



**SUPPLY NETWORK LIMITED**

ABN 12 003 135 680

1 Turnbull Close Pemulwuy NSW 2145

PO Box 3405 Wetherill Park NSW 2164

Telephone: 02 8624 8077

**ASX Release**

25 September 2020

**2020 Annual Report**

Please find attached the 2020 Annual Report being distributed to shareholders.

*Authorised by the Board of Supply Network Limited*

**Robert Coleman**

Chief Financial Officer

Telephone: + 61 2 8624 8077



# SNL ANNUAL REPORT 2020



SUPPLY NETWORK LIMITED ABN 12 003 135 680



# CONTENTS

<b>01</b>	<b>Corporate Information</b>	<b>19</b>	<b>Statement of Cash Flows</b>
<b>02</b>	<b>Chairman's and Managing Director's Report</b>	<b>20</b>	<b>Notes to the Financial Statements</b>
<b>08</b>	<b>Directors' Report</b>	<b>42</b>	<b>Directors' Declaration</b>
<b>15</b>	<b>Auditor's Independence Declaration</b>	<b>43</b>	<b>Independent Auditor's Report</b>
<b>16</b>	<b>Statement of Profit or Loss and Other Comprehensive Income</b>	<b>47</b>	<b>ASX Additional Information</b>
<b>17</b>	<b>Balance Sheet</b>	<b>48</b>	<b>Five Years Consolidated Financial Summary</b>
<b>18</b>	<b>Statement of Changes in Equity</b>		

The financial statements were authorised for issue by the directors on 28 August 2020.  
The directors have the power to amend and reissue the financial statements.



# CORPORATE INFORMATION

## Directors

G J Forsyth (Chairman)  
G D H Stewart (Managing Director)  
P W McKenzie  
P W Gill

## Company Secretary

P W Gill

## Registered Office

1 Turnbull Close  
Pemulwuy NSW 2145

Telephone 02 8624 8077

E-mail [admin@supplynetwork.com.au](mailto:admin@supplynetwork.com.au)

## Corporate Governance Statement

The Corporate Governance Statement can be found at

[www.supplynetwork.com.au/governance.htm](http://www.supplynetwork.com.au/governance.htm)

## Internet Address

[www.supplynetwork.com.au](http://www.supplynetwork.com.au)

## Auditors

HLB Mann Judd (NSW Partnership)

## Bankers

ANZ Banking Group Limited

## Solicitors

Bartier Perry

## Share Registry

Computershare Investor Services Pty Limited  
Level 3, 60 Carrington Street  
Sydney NSW 2000

Enquiries (within Australia)  
1300 850 505

Enquiries (outside Australia)  
61 3 9415 4000

Facsimile  
61 3 9473 2500

## Stock Exchange Listing

Supply Network Limited (ASX code SNL)  
shares are quoted on the  
Australian Securities Exchange.



# CHAIRMAN'S AND MANAGING DIRECTOR'S REPORT

Sales  
Revenue  
**\$136.8m**

Net Profit  
After Tax  
**\$9.5m**

Earnings  
Per Share  
**23.42c**

We are fortunate to be involved with a strong company that, while challenged, has been relatively unaffected by the Pandemic. Under these circumstances, we feel it is appropriate to open this report by expressing concern for businesses that are struggling and people who have lost income because of this Pandemic. From a position of strength, we will do our best to contribute to economic recovery by supporting staff and customers to stay safe, continuing to invest in long-term business development plans and maintaining our long-standing progressive dividend goal.

For the 2020 financial year Supply Network sales revenue increased by 10.4% to \$136.8m and, pleasingly, we finished the year with a record monthly revenue and invoice count in June.

Our EBIT Margin was 11.2%, slightly above trend because of reduced marketing and travel expenses since the onset of the Pandemic and a Wage Subsidy from the New Zealand Government, which was used to support staff wages during the lockdown period. We have not been eligible for any support from the Australian Government.

Please note, the above EBIT Margin and other profitability and performance measures in this report are reported post AASB 16.

## Review of Operations

Our business has again proved remarkably resilient. Although some truck and bus fleets are involved in consumer discretionary activities such as tourism, events, etc., most perform an essential service. Our economy would simply cease to function without the continued operation of trucks and public transport. Furthermore, the maintenance of heavy vehicles is essential to their safe operation, so the supply of spare parts is also regarded as an essential service.

Heading into the Pandemic our sales momentum was building, then for the six weeks from mid-March sales in Australia remained relatively flat and in New Zealand declined because of their strict lockdown

measures. From late April, as lockdowns were eased, our sales momentum returned. By early May sales revenue was back at pre-Pandemic levels and we finished the year strongly.

The Pandemic has required organisations to adapt to a changed environment, particularly geographically dispersed companies like Multispares. With travel severely restricted, the last 6 months have shown the value of our regional leadership structure wherein local teams under local management take full responsibility for local customer relationships and service standards. The very challenging international and economic backdrop has also reconfirmed the advantages of a well-integrated supply chain from source to point of fitment, allowing quick decisions to maintain supply with minimal risk.

During the first half of the 2020 financial year we opened a new branch at Eagle Farm, an industrial precinct adjacent to Brisbane Airport with significant distribution activity. This branch has an excellent profile on Kingsford Smith Drive, it opened with a strong team and has performed above expectations during its first year of operation. With a view to the long term we have also secured an option for additional warehouse space at our Darra branch, which is well positioned in Brisbane's south-west freight corridor.

New management appointments in key regions and travel restrictions due to the Pandemic have allowed the Head Office team to focus on projects that will enable continued organic growth, such as developing and deploying new technologies to improve the accuracy and speed of product transactions.

At the onset of the Pandemic we introduced split shifts, morning and afternoon, at our Distribution Centre in Western Sydney, to minimise risks to the operation from the coronavirus. This change was well supported by staff and we are grateful for their prompt adjustments. The split shifts concept was already part of our long-term planning for sales revenue beyond \$150m,



and our experience with the efficiency and safety benefits during this early test has led to an early and permanent adoption of the concept.

## The Future

At our 2019 AGM we discussed a new Plan to take sales revenue to \$150m in FY2022. This Plan includes improved efficiencies in our Distribution Centres, rolling out the new transaction technologies mentioned above, and further network expansion. While working to execute this Plan we are also progressing the major network changes required to support sales revenue of \$200m.

Excluding stock and staff, the biggest investments required to support an increase in revenue from \$150m to \$200m are additional distribution capacity in Australia and New Zealand. In New Zealand we are investigating options to expand the existing Hamilton Distribution Centre and in Australia we are reviewing proposals for a new Distribution Centre in Melbourne, which would also help manage geographic risk and improve service levels to our Victorian branches. If these investments in Hamilton and Melbourne proceed, they will have significantly less impact on our cost base than the introduction of the existing DCs in Hamilton and Western Sydney, and they are expected to further support our long-term profitability trend.

Smaller investments will also be required for continued, steady expansion of our branch network.

The immediate economic outlook is very uncertain, and we are expecting some instability until the Pandemic is under control internationally. We are also expecting some upturn in major infrastructure projects, which should balance any segments of the truck market that slow down. Even under these difficult circumstances we remain confident of growth in the current year and of passing our revenue target of \$150m in FY2022.

**We remain confident  
of passing our  
revenue target of  
**\$150m**  
in FY2022.**

# CHAIRMAN'S AND MANAGING DIRECTOR'S REPORT

CONTINUED

Dividends  
per share

**15.5c**

## Capital Management

Directors were pleased to support shareholders in the current difficult economic environment with an increase in our final dividend to 9 cents per share. Fully franked interim and final dividends for the year totaled 15.5 cents per share, an increase of 1.0 cents per share compared with the prior year. This represents a payout ratio of 66% on basic diluted earnings per share of 23.42 cents.

Net finance debt remained steady at \$8m, with retained Profits being deployed to the stock, plant and equipment needed to support ongoing growth. Gearing remains conservative at 22.7% (excluding Lease Liabilities) and Directors are not expecting immediate growth plans to cause any material increase in Gearing.

Gearing has been reported excluding Lease Liabilities to accurately reflect the relative weighting of finance debt and equity funding.

## AASB 16

The introduction of AASB 16 has added \$31m in Right of Use Assets to our Balance Sheet. Offsetting this are similar values recorded as Lease Liabilities. These Balance Sheet changes highlight the Director's long-standing and continuing preference to lease our operating sites and to invest shareholder funds in the plant, equipment and stock that drive our profitability.

