate manner with the Director concerned where necessary abstaining from voting and discussion, including leaving the room.

Board Committees

There are two permanent Board Committees, Audit and Remuneration, each chaired by an independent Director. Each calls meetings on an as needs basis and asks non-Committee members to attend on occasions.

Strategy

The Board places great emphasis on setting the strategy for SNL and regular meetings are held attended by Executives and Board members. The Board has a program of visiting all divisions of the Company over a period of time and seeks to understand the special needs of the business at each location. Strategy meetings often take place during Board visits away from Head Office.

The Board vigorously debates management recommendations and requests additional information when it believes it is not sufficiently well informed to make a decision.

Human Resources

Along with strategy Human Resources is considered important, and staff development, training and succession are given high priority. Director training is also encouraged and the Company pays for attendance at appropriate seminars.

Insurances

Insurance covers are reviewed annually by the Board and any recommendations for change are properly explored.

Communications and community support

In keeping with the Company's policy of improving external communications to better serve its constituency, the Board has appointed nominated spokespersons for operational and shareholder matters.

The Board is sensitive to community expectations regarding donations. No funds are given to any political party or individual running for office. Modest assistance is given to local community activities, where authority is granted from the Executive.

Finally

Being a small company with speedy interactions available, much decision making is in an informal environment. That is not to say that decision making is reckless. The Board firmly believes in adequate checks and balances at all levels, without inhibiting personal initiative. It works closely with the Managing Director to ensure sufficient authority is given to him to manage the business and is supportive of SNL staff.

In seeking to enhance shareholder wealth, the Board ensures throughout the business, from the Boardroom down, no individual has unfettered power, and every decision is open to challenge.

SUPPLY NETWORK LIMITED

**Statement of Financial Performance
for the year ended 30 June 2004**

	Note	Consolidated		Parent	
		2004 \$000	2003 \$000	2004 \$000	2003 \$000
Revenue from ordinary activities	2	33,518	30,444	1,227	816
Expenses from ordinary activities excluding borrowing costs	3	(31,436)	(28,846)	(228)	(253)
Borrowing costs	3	(177)	(196)	-	-
Profit from ordinary activities before income tax expense		1,905	1,402	999	563
Income tax expense relating to ordinary activities	4	(561)	(485)	(1)	-
Profit from ordinary activities after income tax expense		1,344	917	998	563
Net profit		1,344	917	998	563
Net exchange difference on translation of financial statements of foreign controlled entity		66	4	-	-
Total revenues, expenses and valuation adjustments attributable to members of Supply Network Limited and recognised directly in equity		66	4	-	-
Total changes in equity other than those resulting from transactions with owners as owners		1,410	921	998	563
Basic earnings per share (cents per share)		6.22	4.47		
Diluted earnings per share (cents per share)		6.19	4.47		
Weighted average number of ordinary shares used in the calculation of basic earnings per share		21,611,790	20,499,013		
Effect of dilutive securities:					
Share options		91,781	-		
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share		21,703,571	20,499,013		

SUPPLY NETWORK LIMITED

**Statement of Financial Position
at 30 June 2004**

	Note	Consolidated		Parent	
		2004 \$000	2003 \$000	2004 \$000	2003 \$000
Current Assets					
Cash assets	27	476	438	-	100
Receivables	5	4,855	4,173	-	-
Inventories	6	10,419	9,301	-	-
Other	7	13	27	-	-
Total Current Assets		15,763	13,939	-	100
Non-Current Assets					
Receivables	8	-	-	6,846	6,354
Other financial assets	9	-	-	1,398	1,398
Property, plant and equipment	10	1,260	818	-	-
Deferred tax assets	11	682	586	506	114
Total Non-Current Assets		1,942	1,404	8,750	7,866
Total Assets		17,705	15,343	8,750	7,966
Current Liabilities					
Payables	12	5,411	4,249	24	16
Interest bearing liabilities	13	253	118	-	-
Current tax liabilities	14	197	360	199	26
Provisions	15	984	843	329	270
Total Current Liabilities		6,845	5,570	552	312
Non-Current Liabilities					
Interest bearing liabilities	16	1,975	1,775	-	-
Deferred tax liabilities	17	-	5	-	-
Provisions	18	124	229	56	97
Total Non-Current Liabilities		2,099	2,009	56	97
Total Liabilities		8,944	7,579	608	409
Net Assets		8,761	7,764	8,142	7,557
Equity					
Contributed equity	19	5,301	5,282	5,301	5,282
Reserves	20	64	(2)	-	-
Retained profits	21	3,396	2,484	2,841	2,275
Total Equity		8,761	7,764	8,142	7,557

