



**SUPPLY NETWORK LIMITED**

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19 November 2008

The Manager  
Companies Announcement Office  
Australian Stock Exchange  
20 Bridge Street  
**SYDNEY NSW 2000**

Dear Sir

**Re: Chairman's Address to Shareholders**

Please find attached the Chairman's Address to Shareholders at the Annual General Meeting being held at 2.00pm today.

Yours faithfully

A handwritten signature in black ink, appearing to be 'Peter Gill', written in a cursive style.

**Peter Gill**  
Company Secretary



## **Chairman's Address 2008 AGM**

Welcome to the 2008 Supply Network Annual General Meeting.

I am pleased to advise shareholders that Supply Network is on track to deliver a solid result in the first half.

Based on management accounts for the year-to-date at the end of October, Group sales revenue has increased 5% when compared with the same period last year and EBIT has increased 16% to \$884k. Management has forecast profit after income tax of between \$600-700k over the current half-year.

I am pleased to report that we paid shareholders dividends totaling 7 cents per share in respect of last financial year, a record for your company. This amount included a 4 cent Special Dividend and we operated a partially underwritten Dividend Reinvestment Plan in respect of this Special Dividend. Around 75% of the total special dividend was reinvested by shareholders participating in the DRP, which was an excellent result.

Recently we have had to confront some new and significant challenges. In particular the dramatic and relatively sudden fall in the value of the Australian dollar against key supplier currencies has begun to put pressure on gross margins as new stock is landed at higher costs. Intense competition and tightening margins will make the second half of this year difficult and profitability in the second half is expected to be flat. We expect full year EBIT of around \$2.0m giving profit after income tax of around \$1.25m.

The falling value of the Australian dollar will also have an impact on our cash flows. If exchange rates stabilise at current levels we anticipate an increase of about \$2m in the value of our stock over the course of the financial year. Given a continuation of solid operating profits and our relatively low gearing we are well placed to manage this highly unusual requirement for financing the increase in our stock value. In these times of uncertainty in equity and finance markets the Board intends to ensure that we maintain our position of financial strength. Discussions have commenced with our Bankers to increase our loan facilities.

The Board had intended continuing the payment of an annual Special Dividend for a further 3 years. However given the immediate requirement to finance an increase in the value of our stock the Board has decided to suspend the Special Dividend in the current year. The Board has also decided to activate the Dividend Reinvestment Plan in respect of both the Interim and Final Dividends. More information will be provided on the DRP when the half-year results are announced.



By taking this action we expect our debt to equity ratio to peak at around 50% in the final quarter of this financial year. Although well above recent gearing levels, 50% remains within the Board's target range. It is anticipated that gearing would gradually decline from next financial year as we move out of this exchange rate cycle and cash flows become strongly positive.

Notwithstanding current challenges your company is well placed to continue its trend of solid organic growth. We have delivered strong returns on recent stock investments in our product range and we will further develop this policy as well as looking to evaluate various ways of expanding our distribution capabilities.

The Board would like to acknowledge the efforts of our staff to lift performance and work with us through a period of significant change. In many parts of the business there have been improvements in consistency and service levels that reflect well on our professionalism as a Group, and we congratulate staff on this achievement. These service level goals go to the heart of our mission and both the Board and management are determined to see more improvements.

We thank shareholders for their ongoing support and look forward to rewarding this with continuing growth in revenue, profitability and dividends over future years.

**Garry Lingard**

Chairman