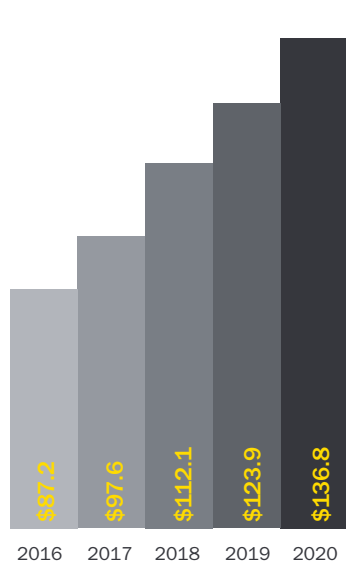
The impact of AASB 16 and pre and post AASB 16 comparisons for common profitability and performance measures are detailed in the Directors' Report

## A Thank You to Staff

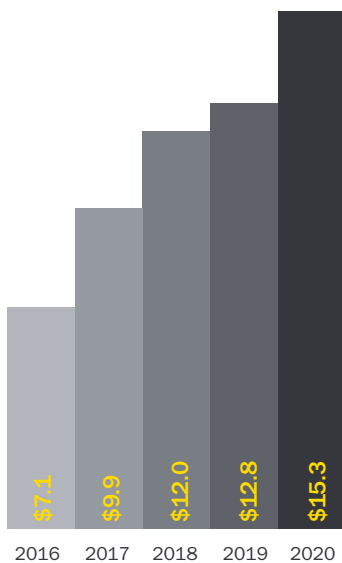
We thank staff for their efforts to maintain operations in a tumultuous year. We have a great team and look forward to continuing to build this business together.

## Performance Highlights

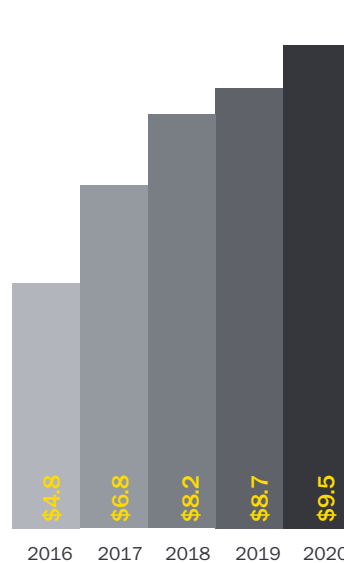
2020  
Total revenue  
**\$136.8m**



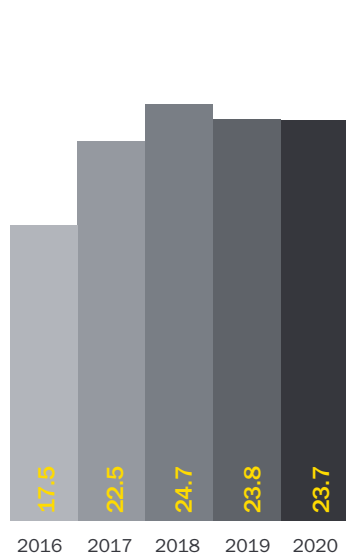
2020  
Earnings before interest and tax  
**\$15.3m**



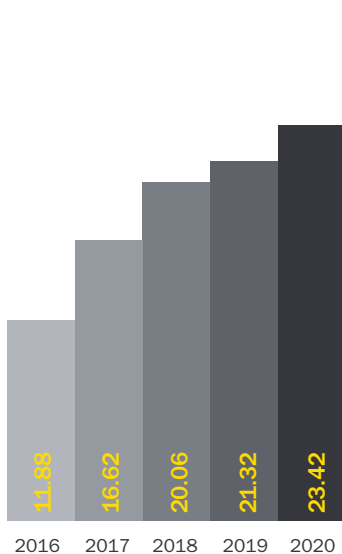
2020  
Profit after income tax  
**\$9.5m**



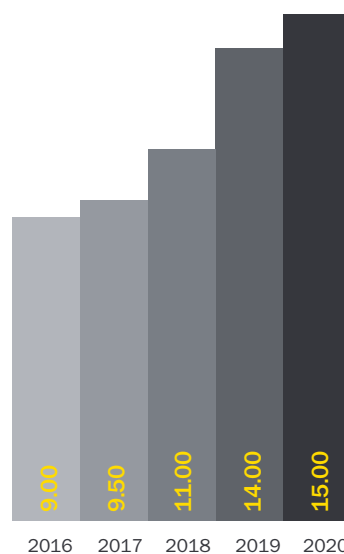
2020  
Return on average total equity  
**23.7%**



2020  
Earnings per share  
**23.42 cents**



2020  
Dividends paid per share  
**15.00 cents**





# OUR BUSINESS

Return on average total equity

**23.7%**

## Who we are:

Supply Network Limited is an ASX listed company operating trading entities in Australia and New Zealand under the Multispares brand. Each trading entity has its own management team and its own operating focus within a broad market definition of replacement parts for road transport equipment.

In simple terms we sell truck and bus parts. In practice we sell a range of services including parts interpreting, procurement, supply management and problem solving. Through the skill we apply to these services we add considerable value to a growing range of products for an expanding customer base.

## Our business principles:

The Australia-New Zealand market for trucks and buses is among the most diverse and competitive in the world. Vast distances, sophisticated operations and an open economy drive significant diversity in vehicle makes and models and present many challenges for replacement part suppliers. Our business has evolved around these unique characteristics of our local markets.

First and foremost we operate at the “quality” end of the aftermarket. The cost of product failure in our markets is high so we have built our reputation around long-term relationships, reliable products and lowering fleet operating costs. We often tell our customers, “There is nothing that we sell that we couldn’t buy for less, but we don’t compromise quality.”

The diversity of vehicle makes and models and the concentration of certain vehicles for particular tasks sets up considerable difference in the demand for replacement parts from one region to another and across different market segments. In order to deal with the complexities of regional demand we have developed a decentralised management structure with a strong regional focus. We actively build depth

in our branch network to improve local decision-making and strengthen support for local requirements.

The breadth of our product range, significant regional differences and a strong regional structure do add to our operating cost. However we are an organisation with substantial scale, which allows us to purchase products well and to operate efficiently by leveraging skills development and investments in information technology and e-commerce. This keeps us competitive while our branch network keeps service levels strong.

## Organisational culture:

Our Management Charter states:

We value initiative and independent thought but work in teams for a team result.

We show respect for other stakeholders including staff, suppliers and customers.

We obey the law and through good business aim to make a positive contribution to local communities.

In a business with thousands of daily transactions, dealing with thousands of different products, we rely on our staff to operate professionally, interpret requirements and serve customers. They can’t do this alone and in every location our success depends on the strength of the local team.

In the background we build organisational strength to support decision making and to streamline as many transactions as possible. Our staff thrive on the challenges that come from local empowerment but also appreciate the strong business and social ethics that bind us together.

Our organisational culture is an important factor in our ability to compete and to grow in this industry and has laid a strong platform for growth in the years ahead.



MISSION

WHEEL END

TRAILER

ACC

**Business development:**

Supply Network Limited's primary strategic goal is the continued organic growth of Multispares in the Australian and New Zealand markets.

Multispares occupies a strong market position as the largest and most diversified independent supplier of aftermarket replacement parts for trucks and buses, and well-established relationships between Multispares and leading component manufacturers provides us with a stable platform for continued business investment.

Our internal planning is focused on identifying and executing strategies to drive organic growth across economic cycles primarily through targeted development of our product range, customer services, branch network, e-commerce platforms and information systems, always consistent with the Multispares Mission to supply "Quality Products with Professional Service at Competitive Prices".

Supply Network Limited will consider acquisition opportunities that offer significant synergy with the Multispares business where the expected return on investment is similar or superior to the returns from investing in organic growth. We are not contemplating diversification through investment in unrelated businesses.

# DIRECTORS' REPORT

Sales revenue increased by **11.3%** in Australia and by **6.0%** in New Zealand

The Directors of Supply Network Limited (the company) submit their report on the consolidated entity (the Group) consisting of Supply Network Limited and the entities it controlled at the end of, or during, the year ended 30 June 2020.

## 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.

G J Forsyth (Chairman)  
G D H Stewart (Managing Director)  
P W McKenzie  
P W Gill

## Principal Activities

The principal activity of the Group during the financial year was the provision of aftermarket parts to the commercial vehicle industry.

## Results

The net profit of the Group after providing for income tax for the financial year was \$9.5m (2019: \$8.7m).

## Earnings per Share

Basic and diluted earnings per share for the financial year were 23.42 cents per share (2019: 21.32 cents) and 23.41 cents per share (2019: 21.31 cents) respectively.

## Dividends

	\$000
Final dividend for 2019 of 8.50 cents per share paid 27 September 2019	3,465
Interim dividend for 2020 of 6.50 cents per share paid 24 June 2020	2,649
Final dividend for 2020 of 9.00 cents per share declared 24 July 2020 and payable 1 October 2020	3,669

## Review of Operations

Group sales revenue for the year was \$136.8m, which is an increase of 10.4% when compared to the prior year.

Sales revenue in the Australian operation increased by 11.3% and in the New Zealand operation increased by 6.0% in NZ\$ terms.