SUPPLY NETWORK LIMITED

**Statement of Cash Flows
for the year ended 30 June 2004**

Note	Consolidated		Parent		
	2004 \$000	2003 \$000	2004 \$000	2003 \$000	
	Inflows (Outflows)				
Cash flows from operating activities					
	Receipts from customers	36,463	33,289	-	-
	Payments to suppliers and employees	(34,601)	(32,008)	(28)	(6)
	Interest received	10	6	1	4
	Borrowing costs	(185)	(183)	-	-
	Income taxes paid	(835)	(422)	-	-
27b	Net cash flows from (used in) operating activities	852	682	(27)	(2)
Cash flows from investing activities					
	Purchase of property, plant and equipment	(754)	(516)	-	-
	Proceeds from sale of property, plant and equipment	18	53	-	-
	Advances to and by wholly owned related parties	-	-	340	13
	Net cash flows from (used in) investing activities	(736)	(463)	340	13
Cash flows from financing activities					
	Proceeds from borrowings	484	148	-	-
	Proceeds from share issue	19	445	19	445
	Repayment of borrowings	(302)	(310)	-	-
	Payment of dividend on ordinary shares	(432)	(356)	(432)	(356)
	Net cash flows from (used in) financing activities	(231)	(73)	(413)	89
	Net increase (decrease) in cash held	(115)	146	(100)	100
	Add opening cash brought forward	438	292	100	-
27a	Closing cash carried forward	323	438	-	100

SUPPLY NETWORK LIMITED

Notes to the Financial Statements for the year ended 30 June 2004

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 2004

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.

	2004	2003
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 26).

The value of the equity-based compensation scheme described in Note 26 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 2004

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 and diluted earnings per share are calculated as net profit attributable to members, adjusted to exclude cost of servicing equity (other than dividends) divided by weighted average number of 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 2004**

	Consolidated		Parent	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000
2. Revenue from Ordinary Activities				
Revenue from operating activities				
Revenue from sale of goods	33,434	30,291	-	-
Revenues from non-operating activities				
Dividends received from				
- Wholly owned group	-	-	998	560
Interest received from				
- Other persons	10	6	1	4
Net foreign exchange gains from non-speculative activities	20	2	-	-
Management fees received from				
- Wholly owned group	-	-	228	252
Proceeds from sale of non-current assets (Note 3(a) below)	18	53		
Other income	36	92		
Total revenues from non-operating activities	84	153	1,227	816
Total revenues from ordinary activities	33,518	30,444	1,227	816
3. Expenses and Losses (Gains)				
Expenses				
Cost of goods sold	20,455	18,870	-	-
Depreciation of non-current assets				
- Plant and equipment	287	291	-	-
Other expenses				
Salaries and employee benefit expenses	5,804	5,177	155	192
Operating lease expenses	1,359	1,118	-	-
Other expenses	3,053	2,810	73	61
Utility expenses	362	349	-	-
Bad and doubtful debt – Trade Debtors	24	92	-	-
Provision for inventory obsolescence	62	70	-	-
Sale non-current asset expenses (Note 3(a) below)	30	69	-	-
Total other expenses	10,694	9,685	228	253
Total expenses from ordinary activities excluding borrowing costs	31,436	28,846	228	253
Borrowing Costs				
Interest paid to or payable to				
- Other persons	177	196	-	-
Total expenses from ordinary activities	31,613	29,042	228	253
(a) Revenue from sale of property, plant and equipment	18	53	-	-
Less expenses from sale of property, plant and equipment	30	69	-	-
Net (profit)/loss on disposal of property, plant and Equipment	(12)	(16)	-	-