Earnings before interest, tax, depreciation and amortisation ("EBITDA") on a post AASB 16 basis was \$21m. On a pre AASB 16 basis EBITDA for the year was \$16.4m, an increase of 16.0% on last year.

Earnings before interest and tax ("EBIT") on a post AASB 16 basis was \$15.3m. On a pre AASB 16 basis EBIT for the year was \$15.1m, an increase of 17.9% on last year.

The introduction of AASB 16 'Leases' reduces current profit before income tax by \$986k. This included an increased depreciation and amortisation expense of \$4.4m and increased finance costs of \$1.2m, partly offset by a reduction in other expenses (reclassification of lease expenses) of \$4.6m.

Earnings per share ("EPS") for the year was 23.42 cents on a post AASB 16 basis. On a pre AASB 16 basis EPS was 25.12 cents compared to 21.32 cents on last year.

During the period we commenced operations at our new branch at Eagle Farm, Brisbane and continued to invest in stock and systems to improve customer service levels and support growth objectives.



The financial position of the Group remains strong. Group cash flows from operating activities on a post AASB 16 basis were \$11.2m. On a pre AASB 16 basis cash flows from operations were \$7.8m compared to \$2.4m for the prior year.

There were additional long-term borrowings drawn during the year of \$1m. Gearing (excluding lease liabilities) at 30 June 2020 was 22.7% which is a decrease on June 2019 gearing of 24.6%.

As at 30 June 2020 net assets of the group were \$42.3m and net tangible asset backing was 103.8 cents per share. The introduction of AASB 16 increased net assets by \$91k. This included an increase in total assets of \$39.1m (attributable to right of use assets) and other adjustments of \$2m. These are partly offset by an increase in total liabilities of \$33.1m (attributable to right of use lease liabilities) and accumulated depreciation on right of use assets of \$7.9m.

The Directors have declared a fully franked final dividend of 9.0 cents per share payable on 1 October 2020 to shareholders registered on 17 September 2020.

The Dividend Reinvestment Plan did not operate during the year and will not operate in respect of the final dividend.

Dividends paid and or payable in respect of the 2020 financial year total 15.5 cents per share, which is an increase of 1.0 cent on the prior year (refer Note 19). The dividend payout ratio for the year is 66.2%.

A more detailed Review of Operations is included in the Chairman's and Managing Director's Report.

## Impact of AASB 16

Key pre and post AASB 16 comparisons are summarised in the table below.

	FY2019 pre AASB 16	FY2020 pre AASB 16	FY2020 post AASB 16
	000's	000's	000's
EBIT	\$12,768	\$15,054	\$15,305
EBITDA	\$14,110	\$16,364	\$20,988
NPAT	\$8,690	\$10,240	\$9,548
Interest Expense	\$450	\$458	\$1,695
Cashflow from Operations	\$2,399	\$7,846	\$11,232
EPS	21.32 cents	25.12 cents	23.42 cents
NTA per share	93.9 cents	103.6 cents	103.8 cents

## Significant Changes in the State of Affairs

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

## Significant Events after Balance Date

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

## Likely Developments and Expected Results

The Directors forecast sales revenue growth for the Group of at least 8% in 2020/21. Management plans for the year focus on organic growth opportunities in the existing business units. Continued expansion of the product range and service network are the primary considerations in our three year outlook.

# DIRECTORS' REPORT

## CONTINUED

Earnings before interest and tax for the year were **\$15.3m**

### Information on Directors

#### Gregory James Forsyth - Chairman

Appointed Chairman of the Board on 17 March 2010. Non-executive Director since 25 January 2006. Chairman of the Audit Committee and a member of the Remuneration Committee. He has over 30 years experience in financial markets specialising in Australian listed equities.

#### Peter William McKenzie

Appointed to the Board on 1 July 2006 as Non-executive Director. Chairman of the Remuneration Committee and a member of the Audit Committee. He holds a Masters Degree in Business Administration and has over 20 years experience in the transport industry. Mr McKenzie operates a consultancy practice providing advice to public authorities and private clients in the transport industry.

#### Geoffrey David Huston Stewart - Managing Director

Appointed Chief Executive Officer in November 1999 and Managing Director in November 2000. He has a Bachelor of Engineering (Mechanical) from the University of Sydney, an MBA from Macquarie University and over 30 years experience in the road transport industry.

#### Peter William Gill

Appointed senior finance executive from April 1995 until his retirement from that role in October 2018. He was appointed to the Board in May 2008 as Finance Director and after his retirement remained on the Board as a Non-Executive Director. He is a Chartered Accountant with a Bachelor of Business degree and has over 40 years experience in accounting and finance in both commercial and professional fields. He is a Chartered Secretary and a Fellow of the Governance Institute of Australia.

### 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 was as follows:

	Directors Meetings		Audit Committee		Remuneration Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
G J Forsyth	14	14	2	2	3	3
P W McKenzie	14	14	2	2	3	3
G D H Stewart	14	14	-	-	-	-
P W Gill	14	13	-	-	-	-

### Directors' Interests

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

(a) G J Forsyth holds 41,200 ordinary shares of the company and is deemed to have a relevant interest in shares held by Odalisque Pty Ltd (626,635 shares).

(b) P W McKenzie is deemed to have a relevant interest in shares held by PW & LJ McKenzie Superannuation Fund, a substantial shareholder (4,478,045 shares).

(c) G D H Stewart is deemed to have a relevant interest in shares held by Boboco Pty Limited (955,947) and in employee incentive plan shares held by D G Stewart (21,748 plan shares)

(d) P W Gill holds 178,460 ordinary shares of the company and is deemed to have a relevant interest in shares held by Viewbar Pty Limited (220,025 shares).

## 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 the premium.

## Company Secretary

P W Gill has been the Company Secretary of Supply Network Limited for over 25 years and is a Chartered Accountant.

## Environmental Regulation and Performance

The Group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

## Remuneration Report

The report outlines the remuneration arrangements in place for Directors and Executives of the Supply Network Limited Group ("SNL").

The information provided in this Remuneration Report has been audited as required by section 308 (3C) of the *Corporations Act 2001*.

### Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policies and packages applicable to the directors and senior executives of SNL.

The broad remuneration policy is to ensure that the remuneration package of directors and senior executives properly reflects the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people.

The Remuneration Committee assesses the appropriateness of the amount of remuneration of directors and senior executives on an annual basis by reference to relevant employment market data.

### Non-executive director compensation

The Board seeks to set Non-executive director compensation at a level which enables the company to attract and retain suitably qualified directors at a cost which is acceptable to shareholders.

Non-executive directors receive an annual fee for being a director of the company with no provision for retirement benefits. These fees are determined by reference to industry standards taking into account the company's relative size. No additional payments are made for serving on Board Committees and no performance related compensation or equity incentives are offered.

The present maximum aggregate sum for Non-executive directors is \$400,000. This amount was approved by shareholders at the 2017 Annual General Meeting.

The compensation of Non-executive directors for the period ending 30 June 2020 is detailed in Table 1 on page 14.

### Executive director and senior executives compensation

The company aims to reward its executives with a level of compensation commensurate with the position and responsibilities within the Group, to link reward with performance of the Group and to ensure that total compensation is competitive by market standards.

Compensation consists of the following three elements:

- fixed compensation
- variable compensation – short-term incentive and
- equity-based compensation – long-term incentive.



# DIRECTORS' REPORT

## CONTINUED

Net assets  
**\$42.3m**

### Fixed Compensation

The level of fixed compensation is set to provide compensation that is both appropriate to the position and competitive in the market place. Executives' fixed compensation is reviewed annually by the Remuneration Committee using relevant employment market data as a guide.

Executives are given the scope to tailor their fixed compensation package in a variety of forms including salary, non-monetary benefits and superannuation.

### Variable Compensation - Short Term Incentive

The objective of the short-term incentive is to link the Group's performance and operational targets with the compensation of the executives. The short-term incentive is cash based and provides senior executives with the opportunity to earn incentives based on a percentage of fixed annual compensation.

The short-term incentive payable to executives is determined by the Board having regard to the performance of the Group and the executive for the relevant year based on qualitative and/or quantitative factors including total shareholder return, return on average equity, return on investment and other business objectives. These factors were chosen as they focused on business performance, shareholder wealth and sustainable growth.

The cost of these incentives is deducted from the financial results before determining the performance rewards.

On an annual basis after completion of the audit of the Group's financial statements the short-term incentives payable are approved by the Board.

### Equity-based Compensation - Long Term Incentive

Employee incentive plan shares have been issued under the Supply Network Limited Employee Incentive Plan ("EIP") which was approved at the 2018 AGM.

A plan share is a right to receive one ordinary share in the Company at a point in the future subject to meeting specified service and performance and/or other conditions (collectively called 'vesting conditions'). If the applicable conditions are met, the plan shares will vest and may be exercised by the holder of the plan share in return for an ordinary share in the Company. Plan shares do not vest unless the vesting conditions are met.

The Remuneration Committee has set service and performance vesting conditions as part of the remuneration packages in accordance with the Group's long-term incentive scheme. The conditions have been set in advance, taking into account expected profit growth.

### Plan Shares

Executive plan shares, approved by shareholders and issued to executives, are valued using the volume weighted average market price of the ordinary shares of the Company on the ASX for the five trading day period ending at market close on 30 August in the following financial year. Other senior manager plan shares are valued using the volume weighted average market price of the ordinary shares of the Company on the ASX for the five-trading day period ending at market close at grant date.

At the date of this report, the unissued ordinary shares of Supply Network Limited under plan shares are as follows:

For the year ended 30 June 2020	Balance as at 30/6/2019 No.	Granted as remuneration No.	Vesting of plan shares No.	Expiring plan shares No.	Balance as at 30/06/2020 No.
G D H Stewart – Managing Director	21,748	-	-	-	21,748
Other senior managers	29,770	-	-	-	29,770
<b>Total</b>	<b>51,518</b>	-	-	-	<b>51,518</b>

Share based payment expenses for the financial years	2020 \$	2019 \$	Fair Value
21,748 plan shares issued at fair value of \$4.276 to G D H Stewart, 20/11/2018 vesting 01/09/2020	53,143	31,000	93,000
29,770 plan shares issued at fair value of \$3.603 to Senior Managers, 24/04/2019 vesting 01/09/2020	80,451	13,409	107,269
<b>Total expense arising from EIP share based payments</b>	<b>133,594</b>	<b>44,409</b>	<b>200,269</b>

No other plan shares have been granted or vested or have expired in the previous financial year. There have been no plan shares issued since the reporting date. The plan shares will be granted for nil cash consideration, accordingly no funds will be raised on issue. In the case of an executive director, no plan shares may be issued to the director without express shareholder approval of the number and terms of the plan shares. Any plan shares which do not vest by 1 September 2020 will lapse. For further information on share based payments refer to Note 18 to the financial statements.

#### Relationship between Remuneration Policies and SNL Performance

The tables below set out summary information about SNL earnings and movements in shareholder wealth for the five years to 30 June 2020. The Board is of the opinion that these results can be attributed, in part, to the remuneration policies and is satisfied with the overall trend in shareholder wealth over the past five years.

	2020	2019	2018	2017	2016
<b>Total Revenue \$</b>	136.8m	123.9m	112.1m	97.6m	87.2m
<b>Net Profit after tax \$</b>	9.5m	8.7m	8.2m	6.8m	4.8m
<b>Share price year-end</b>	\$4.18	\$3.53	\$4.24	\$2.52	\$2.10
<b>Dividends paid cents per share</b>	15.0	14.0	11.0	9.5	9.0

#### Employment contracts

All SNL executives are employed under contracts with the following common terms and conditions:

- No fixed terms.
- Either party may terminate the contract by giving 6 months notice in writing.
- The company may terminate the contract at any time without notice for Causes as defined.
- Termination benefits of 6 months remuneration are payable, in addition to 6 months notice, where the company terminates the contract for other than Causes as defined.

Individual contracts for key management personnel include:

- G D H Stewart – fixed compensation package of \$465,000 from 1 July 2019 plus a short-term incentive of up to 40% of the package and plan shares as noted above.

#### Key Management Personnel

Details of key management personnel are as follows:

##### Directors

G J Forsyth	Chairman (non-executive)
P W McKenzie	Director (non-executive)
G D H Stewart	Managing Director (executive)
P W Gill	Director (non-executive)

# DIRECTORS' REPORT

## CONTINUED

**Table 1: Compensation of Key Management Personnel for the year ended 30 June 2020**

	Short Term			Long Term Benefits	Post Employment		Equity	Total	Total Performance Related
	Salary, Fees & Leave	Bonus Payable	Non Monetary	Other	Super-annuation	Retirement Benefits	Options & Share Rights		
	\$	\$	\$	\$	\$	\$	\$	\$	%
<b>Directors</b>									
G J Forsyth	104,498	-	-	-	9,927	-	-	114,425	-
P W McKenzie	66,877	-	-	-	6,353	-	-	73,230	-
G D H Stewart	453,503	186,000	-	7,798	25,000	-	53,143	725,444	33.0
P W Gill	77,836	-	-	-	7,394	-	-	85,230	-
Total	702,714	186,000	-	7,798	48,674	-	53,143	998,329	24.0
<b>Total</b>		888,714		7,798	48,674		53,143	998,329	24.0

**Table 2: Compensation of Key Management Personnel for the year ended 30 June 2019**

	Short Term			Long Term Benefits	Post Employment		Equity	Total	Total Performance Related
	Salary, Fees & Leave	Bonus Payable	Non Monetary	Other	Super-annuation	Retirement Benefits	Options & Share Rights		
	\$	\$	\$	\$	\$	\$	\$	\$	%
<b>Directors</b>									
G J Forsyth	104,498	-	-	-	9,927	-	-	114,425	-
P W McKenzie	66,877	-	-	-	6,353	-	-	73,230	-
G D H Stewart	434,635	139,500	-	7,780	25,000	-	31,000	637,915	26.7
P W Gill	136,191	-	-	1,572	23,476	-	-	168,239	-
Total	742,201	139,500	7,000	9,352	64,756	-	31,000	993,809	17.2
<b>Total</b>		888,701		9,352	64,756		31,000	993,809	17.2

### Rounding

The amounts contained in the directors' 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 Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The company is an entity to which the Instrument applies.

### Auditors' Independence Declaration

A copy of the Auditors' Independence declaration for the year ended 30 June 2020 is set out on page 15.

### Non-Audit Services

There were no non-audit services provided during the year to the Group by HLB Mann Judd or any related practices or related audit firms.



Signed in accordance with a resolution of directors.

G J Forsyth  
Director  
Sydney, NSW  
28 August 2020





## Auditor's Independence Declaration to Supply Network Limited

As lead auditor for the audit of the consolidated financial report of Supply Network Limited for the year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) any applicable code of professional conduct in relation to the audit.

This declaration is in relation to Supply Network Limited and the entities it controlled during the year.

Sydney, NSW  
28 August 2020

S Grivas  
Partner

[hlb.com.au](http://hlb.com.au)

**HLB Mann Judd (NSW Partnership) ABN 34 482 821 289**

Level 19, 207 Kent Street Sydney NSW 2000 Australia

**T:** +61 (0)2 9020 4000 **F:** +61 (0)2 9020 4190 **E:** [mailbox@hlbnsw.com.au](mailto:mailbox@hlbnsw.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.

HLB Mann Judd (NSW Partnership) is a member of HLB International, the global advisory and accounting network.

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2020

	Note	Consolidated	
		2020 \$000	2019 \$000
<b>Revenue from contracts with customers</b>	3	<b>136,827</b>	123,882
Finance revenue	3	2	6
Other income		7	10
Changes in inventories of finished goods		(79,678)	(72,501)
Employee benefits expense		(26,080)	(23,161)
Depreciation and amortisation		(5,682)	(1,342)
Other expenses	3	(10,089)	(14,120)
Finance costs	3	(1,695)	(450)
<b>Profit before income tax</b>		<b>13,612</b>	12,324
Income tax expense	4	(4,064)	(3,634)
<b>Profit after income tax</b>		<b>9,548</b>	8,690
<b>Profit attributable to members of the parent</b>		<b>9,548</b>	8,690
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Adjustment on translation of foreign controlled entity net of tax	18	(282)	436
<b>Total other comprehensive income/(loss) after income tax</b>		<b>(282)</b>	436
<b>Total comprehensive income for the year attributable to members of the parent</b>		<b>9,266</b>	9,126
Basic earnings per share (cents per share)	20	<b>23.42</b>	21.32
Diluted earnings per share (cents per share)	20	<b>23.41</b>	21.31
Dividends per share (cents per share)	19	<b>15.00</b>	14.00

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

# BALANCE SHEET

AT 30 JUNE 2020

		Consolidated	
		2020	2019
		\$'000	\$'000
	Note		
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	1,635	1,612
Trade and other receivables	6	14,892	13,780
Inventories	7	47,269	42,832
Other current assets	8	144	168
<b>Total current assets</b>		<b>63,940</b>	<b>58,392</b>
<b>Non-current assets</b>			
Property, plant and equipment	9	8,888	8,786
Right of use assets	10	31,154	-
Deferred tax assets	4	2,599	2,533
<b>Total non-current assets</b>		<b>42,641</b>	<b>11,319</b>
<b>TOTAL ASSETS</b>		<b>106,581</b>	<b>69,711</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	11	19,549	19,644
Interest bearing loans and borrowings	12	1,438	1,541
Income tax payable	14	777	196
Provisions	15	936	925
Lease liabilities	13	3,599	-
Derivatives	16	3	14
<b>Total current liabilities</b>		<b>26,302</b>	<b>22,320</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	12	8,152	7,859
Provisions	15	349	1,273
Lease liabilities	13	29,453	-
<b>Total non-current liabilities</b>		<b>37,954</b>	<b>9,132</b>
<b>TOTAL LIABILITIES</b>		<b>64,256</b>	<b>31,452</b>
<b>NET ASSETS</b>		<b>42,325</b>	<b>38,259</b>
<b>EQUITY</b>			
Contributed equity	17	21,075	21,075
Reserves	18	762	910
Retained earnings		20,488	16,274
<b>TOTAL EQUITY</b>		<b>42,325</b>	<b>38,259</b>

The above balance sheet should be read in conjunction with the accompanying notes.

# STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 30 JUNE 2020

		Contributed Equity	Share based payment Reserve	Exchange Translation Reserve	Retained Earnings	Total
	Note	\$000	\$000	\$000	\$000	\$000
<b>Consolidated</b>						
<b>Balance at 30 June 2018</b>		21,075	-	430	13,291	34,796
Total comprehensive income for the year		-	-	436	8,690	9,126
<b>Transactions with owners in their capacity as owners</b>						
Share based payments	18	-	44	-	-	44
Dividends provided for or paid	19	-	-	-	(5,707)	(5,707)
<b>Balance at 30 June 2019</b>		<b>21,075</b>	<b>44</b>	<b>866</b>	<b>16,274</b>	<b>38,259</b>
Adjustment for change in accounting policy	2(y)	-	-	-	780	780
Total comprehensive income/(loss) for the year		-	-	(282)	9,548	9,266
<b>Transactions with owners in their capacity as owners</b>						
Share based payments	18	-	134	-	-	134
Dividends provided for or paid	19	-	-	-	(6,114)	(6,114)
<b>Balance at 30 June 2020</b>		<b>21,075</b>	<b>178</b>	<b>584</b>	<b>20,488</b>	<b>42,325</b>

The above statement of changes in equity should be read in conjunction with the accompanying notes.



# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2020

		Consolidated	
		2020	2019
		\$000	\$000
		Inflows/(Outflows)	
	Note		
<b>Cash flows from operating activities</b>			
Receipts from customers		150,301	136,961
Payments to suppliers and employees		(133,492)	(129,671)
Interest received		2	6
Interest paid		(458)	(343)
Interest paid lease liabilities		(1,237)	-
Income tax paid		(3,884)	(4,554)
Net cash flows from operating activities	24(a)	<u>11,232</u>	<u>2,399</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(1,965)	(2,835)
Proceeds from sale of property, plant and equipment		8	1
Net cash flows used in investing activities		<u>(1,957)</u>	<u>(2,834)</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		1,000	4,873
Repayment of borrowings		(412)	(306)
Repayment of lease liabilities		(3,386)	-
Dividends paid		(6,114)	(5,707)
Net cash flows used in financing activities		<u>(8,912)</u>	<u>(1,140)</u>
Net increase (decrease) in cash and cash equivalents		363	(1,575)
Cash and cash equivalents at beginning of year		241	1,773
Exchange rate adjustment to balances held in foreign currencies		(2)	43
<b>Cash and cash equivalents at end of year</b>	5	<u>602</u>	<u>241</u>

The above statement of cash flows should be read in conjunction with the accompanying notes.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020

### 1. Corporate information

The consolidated financial statements of Supply Network Limited (the company) for the year ended 30 June 2020 were authorised for issue in accordance with a resolution of the directors on 28 August 2020.

Supply Network Limited is a company limited by shares, incorporated and domiciled in Australia, and whose shares are publicly traded on the Australian Securities Exchange.

The nature of the operations and principal activities of the Group are described in the Directors' report.

### 2. Summary of significant accounting policies

#### (a) Basis of accounting

These general purpose financial statements have been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standards. These financial statements have also been prepared on a historical cost basis, except for selected financial assets and liabilities, which have been measured at fair value. The Group is a for profit entity for financial reporting purposes under Australian Accounting Standards.

The financial statements are presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated, under the option available to the company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The company is an entity to which the Instrument applies.

#### (b) Statement of compliance

The consolidated financial statements of Supply Network Limited also comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

#### (c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Supply Network Limited and the subsidiaries it controlled at the end of or during the financial year ("the Group").

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all inter-company balances and transactions, income and expenses and profits and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

#### (d) Significant accounting judgements, estimates and assumptions

##### (i) Significant accounting judgements

In the process of applying the Group's accounting policies, management has not made any significant judgements, apart from those involving estimates.

##### (ii) Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

#### *Impairment of assets*

The Group determines whether the carrying value of assets is impaired at least on an annual basis, where indicators exist. This requires an estimation of the recoverable amount of the cash generating units to which the assets are allocated.

#### *Obsolete inventory provision*

Provision is made for anticipated obsolete and redundant inventories. This requires an estimation to be made based on expected sales volumes and current inventory levels.

#### *Long service leave provision*

The liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at balance date. In determining the present value of the liability, attrition rates and pay increases through inflation have been taken into account.

#### *Make good provision*

Provision is made for the anticipated costs of future restoration of leased premises. The provision includes future cost estimates to restore the premises to their original condition at the end of the lease terms. The future cost estimates are discounted to their present value.

#### (e) Foreign currency transactions

Both the functional and presentation currency of Supply Network Limited and its Australian subsidiaries are Australian dollars (\$). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance date. These differences are included in other comprehensive income.

#### *Foreign Subsidiary Company*

The functional currency of the foreign operation, Multispare N.Z. Limited, is New Zealand dollars (NZ\$).

As at the reporting date the assets and liabilities of the foreign subsidiary are translated into the presentation currency of Supply Network Limited at the exchange rate ruling at the balance sheet date and its profit or loss is translated at the weighted average exchange rate for the year.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the initial transaction.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The exchange differences arising on the translation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

#### (f) Cash and cash equivalents

Cash and cash equivalents in the Balance Sheet comprises cash at bank, on deposit and in hand with a maturity of three months or less.

For the purpose of the Statement of Cash Flows, cash and cash equivalents consists of cash and cash equivalents as defined above, net of outstanding bank overdrafts and bank trade facilities.

### **(g) Trade and other receivables**

Trade and other receivables, which generally have 30 day terms, are recognised and carried at original invoice amount less any allowance for expected credit losses.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade and other receivables have been grouped based on days overdue. Trade and other receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets.

### **(h) Inventories**

Inventories including finished goods and stocks in transit are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition is accounted for as follows:

Finished Goods – weighted average cost into store.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

Obsolete and redundant inventories are provided for as appropriate.

### **(i) Property, plant and equipment**

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on a straight line basis over the estimated useful life of the asset as follows:

Plant and equipment	3-15 years
---------------------	------------

The assets' residual values, useful lives and amortisation methods are reviewed and if appropriate revised at each financial year-end.

An item of plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset was derecognised.

### **(j) Right of use assets**

A right of use asset is recognised at the commencement date of a lease. The right of use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred and an estimate of costs expected to be incurred for dismantling and removing the underlying asset and restoring the site or asset.

Right of use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Right of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

### **(k) Derivative financial instruments**

The Group uses derivative financial instruments such as foreign currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are stated at market value. None of the forward exchange contracts qualify for hedge accounting and all gains or losses arising from

changes in the fair value are charged directly in profit or loss.

The fair value of forward exchange contracts is calculated by reference to current exchange rates for contracts with similar maturity profiles.

### **(l) Trade and other payables**

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured, non-interest bearing and are usually paid within 30-60 days of recognition.

### **(m) Lease liabilities**

A lease liability is recognised at the commencement date of the lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate and any anticipated termination penalties.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future leased payments arising from a change in an index or a rate used; lease term; certainty of termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right of use asset, or to profit or loss if the carrying amount of the right of use asset is fully written down.

### **(n) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is included in profit or loss net of any reimbursement.

Provisions are measured at present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised in finance costs.

### **(o) Employee leave benefits**

#### **(i) Wages, salaries and annual leave**

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

### 2. Summary of significant accounting policies (continued)

#### (ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on Australian corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

#### (p) Post-employment benefits

Contributions are made to employee superannuation funds and are charged against profit or loss when incurred (refer Note 23).

#### (q) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

#### (r) Interest bearing liabilities

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

#### (s) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment

loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### (t) Revenue recognition

The Company recognises revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

#### (i) Sale of goods

Revenue from the sales of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery.

#### (ii) Interest income

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

#### (iii) Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

#### (u) Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

#### (v) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at balance sheet date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary



differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted at the balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

The tax consolidated current tax expense and other deferred tax assets are required to be allocated to the members of the tax-consolidated group. The Group uses a group allocation method for this purpose where the allocated current tax payable, current tax loss, deferred tax assets and other tax credits for each member of the tax consolidated group is determined as if the company is a stand-alone taxpayer but modified as necessary to recognise membership of a tax consolidated group. Recognition of amounts allocated to members of the tax-consolidated group has regard to the tax consolidated group's future tax profits.