SUPPLY NETWORK LIMITED

**Notes to the Financial Statements
for the year ended 30 June 2004**

	Consolidated		Parent	
	2004 \$000	2003 \$000	2004 \$000	2003 \$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	1,905	1,402	999	563
Prima facie tax payable	589	421	300	169
Tax effect of permanent and other differences				
Dividends received	-	-	(299)	(169)
Other items not deductible	23	64	-	-
Amount over provided in prior year	(51)	-	-	-
Income tax expense attributable to profit from ordinary activities	561	485	1	-
Total income tax expense comprises movements in				
Current tax payable	659	618	8	18
Future income tax benefit	(5)	(121)	(7)	(18)
Provision for deferred income tax	(93)	(12)	-	-
	561	485	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 undertaken to enter 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 will formally notify the Australian Taxation Office of its adoption of the tax consolidation regime when lodging its 30 June 2004 consolidated tax return.

5. Receivables (Current)

Trade debtors	4,909	4,378	-	-
Provision for doubtful debts	(84)	(206)	-	-
	4,825	4,172	-	-
Other debtors	30	1	-	-
	4,855	4,173	-	-

(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

(b) Provision for doubtful debts

The consolidated entity has changed the accounting estimate for measurement of the provision for doubtful debts. Previously the consolidated entity maintained a specific provision for identified doubtful debts and a general provision for doubtful debts. The consolidated entity ceased to maintain a general provision during the current financial year. The effect of the revised estimate has been to increase current year net profits by \$62,000.

SUPPLY NETWORK LIMITED

**Notes to the Financial Statements
for the year ended 30 June 2004**

	Consolidated		Parent	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000
6. Inventories (Current)				
Finished goods (at cost)	9,709	8,646	-	-
Provision for obsolescence	(845)	(830)	-	-
	<hr/> 8,864	<hr/> 7,816		
Stock in transit (at cost) – finished goods	1,555	1,485	-	-
	<hr/> 10,419	<hr/> 9,301	<hr/> -	<hr/> -
7. Other Current Assets				
Prepayments	13	27	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
8. Receivables (Non Current)				
Amounts receivable from wholly owned group (see Note 32)	-	-	6,846	6,354
	<hr/>	<hr/>	<hr/>	<hr/>

9. Other Financial Assets

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

	Class of Shares	Percentage Holdings	2004 \$	2003 \$
Multispares N.Z. Limited	ORD	100%	1,030,600	1,030,600
Multispares Limited	ORD	100%	367,429	367,429
Daconti Pty Limited	ORD	100%	2	-
Globac Limited	ORD	100%	2	2
Supply Network Services Pty Limited	ORD	100%	2	-
			<hr/> 1,398,035	<hr/> 1,398,031

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, Globac Limited and Multispares 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, Globac Limited and Multispares 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 2004**

9. Other Financial Assets (continued)

**(c) Financial information for class order closed group
Consolidated statement of financial performance for
the year ended 30 June 2004**

	Closed Group	
	2004	2003
	\$000	\$000
Profit from ordinary activities before income tax expense	1,326	920
Income tax expense relating to ordinary activities	(397)	(311)
Profit from ordinary activities after income tax	929	609
Retained profits at the beginning of the financial year	2,321	1,875
Adjustment arising on adoption of revised accounting standard AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets"	-	193
Dividends provided for or paid	(432)	(356)
Retained profits at end of the financial year	<u>2,818</u>	<u>2,321</u>