#### **(w) Other taxes**

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

- when 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, which 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 balance sheet.

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.

#### **(x) Earnings per share**

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- cost of servicing equity (other than dividends)
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

#### **(y) New, revised or amending Accounting standards and interpretations adopted**

The Group has applied all new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board that are mandatory for the current reporting period. The main new Accounting Standard and Interpretation that became effective during the current reporting period is as follows:

##### **AASB 16 Leases**

The Group has adopted AASB 16 from the 1 July 2019 which replaces AASB 117 'Leases' and for leases eliminates the classification of operating leases and finance leases.

Except for short-term leases and leases of low-value assets, right of use assets and corresponding liabilities are recognised in the balance sheet. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right of use assets and an interest expense on the recognised lease liabilities. In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities.

On adoption, lease liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at 1 July 2019. The weighted average incremental borrowing rate that applied to the lease liabilities on 1 July 2019 was 3.43%.

Right of use assets were measured at their carrying amounts as if the standard had been applied since commencement date of each lease, but discounted using the incremental borrowing rate that applied on 1 July 2019.

##### **Impact of adoption**

The new accounting policies are disclosed in note 2(j) and note 2(m). AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated. The impact of adoption on opening retained profits as at 1 July 2019 was as follows:

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

### 2. Summary of significant accounting policies (continued)

	1 July 2019
	\$000
<b>Impact of adoption AASB 16 (continued)</b>	
Operating lease commitments as at 1 July 2019	27,826
Operating lease commitments discount based on the weighted average incremental borrowing rate of 3.43% (AASB 16)	(6,586)
Additional property lease options taken up	15,090
Accumulated depreciation as at 1 July 2019 (AASB 16)	(3,891)
Right of use assets (AASB 16)	<u>32,439</u>
Lease liabilities – current (AASB 16)	(3,197)
Lease liabilities – non-current (AASB 16)	(30,159)
Other adjustments as part of AASB 16	2,036
Tax effect on the above adjustments	(339)
Increase in opening retained profits as at 1 July 2019	<u>780</u>

When adopting AASB 16 from 1 July 2019, the Group has applied the following practical expedients:

- applying a single discount rate to the portfolio of leases with reasonably similar characteristics;
- excluding any initial direct costs from the measurement of right of use assets;
- using hindsight in determining the lease term when the contract contains options to extend or terminate the lease; and
- not apply AASB 16 to contracts that were not previously identified as containing a lease.

#### (z) New Accounting standards and interpretations not yet adopted

There are no new standards that have been issued that are not yet effective and that are expected to have a material impact on financial reports of the Group in the current or future reporting periods.

	Consolidated	
	2020	2019
	\$000	\$000
<b>3. Revenues and expenses</b>		
<b>(a) Revenue from contracts with customers</b>		
Sale of goods	<u>136,827</u>	<u>123,882</u>

The Group derives its revenue from contracts with customers for the transfer of goods at a point for all its revenue lines.

AASB 15 requires an entity to disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group has assessed that the disaggregation of revenue by operating segments is appropriate in meeting this disclosure requirement as this is the information regularly reviewed by the chief operating decision maker in order to evaluate the financial performance of the entity.

	Consolidated	
	2020	2019
	\$000	\$000
<b>(b) Finance revenue</b>		
Bank interest	<u>2</u>	<u>6</u>
<b>(c) Other expenses</b>		
Credit losses – trade receivables	(138)	(111)
Freight and cartage expenses	(1,597)	(1,572)
Operating lease expenses and outgoings	(899)	(5,272)
Other	(7,455)	(7,165)
	<u>(10,089)</u>	<u>(14,120)</u>
<b>(d) Finance costs</b>		
Bank loans and overdrafts	(436)	(336)
Interest expense on lease liabilities	(1,237)	-
Other finance costs	(22)	(114)
	<u>(1,695)</u>	<u>(450)</u>

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$000</b>	<b>\$000</b>
<b>4. Income tax</b>		
<b>(a) Income tax expense</b>		
The major components of income tax expense are:		
<b>Current income tax</b>		
Current income tax charge	<b>4,130</b>	3,701
<b>Deferred income tax</b>		
Relating to origination and reversal of temporary differences	<b>(66)</b>	(67)
Income tax expense	<b>4,064</b>	3,634
<b>(b) Reconciliation of prima facie tax payable to income tax expense</b>		
Profit before income tax	<b>13,612</b>	12,324
At the Group's income tax rate of 30% (2019: 30%)	<b>4,084</b>	3,697
Effect of different tax rates of subsidiary	<b>(55)</b>	(46)
Other amounts which are not deductible (assessable) for income tax purposes	<b>35</b>	(17)
Income tax expense	<b>4,064</b>	3,634
<b>(c) Deferred tax assets</b>		
Depreciation differences	<b>833</b>	388
Doubtful debts	<b>63</b>	68
Employee benefits	<b>870</b>	794
Stock obsolescence	<b>600</b>	541
Operating lease incentives	<b>-</b>	453
Other	<b>233</b>	289
	<b>2,599</b>	2,533

**(d) Tax consolidation**

Supply Network Limited and its wholly owned Australian entities elected to form a tax consolidated group from 1 July 2003. The accounting policy in relation to this legislation is set out in Note 2(v).

The members of the tax consolidated group have entered into a tax sharing agreement which, in the opinion of the directors, would limit the joint and several liabilities of the wholly-owned entities for future income taxes of the tax consolidated group in the case of a default by the head entity, Supply Network Limited. At balance date the possibility of default is remote.

For the current year the entities have decided to enter into a tax funding agreement under which the funding amounts are based on the amounts of current tax expense allocated to the subsidiary and recognised by it in accordance with the accounting policy. The funding amounts are recognised as an increase/decrease in the subsidiaries' inter-company accounts with the tax consolidated group head company. The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised in the current inter-company receivables or payables.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

	Consolidated	
	2020	2019
	\$000	\$000
<b>5. Cash and cash equivalents</b>		
Cash at bank, on deposit and in hand	1,635	1,612
Bank overdraft and trade facility – included in interest bearing loans and borrowings	(1,033)	(1,371)
	<b>602</b>	<b>241</b>

Cash at bank and on deposit earns interest at floating rates based on daily bank deposit rates. The carrying amounts of cash and cash equivalents represent fair value.

	Consolidated	
	2020	2019
	\$000	\$000
<b>6. Trade and other receivables</b>		
<b>Current</b>		
Trade receivables (i)	15,048	13,908
Allowance for expected credit loss	(211)	(229)
	<b>14,837</b>	<b>13,679</b>
Other receivables	55	101
	<b>14,892</b>	<b>13,780</b>
<b>Ageing of trade receivables not impaired</b>		
Not overdue	14,628	13,195
61-90 days past due	141	407
91 days and above past due	68	77
	<b>14,837</b>	<b>13,679</b>
<b>Ageing of trade receivables impaired</b>		
Not overdue	19	85
61-90 days past due	36	51
91 days and above past due	156	93
	<b>211</b>	<b>229</b>
<b>Total trade receivables</b>	<b>15,048</b>	<b>13,908</b>
<b>Movements in allowance for impairment loss</b>		
Opening balance	229	187
Additions during the year	19	75
Amounts written off during the year	(37)	(33)
Closing balance	<b>211</b>	<b>229</b>

(i) Trade receivables are non-interest bearing and generally on 30 day terms. As at 30 June 2020 trade receivables of \$209,200 (2019: \$484,100) were past due and not impaired. The Group has retention of title clause over goods sold until payment is received. Refer Note 12(ii) regarding security pledged.

(ii) Information regarding the effective interest rate and the credit risk of current receivables is disclosed in Note 28.



	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$000</b>	<b>\$000</b>
<b>7. Inventories</b>		
Finished goods at lower of cost and net realisable value	<b>40,159</b>	37,169
Stock in transit - finished goods at cost	<b>7,110</b>	5,663
Total inventories at lower of cost and net realisable value	<b>47,269</b>	42,832
<b>8. Other current assets</b>		
Prepayments and deposits	<b>144</b>	168
<b>9. Property, plant and equipment</b>		
<b>Land and buildings at cost</b>		
Opening balance	<b>3,168</b>	744
Additions	-	2,424
Closing balance	<b>3,168</b>	3,168
<b>Plant and equipment at cost</b>		
Opening balance	<b>13,138</b>	12,958
Additions	<b>1,965</b>	526
Make good transfer with adoption of AASB 16	<b>(720)</b>	-
Disposals	<b>(116)</b>	(490)
Exchange difference	<b>(127)</b>	144
Closing balance	<b>14,140</b>	13,138
<b>Accumulated depreciation</b>		
Opening balance	<b>7,520</b>	6,522
Additions	<b>1,310</b>	1,342
Make good transfer with adoption of AASB 16	<b>(269)</b>	-
Disposals	<b>(103)</b>	(398)
Exchange difference	<b>(38)</b>	54
Closing balance	<b>8,420</b>	7,520
Plant and equipment - net book value	<b>5,720</b>	5,618
<b>Total property, plant and equipment</b>	<b>8,888</b>	8,786
<b>10. Right of use assets</b>		
Land and buildings - right of use	<b>36,010</b>	-
Less: Accumulated depreciation	<b>(6,518)</b>	-
	<b>29,492</b>	-
Plant and equipment - right of use	<b>3,071</b>	-
Less: Accumulated depreciation	<b>(1,409)</b>	-
	<b>1,662</b>	-
<b>Total right of use assets</b>	<b>31,154</b>	-

Additions to the right of use assets during the year were \$3,012,000. AASB 16 was adopted using the modified retrospective approach and comparatives for right of use assets have not been provided. Refer to Note 2(y).