**Consolidated statement of financial position
at 30 June 2004**

	Closed Group	
	2004	2004
	\$000	\$000
Current Assets		
Cash assets	474	363
Receivables	4,208	3,683
Inventories	8,595	7,828
Other	8	23
Total Current Assets	<u>13,285</u>	<u>11,897</u>
Non-Current Assets		
Other financial assets	1,031	1,030
Property, plant and equipment	1,069	641
Deferred tax assets	562	510
Total Non-Current Assets	<u>2,662</u>	<u>2,181</u>
Total Assets	<u>15,947</u>	<u>14,078</u>
Current Liabilities		
Payables	4,496	3,320
Interest bearing liabilities	100	118
Current tax liabilities	199	227
Provisions	934	803
Total Current Liabilities	<u>5,729</u>	<u>4,468</u>
Non-Current Liabilities		
Interest bearing liabilities	1,975	1,775
Deferred tax liabilities	-	3
Provisions	124	229
Total Non-Current Liabilities	<u>2,099</u>	<u>2,007</u>
Total Liabilities	<u>7,828</u>	<u>6,475</u>
Net Assets	<u>8,119</u>	<u>7,603</u>
Equity		
Contributed equity	5,301	5,282
Retained profits	2,818	2,321
Total Equity	<u>8,119</u>	<u>7,603</u>

SUPPLY NETWORK LIMITED

**Notes to the Financial Statements
for the year ended 30 June 2004**

	Consolidated		Parent	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
10. Property, Plant and Equipment				
Property, plant and equipment at cost				
Plant and equipment				
Opening balance	2,614	2,310	-	-
Additions	754	516	-	-
Disposals	(370)	(214)	-	-
Currency translation difference	14	2	-	-
Closing balance	3,012	2,614	-	-
Accumulated Depreciation				
Opening Balance	1,796	1,649	-	-
Depreciation for the year	287	291	-	-
Disposals	(340)	(145)	-	-
Currency translation difference	9	1	-	-
Closing balance	1,752	1,796	-	-
Net book value	1,260	818	-	-
Total property, plant and equipment	1,260	818	-	-
11. Deferred Tax Assets (Non Current)				
Future income tax benefits				
Attributable to timing differences				
- Provision for doubtful debts	26	62	20	-
- Provision for employee entitlements	334	323	317	110
- Provision for obsolescence	160	150	99	-
- Other	162	51	70	4
	682	586	506	114
12. Payables (Current)				
Unsecured Liabilities				
Trade creditors and accruals	2,722	2,013	24	16
Foreign currency payable – Unhedged	1,198	1,170	-	-
Foreign currency payable – Hedged	1,491	1,066	-	-
	5,411	4,249	24	16

(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 2004**

		Consolidated		Parent	
		2004	2003	2004	2003
		\$000	\$000	\$000	\$000
13. Interest Bearing Liabilities (Current)					
Bank overdraft – secured	(a)	153	-	-	-
Bank loans – secured	(a)	100	100	-	-
Other loans – secured	(b)	-	18	-	-
		253	118	-	-
(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 was for three years and subject to monthly repayment and matured in March 2004. The interest rate on the agreement was 8.9%					
14. Current Tax Liabilities					
Current year tax payable		197	327	199	18
Prior year tax payable		-	33	-	8
		197	360	199	26
15. Provisions (Current)					
Employee entitlements	Note 26	984	843	329	270
16. Interest Bearing Liabilities (Non Current)					
Bank loans – secured	(a)	1,975	1,775	-	-
(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 September each year. Interest rates on overdrafts are variable and during the year average interest rate was 9.6%. Bank loans comprise fixed interest only loans of \$1,300,000 at an average interest rate of 7.5% (renewed July 2004 - average interest rate of 8.0%) maturing February and July 2006; fixed interest loan of \$775,000 at 7.7% renewable for a further term in November 2004 and repayable by quarterly instalments.					
17. Deferred Tax Liabilities					
Provision for deferred income tax					
Attributable to timing differences					
- Depreciation		-	4	-	-
- Prepayments		-	1	-	-
		-	5	-	-
18. Provisions (Non Current)					
Employee entitlements	Note 26	124	229	56	97

SUPPLY NETWORK LIMITED

**Notes to the Financial Statements
for the year ended 30 June 2004**

	Consolidated		Parent	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000
19. Contributed Equity				
(a) Issued and Paid Up Capital				
21,638,845 ordinary shares fully paid (2003: 21,513,845)	5,301	5,282	5,301	5,282

	2004		2003	
	Number of Shares	\$000	Number of Shares	\$000
(b) Movements in Shares on Issue				
Balance at beginning of year	21,513,845	5,282	19,345,845	4,837
Issue of shares under share purchase plan	-	-	2,043,000	429
Issue of shares under share option plan	125,000	19	125,000	16
Balance at end of the year	21,638,845	5,301	21,513,845	5,282

Since the end of the financial year a further 400,000 shares were issued at 20 cents per share (\$80,000) under Share Option Plan (see (c) below).

(c) Share Options

Options over ordinary shares:

At the end of the year there were 500,000 (2003: 625,000) unissued ordinary shares in respect of which options were outstanding.

Since the end of the financial year a further 400,000 options were exercised.

(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	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000
20. Reserves				
Foreign Currency Translation				
Balance at beginning of year	(2)	(6)	-	-
Gain on translation of overseas controlled entities	66	4	-	-
Balance at end of year	64	(2)	-	-

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 2004**

	Consolidated		Parent	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
21. Retained Profits				
Retained Profits				
Balance at beginning of year	2,484	1,730	2,275	1,875
Net profit	1,344	917	998	563
Adjustment arising on adoption of revised accounting standard AASB 1044 "Provisions Contingent Liabilities and Contingent Assets"	-	193	-	193
Total available for appropriation	<u>3,828</u>	<u>2,840</u>	<u>3,273</u>	<u>2,631</u>
Less dividends provided or paid	432	356	432	356
Balance at end of year	<u>3,396</u>	<u>2,484</u>	<u>2,841</u>	<u>2,275</u>
22. Dividends Paid or Provided for on Ordinary Shares				
(a) Dividends paid during the year				
Current year interim fully franked dividend (1.00 cent per share) (2003: 1.00 cent)	216	161	216	161
Previous year final fully franked dividend (1.00 cent per share) (2003: 1.00 cent)	216	195	216	195
Total dividends paid	<u>432</u>	<u>356</u>	<u>432</u>	<u>356</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) (2003: 1.0 cent)	<u>331</u>	<u>215</u>	<u>331</u>	<u>215</u>
(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% (2003: 30%)			3,275	2,366
- franking credits that will arise from the payment of income tax payable as the end of the financial year			<u>199</u>	<u>19</u>
			<u>3,474</u>	<u>2,385</u>
The tax rate at which paid dividends have been franked is 30% (2003: 30%). Dividends proposed will be franked at the rate of 30% (2003: 30%).				
23. Lease Commitments				
Operating lease commitments payable				
- not later than one year	1,536	1,405	-	-
- later than one year and not later than five years	3,081	2,316	-	-
	<u>4,617</u>	<u>3,721</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 2004**

	Consolidated		Parent	
	2004	2003	2004	2003
	\$	\$	\$	\$
24. Auditors Remuneration				
Amounts received or due and receivable for audit or review of the financial reports				
Ernst & Young	79,825	70,727	12,950	6,860
	<hr/>			
Amounts received or due and receivable by the auditors for other services				
Ernst & Young – tax compliance	5,270	6,121	-	-
	<hr/>			

25. 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	Financial Controller 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 2004**

25. Directors and Executives Disclosures (continued)

(ii) Remuneration of Specified Directors and Specified Executives

	Salary & Fees	Primary Cash Bonus	Non Monetary Benefits	Post Employment Superannuation	Equity Options Granted (1)	Total
Specified Directors						
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
2003						
H R Forsyth	26,880	-	-	24,000	-	50,880
H M O Anderson	-	-	-	32,700	-	32,700
G T Lingard	30,000	-	-	2,700	-	32,700
G D H Stewart	162,296	37,553	11,808	21,866	-	233,523
Total	219,176	37,553	11,808	81,266	-	349,803
Specified Executives						
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
2003						
B A McKenna	120,512	18,776	11,526	16,548	-	167,362
P W Gill	116,792	18,776	10,242	30,004	-	175,814
Total	237,304	37,552	21,768	46,552	-	343,176