The Group leases land and buildings for its offices, warehouses and sales outlets under agreements of between five to fifteen years with options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated. The Group also leases plant and equipment under agreements of between three to four years. The Group leases office equipment under agreements of up to two years.

In relation to right of use assets, depreciation charged in the year for land and buildings was \$3.4m and for plant and equipment was \$1m.

Details on interest expense and cashflows relating to lease liabilities are disclosed in Note 13.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

	Consolidated	
	2020	2019
	\$000	\$000
<b>11. Trade and other payables</b>		
Trade payables and accruals	19,549	19,644
<b>12. Interest bearing loans and borrowings</b>		
<b>Current</b>		
Bank loans-instalments due within 12 months (i)	405	170
Bank trade facility (ii)	1,033	1,371
	<b>1,438</b>	<b>1,541</b>
<b>Non-current</b>		
Bank loans (i)	8,152	7,859
	<b>8,152</b>	<b>7,859</b>
Total interest bearing loans and borrowings	<b>9,590</b>	<b>9,400</b>

(i) Bank loans comprise:

Fixed rate interest only loans of \$5,175,000 (2019: \$4,205,000), with interest rates of 2.4% to 5.4% (2019: 3.5% to 5.4%) maturing August 2021, October 2021, January 2022, November 2023 and December 2023 (2019: October 2020, August 2021, January 2022 and December 2023).

Variable rate principal and interest loans of \$3,382,600 (2019: \$3,824,000), with interest rates of 1.64% to 2.60% (2019: 2.0% to 5.1%) maturing September 2020, October 2021, March 2022, May 2022 and November 2023 (2019: March 2020, September 2020, January 2021, March 2022, May 2022 and November 2023), repayable by quarterly instalments.

(ii) Bank loans, overdrafts and trade facility are secured by fixed and floating charges over the assets of Supply Network Limited and controlled entities. Bank overdrafts have no specific term and trade facilities have 60 day terms and both are subject to annual review. Interest rates on these facilities are variable and during the year the average interest rate was 3.1% (2019: 4.8%).

(iii) Bank loan agreements require certain financial ratios to be maintained

Australian loan agreement requires:

Consolidated borrowing base ratio as defined not to exceed 50% of eligible stock plus eligible debtors.

Consolidated debt to EBITDA does not exceed 2.5 to 1.

Consolidated EBITDA to interest expense ratio of not less than 2 to 1.

The Group complied with these ratios during the year.

	Consolidated	
	2020	2019
	\$000	\$000
<b>13. Lease liabilities</b>		
Lease liabilities – current	3,599	-
Lease liabilities – non-current	29,453	-
<b>Total lease liabilities</b>	<b>33,052</b>	<b>-</b>

AASB 16 was adopted using the modified retrospective approach and comparatives for lease liabilities have not been provided. Refer to Note 2(y). Interest expense recognised in the statement of profit or loss and other comprehensive income was \$1.2m and interest and principle payments made to lessors in respect to lease liabilities was \$4.6m for the year.

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$000</b>	<b>\$000</b>
<b>14. Income tax payable</b>		
Current year income tax payable	<b>777</b>	196

	<b>Consolidated</b>		
	<b>Long Service Leave</b>	<b>Lease make good</b>	<b>Total</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
At 1 July 2019	<b>1,219</b>	<b>979</b>	<b>2,198</b>
Arising during the year	<b>66</b>	<b>(979)</b>	<b>(913)</b>
At 30 June 2020	<b>1,285</b>	<b>-</b>	<b>1,285</b>
Current 2020	<b>936</b>	<b>-</b>	<b>936</b>
Non-current 2020	<b>349</b>	<b>-</b>	<b>349</b>
	<b>1,285</b>	<b>-</b>	<b>1,285</b>
Current 2019	925	-	925
Non-current 2019	294	979	1,273
	1,219	979	2,198

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$000</b>	<b>\$000</b>
<b>16. Derivatives</b>		
<b>Current liabilities</b>		
Net forward currency contracts	<b>3</b>	14

#### **Instrument used by the Group**

Derivative financial instruments are used by the Group in the normal course of business in order to hedge exposure to fluctuations in foreign exchange rates for certain inventory purchases undertaken in foreign currencies. The Group's policy is and has been throughout the period that no trading in financial instruments is undertaken (refer Note 28(b)).

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

	Consolidated			
	2020		2019	
	\$000		\$000	
<b>17. Contributed equity</b>				
<b>(a) Issued and paid up capital</b>				
40,761,484 ordinary shares fully paid (2019: 40,761,484)			<b>21,075</b>	21,075
<b>(b) Movements in Ordinary Shares on Issue</b>				
		<b>2020</b>		<b>2019</b>
	<b>Number of</b>	<b>\$000</b>	<b>Number of</b>	<b>\$000</b>
	<b>Shares</b>		<b>Shares</b>	
Balance at beginning and end of the year	<b>40,761,484</b>	<b>21,075</b>	40,761,484	21,075

### (c) 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	
	2020	2019
	\$000	\$000
<b>18. Reserves</b>		
<b>(a) Exchange translation reserve</b>		
The Exchange Translation Reserve is used to record exchange differences arising from the translation of the functional currency of the foreign subsidiary, New Zealand dollar, into the presentation currency of the consolidated financial statements, Australian dollar, (refer to Statement of Changes in Equity).	<b>584</b>	866
<b>(b) Share based payment reserve</b>		
Balance at the beginning of the financial year	<b>44</b>	-
Movement in the share based payments	<b>134</b>	44
<b>Balance at end of the financial year</b>	<b>178</b>	44
<b>Total reserves</b>	<b>762</b>	910

Share based payment reserve relate to the Supply Network Limited Employee Incentive plan ("EIP") which was approved by shareholders at the 2018 annual general meeting. The EIP is designed to provide long-term incentives for senior managers and above (including executive directors) to deliver long-term shareholder returns. Under the plan, participants are granted options which only vest if certain performance and services conditions are met (Refer to Remuneration report).



	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$000</b>	<b>\$000</b>
<b>19. Dividends paid and proposed on ordinary shares</b>		
<b>(a) Dividends declared and paid during the year</b>		
Final fully franked dividend for 2019 (8.50 cents per share) (2018: 8.00 cents)	<b>3,465</b>	3,261
Interim fully franked dividend for 2019 (6.50 cents per share) (2019: 6.00 cents)	<b>2,649</b>	2,446
<b>Total dividends paid</b>	<b>6,114</b>	5,707
<b>(b) Dividends proposed subsequent to 30 June and not recognised as a liability</b>		
Final fully franked dividend for 2020 (9.00 cents per share) (2019: 8.50 cents)	<b>3,669</b>	3,465
<b>(c) Franking credit balance</b>		
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% (2019: 30%)	<b>5,689</b>	5,061
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	<b>450</b>	55
	<b>6,139</b>	5,116
The amount of franking credits available for the future reporting periods:		
Impact of franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period	<b>(1,572)</b>	(1,485)
	<b>4,567</b>	3,631

The tax rate at which paid dividends have been franked is 30% (2019: 30%).