1. No options were granted during the year. Options were granted in the year ended 30 June 2002 to G D H Stewart 150,000, B A McKenna 100,000 and P W Gill 100,000. These options were valued at grant date at 1 cent each and disclosed as part of their remuneration in that year.

SUPPLY NETWORK LIMITED

**Notes to the Financial Statements
for the year ended 30 June 2004**

25. Directors and Executives Disclosures (continued)

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

No options were granted and the following options vested during the year

	Vested Number	Granted Number
Specified Directors		
G D H Stewart	150,000	-
Specified Executives		
B A McKenna	100,000	-
P W Gill	100,000	-
Total	350,000	-

(d) Shares issued on exercise of remuneration options

	Shares Issued Number	Paid \$ per share	Unpaid \$ per share
Specified Directors			
G D H Stewart	125,000	0.15	-

(e) Option holdings of specified directors and specified executives

	Balance 1 July 2003	Granted as Remuneration	Options exercised	Balance 30 June 2004	Total Vested	Total Exercisable
Specified Directors						
G D H Stewart	275,000	-	(125,000)	150,000	150,000	150,000
Specified Executives						
B A McKenna	100,000	-	-	100,000	100,000	100,000
P W Gill	100,000	-	-	100,000	100,000	100,000
	475,000	-	(125,000)	350,000	350,000	350,000

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

	Balance 1 July 2003	Granted as Remuneration	Options exercised	Balance 30 June 2004
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	353,000	-	125,000	478,000
Specified Executives				
B A McKenna	52,425	-	-	52,425
P W Gill	190,500	-	-	190,500
	7,415,081	-	125,000	7,540,081

SUPPLY NETWORK LIMITED

**Notes to the Financial Statements
for the year ended 30 June 2004**

26. Employee Entitlements	Consolidated		Parent	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000
Accrued salaries and wages and on costs	267	243	-	-
Provision current	984	843	329	270
Provision non current	124	229	56	97
	<u>1,375</u>	<u>1,315</u>	<u>385</u>	<u>367</u>
Number of employees at year end	100	93	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:

	2004		2003	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of year	625,000	0.19	750,000	0.18
Issued	-	-	-	-
Exercised	(125,000)	0.15	(125,000)	0.13
Balance at end of year	<u>500,000</u>	<u>0.20</u>	<u>625,000</u>	<u>0.19</u>
Exercisable at end of year	<u>500,000</u>	<u>0.20</u>	<u>125,000</u>	<u>0.15</u>

(a) Options held at beginning of year

The following table summarises information about options held by employees at 1 July 2003

Number of Options	Grant Date	Vesting Date	Expiry Date	Weighted Average Exercise Price
125,000	21/3/2001	21/3/2001	21/3/2004	0.15
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 2004								
125,000	21/3/2001	21/3/2001	21/3/2004	0.15	\$18,750	125,000	18/9/2003	0.34
30 June 2003								
125,000	21/3/2001	21/3/2001	21/3/2003	0.13	\$16,250	125,000	19/8/2002	0.23

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 2004**

26. 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 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

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 2004**

	Consolidated		Parent	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
27. 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	476	438	-	100
Bank overdraft	(153)	-	-	-
	323	438	-	100
(b) Reconciliation of net profit after tax to the net cash flows from operations				
Net profit after income tax	1,344	917	998	563
Adjustments for non-cash income and expense items				
Dividends received	-	-	(998)	(560)
(Profit)/Loss on sale of property, plant and equipment	12	16	-	-
Depreciation of property, plant and equipment	287	291	-	-
Other	-	-	(30)	(54)
Transfers to provisions				
- Inventory obsolescence	8	70	-	-
- Employee entitlements	34	107	18	67
- Doubtful debts	(123)	26	-	-
Increase (decrease) in provision for:				
- Income tax payable	(163)	192	(15)	4
- Deferred taxes	(111)	(128)	(7)	(18)
Changes in assets and liabilities				
(Increase) decrease in:				
Accounts receivable	(531)	(256)	-	-
Inventories	(1,133)	(66)	-	-
Other assets	(16)	(5)	-	-
(Decrease) increase in:				
Trade creditors and accruals	1,244	(482)	7	(4)
Net cash flow from operating activities	852	682	(27)	(2)
(c) Financing Facilities Available:				
At reporting date the following facilities had been negotiated and were available:				
Total credit facilities	3,435	3,375	-	-
Facilities used at reporting date	(2,228)	(1,875)	-	-
Facilities unused at reporting date	1,207	1,500	-	-
The major facilities are summarised as follows:				
Bank overdrafts	682	675	-	-
Facilities used	(153)	-	-	-
Facilities unused at reporting date	529	675	-	-
Bank loans	2,753	2,700	-	-
Facilities used	(2,075)	(1,875)	-	-
Facilities unused at reporting date	678	825	-	-

SUPPLY NETWORK LIMITED

**Notes to the Financial Statements
for the year ended 30 June 2004**

28. 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.

29. 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.

30. 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	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000	2004 \$000	2003 \$000	2004 \$000	2003 \$000
Revenue								
Sales to customers outside the consolidated entity	27,106	24,298	6,328	5,993	-	-	33,434	30,291
Other revenues from outside the consolidated entity	80	138	4	15	-	-	84	153
Intersegment revenues	1,016	1,379	3	16	(1,019)	(1,395)	-	-
Total segment revenues	<u>28,202</u>	<u>25,815</u>	<u>6,335</u>	<u>6,024</u>	<u>(1,019)</u>	<u>(1,395)</u>	<u>33,518</u>	<u>30,444</u>
Results								
Segment results	<u>1,323</u>	<u>920</u>	<u>585</u>	<u>519</u>	<u>(3)</u>	<u>(37)</u>	<u>1,905</u>	<u>1,402</u>
Consolidated entity profit from ordinary activities before income tax expense							1,905	1,402
Income tax expense							(561)	(485)
Consolidated entity profit from ordinary activities after income tax expense							<u>1,344</u>	<u>917</u>
Net profit							<u>1,344</u>	<u>917</u>
Assets								
Segment assets	<u>15,945</u>	<u>14,078</u>	<u>3,162</u>	<u>2,711</u>	<u>(1,402)</u>	<u>(1,446)</u>	<u>17,705</u>	<u>15,343</u>
Liabilities								
Segment liabilities	<u>7,828</u>	<u>6,475</u>	<u>1,420</u>	<u>1,427</u>	<u>(304)</u>	<u>(323)</u>	<u>8,944</u>	<u>7,579</u>
Other segment information								
Acquisition of property, plant and equipment, intangible assets and other non-current assets	694	387	60	129	-	-	754	516
Depreciation	237	258	50	33	-	-	287	291
Non-cash expenses other than depreciation	144	233	41	63	-	-	185	296

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 2004**

31. 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 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 and overdrafts	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>
30 June 2003								
Financial assets								
Cash	433	-	-	-	5	438	3.0	-
Receivables	-	-	-	-	4,378	4,378	-	-
Other debtors	-	-	-	-	1	1	-	-
	<u>433</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,384</u>	<u>4,817</u>	<u>-</u>	<u>-</u>
Financial liabilities								
Payables	-	-	-	-	2,013	2,013	-	-
Foreign currency payables – unhedged	-	-	-	-	1,170	1,170	-	-
Bank loans	-	100	1,775	-	-	1,875	-	7.8
Other loans	-	18	-	-	-	18	-	8.6
Forward exchange contracts	-	-	-	-	1,066	1,066	-	-
	<u>-</u>	<u>118</u>	<u>1,775</u>	<u>-</u>	<u>4,249</u>	<u>6,142</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 2004**

31. 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		2004	2003
		2004	2003	Buy \$000	Buy \$000
Japanese yen	3 months or less	74.1	77.2	198	147
Great British pound	3 months or less	0.37	0.40	5	20
Euro currency	3 months or less	0.57	0.56	1,191	877
US currency	3 months or less	0.68	0.66	97	22
Total				<u>1,491</u>	<u>1,066</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 2004

32. 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 2004: \$368,000 (2003: \$256,000).

(f) Directors' Shareholdings

Shares and share options held by Directors and their Director-related entities in parent entity at end of the year	2004	2003
Ordinary shares	7,297,156	7,172,156
Ordinary share options	150,000	275,000

SUPPLY NETWORK LIMITED

Notes to the Financial Statements for the year ended 30 June 2004

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

Supply Network Limited has commenced analysis of the required transitioning of its accounting policies and financial reporting from current Australian Standards to Australian equivalents to International Financial Reporting Standards (IFRS). The company has allocated internal resources to identify key areas that will be impacted by the transition to IFRS. As Supply Network Limited has a 30 June year end, priority has been given to considering the preparation of an opening balance sheet in accordance with AASB equivalents to IFRS as at 1 July 2004. 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 IFRS compliant financial report for the year ended 30 June 2006. Set out below are the key areas where accounting policies are currently expected to change and these changes may have an impact on the financial report of Supply Network Limited. At this stage the company has not been able to reliably quantify the impacts on the financial report.

Hedge Accounting

Under AASB 139 *Financial Instruments: Recognition and Measurements* in order to achieve a qualifying hedge the entity is required to meet the following criteria:

- Identify the type of hedge – fair value or cash flow;
- Identify the hedged items or transaction;
- Identify the nature of risk being hedged;
- Identify the hedged instrument;
- Demonstrate that the hedge has and will continue to be highly effective; and
- Document the hedging relationship, including the risk management objectives and strategy for undertaking the hedge and how effectiveness will be tested.

This will result in a change in the entity's current accounting procedure where additional documentation will be required to demonstrate that the hedges are highly effective. Supply Network Limited will also need to develop a procedure detailing the objectives, strategies and testing of hedging transactions. It is anticipated that there will be no future financial effect of the change in accounting policy.

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, where it is anticipated that the potential impact of the adoption of this standard is minor.

Share Based Payments

Under AASB 2 *Share based Payments*, the company will be required to determine the fair value of options issued to employees as remuneration and recognise an expense in the income statement, therefore future earnings may be reduced for any future equity based remuneration. At present, it is anticipated that there will be no future financial effect as a result of the adoption of the standard, however details of future equity based remuneration are not known.

Income Taxes

Under AASB 112 *Income Taxes*, the company will be required to use a balance sheet liability method which focuses on the tax effects of transactions and other events that affect amounts recognised in either accounting or tax based balance sheets. The most significant impact will be the recognition of a deferred tax liability in relation to the foreign currency translation reserve as Supply Network Limited is unable to control the timing of movements in exchange rates.

SUPPLY NETWORK LIMITED

**Notes to the Financial Statements
for the year ended 30 June 2004**

Directors' Declaration

In accordance with a resolution of the directors of Supply Network Limited, I state that:

- (1) In the opinion of the directors:
 - (a) the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2004 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

- (2) In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 9 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board



H R Forsyth
Director

Sydney
26 August 2004

Independent audit report to members of Supply Network Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Supply Network Limited (the company) and the consolidated entity, for the year ended 30 June 2004. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

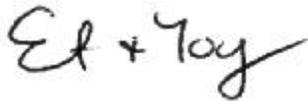
Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion

In our opinion, the financial report of Supply Network Limited is in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of Supply Network Limited and the consolidated entity at 30 June 2004 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.



Ernst & Young



Christopher D. George
Partner

Sydney
26 August 2004