Dividends proposed will be franked at the rate of 30%.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

### 20. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$000</b>	<b>\$000</b>
Net profit attributable to ordinary equity holders of the parent	<b>9,548</b>	8,690
Weighted average number of ordinary shares for basic earnings per share	<b>40,761,484</b>	40,761,484
Basic earnings per share (cents per share)	<b>23.42</b>	21.32
Weighted average number of ordinary shares for diluted earnings per share	<b>40,783,232</b>	40,774,592
Diluted earnings per share (cents per share)	<b>23.41</b>	21.31

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<b>21. Auditor's compensation</b>		
Amounts received or due and receivable by HLB Mann Judd (NSW Partnership) or its associated entities for:		
An audit and review of a financial report of the consolidated group	<b>79,000</b>	73,300
Amounts received or due and receivable by HLB Mann Judd Limited Auckland for:		
An audit of the financial report of a subsidiary	<b>18,900</b>	18,750
	<b>97,900</b>	92,050

## 22. Key management personnel

### (a) Compensation of key management personnel

Details of key management personnel are as follows:

#### Directors

G J Forsyth	Chairman (non-executive)
P W McKenzie	Director (non-executive)
G D H Stewart	Managing Director (executive)
P W Gill	Director and Company Secretary (non-executive)

The remuneration paid or payable to key management personnel of the Group was as follows:

	Consolidated	
	2020	2019
	\$	\$
Short-term	888,714	888,701
Post-employment	48,674	64,756
Other long-term benefits	7,798	9,352
Equity	53,143	31,000
	<b>998,329</b>	<b>993,809</b>

### (b) Share issued on exercise of compensation options

There were no shares issued as compensation or on exercise of compensation options during the years ended 30 June 2020 and 30 June 2019.

### (c) Unissued shares

During the year ended 30 June 2020 there were 21,748 ordinary shares committed to be issued to G D H Stewart. The shares are expected to be issued in September 2020.

### (d) Option holding of key management personnel

There were no options held by key management personnel at 30 June 2020 or 30 June 2019.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

### 22. Key management personnel (continued)

#### (e) Shareholdings of key management personnel in ordinary shares of Supply Network Limited

	Balance 1 July 2019	Plan Shares Exercised	Net Change Other	Balance 30 June 2020
	No.	No.	No.	No.
<b>Directors</b>				
G J Forsyth	667,835	-	-	667,835
P W McKenzie	4,473,359	-	4,686	4,478,045
G D H Stewart	1,396,833	-	-	1,396,833
P W Gill	598,485	-	-	598,485
	<b>7,136,512</b>	-	<b>4,686</b>	<b>7,141,198</b>

	Balance 1 July 2018	Plan Shares Exercised	Net Change Other	Balance 30 June 2019
	No.	No.	No.	No.
<b>Directors</b>				
G J Forsyth	667,835	-	-	667,835
P W McKenzie	4,473,359	-	-	4,473,359
G D H Stewart	1,396,833	-	-	1,396,833
P W Gill	598,485	-	-	598,485
	<b>7,136,512</b>	-	-	<b>7,136,512</b>

### 23. Employee entitlements

#### Superannuation commitments

The Group makes contributions to superannuation funds on behalf of Australian and participating New Zealand employees. The funds are accumulation funds and provide benefits to employees on retirement, death or disability.

Australian operating companies have a legal obligation to contribute 9.5% of the employees' ordinary earnings to the funds, with employees contributing various percentages of their gross salary.

The New Zealand operating company has a legal obligation to contribute 3% of participating employees' total earnings to KiwiSaver, with employees contributing various percentages of their gross salary.



	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$000</b>	<b>\$000</b>
<b>24. Cash flow information</b>		
<b>(a) Reconciliation of net profit after tax to the net cash flows from operations</b>		
Profit after income tax	<b>9,548</b>	8,690
<b>Adjustments for non-cash income and expense items</b>		
Loss on disposal of plant and equipment	<b>6</b>	72
Depreciation of right of use assets	<b>4,372</b>	-
Depreciation of plant and equipment	<b>1,310</b>	1,342
Transfers to provisions:		
Inventory obsolescence	<b>237</b>	81
Employee entitlements	<b>67</b>	(56)
Expected credit loss	<b>(19)</b>	42
Lease make good	<b>(3)</b>	97
Net exchange differences	<b>(255)</b>	341
Increase (decrease) in provision for:		
Income tax payable	<b>581</b>	(829)
Deferred taxes	<b>(407)</b>	(77)
<b>Changes in assets and liabilities</b>		
(Increase) decrease in:		
Trade and other receivables	<b>(1,104)</b>	(857)
Inventories	<b>(4,674)</b>	(8,648)
Other assets	<b>25</b>	3
Increase in:		
Trade and other payables	<b>1,548</b>	2,198
<b>Net cash flow from operating activities</b>	<b>11,232</b>	2,399
<b>(b) Financing facilities available:</b>		
At reporting date the following facilities had been negotiated and were available:		
Total credit facilities	<b>13,926</b>	13,487
Facilities used at reporting date	<b>(9,591)</b>	(9,402)
Facilities unused at reporting date	<b>4,335</b>	4,085
The major facilities are summarised as follows:		
Bank overdrafts and trade facility	<b>5,369</b>	4,456
Facilities used	<b>(1,034)</b>	(1,371)
Facilities unused at reporting date	<b>4,335</b>	3,085
Bank loans	<b>8,557</b>	9,031
Facilities used	<b>(8,557)</b>	(8,031)
Facilities unused at reporting date	<b>-</b>	1,000

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

	2020	2019
	\$000	\$000
<b>25. Parent Entity Information</b>		
Current assets	10	342
Total assets	35,667	33,054
Current liabilities	494	81
Total liabilities	494	81
Shareholders equity:		
Issued capital	21,075	21,075
Retained earnings	13,920	11,898
	<b>34,995</b>	<b>32,973</b>
Profit for the year	8,137	8,104
Other comprehensive income	-	-
Total comprehensive income	<b>8,137</b>	<b>8,104</b>

### 26. Deed of Cross Guarantee

Supply Network Limited, Multispares Limited, Globac 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 98/1418 issued by the Australian Securities Commission (now called ASIC Corporations (Wholly-owned Companies) Instrument 2016/785), Multispares Limited, Globac Limited and Supply Network Services Limited are relieved from the requirement to prepare financial statements.

The Statement of Profit or Loss and Other Comprehensive Income and Balance Sheet of entities included in the class order "Closed Group" are set below.

	Closed Group	
	2020	2019
	\$000	\$000
<b>Statement of Profit or Loss and Other Comprehensive Income</b>		
Profit before income tax	10,891	11,277
Income tax expense	(3,294)	(2,970)
Profit after income tax	7,597	8,307
Net profit attributable to members of the parent	7,597	8,307
Other comprehensive income	-	-
Total comprehensive income	<b>7,597</b>	<b>8,307</b>
<b>Retained Earnings</b>		
Retained earnings at beginning of the year	11,946	9,346
Adoption of AASB 16	892	-
Profit after income tax	7,597	8,307
Dividends provided for or paid	(6,114)	(5,707)
Retained earnings at end of the year	<b>14,321</b>	<b>11,946</b>

	Closed Group	
	2020	2019
	\$000	\$000
<b>26. Deed of Cross Guarantee (continued)</b>		
<b>Balance Sheet</b>		
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	1,631	1,530
Trade and other receivables	11,839	10,968
Inventories	34,587	32,624
Other current assets	141	162
Intercompany	75	226
<b>Total current assets</b>	<b>48,273</b>	45,510
<b>Non-current assets</b>		
Other financial assets	6,031	6,031
Plant and equipment	5,035	4,621
Right of use assets	26,241	-
Deferred tax assets	2,040	2,072
<b>Total non-current assets</b>	<b>39,347</b>	12,724
<b>TOTAL ASSETS</b>	<b>87,620</b>	58,234
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	16,317	16,361
Interest bearing loans and borrowings	219	1,446
Income tax payable	450	55
Provisions	936	925
Lease liabilities	2,846	-
Derivatives	3	14
<b>Total current liabilities</b>	<b>20,771</b>	18,801
<b>Non-current liabilities</b>		
Interest bearing loans and borrowings	5,900	5,269
Provisions	349	1,143
Lease liabilities	25,026	-
<b>Total non-current liabilities</b>	<b>31,275</b>	6,412
<b>TOTAL LIABILITIES</b>	<b>52,046</b>	25,213
<b>NET ASSETS</b>	<b>35,574</b>	33,021
<b>EQUITY</b>		
Contributed equity	21,075	21,075
Reserves	178	-
Retained earnings	14,321	11,946
<b>TOTAL EQUITY</b>	<b>35,574</b>	33,021

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

### 27. Segment information

The Group operates predominantly in one business segment being the provision of aftermarket parts for the commercial vehicle market.

The Group's geographical segments are determined based on the location of the Group's assets.

Geographical segments	Australia		New Zealand		Eliminations		Consolidated	
	2020	2019	2020	2019	2020	2019	2020	2019
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Revenue</b>								
Sales to customers outside the Group	<b>111,407</b>	100,167	<b>25,420</b>	23,715	-	-	<b>136,827</b>	123,882
Other income from outside the Group	<b>5</b>	5	<b>4</b>	11	-	-	<b>9</b>	16
Inter-segment revenues	<b>1,645</b>	2,767	<b>5</b>	9	<b>(1,650)</b>	(2,776)	-	-
Total segment revenues	<b>113,057</b>	102,939	<b>25,429</b>	23,735	<b>(1,650)</b>	(2,776)	<b>136,836</b>	123,898
<b>Results</b>								
Segment results	<b>10,891</b>	11,277	<b>2,721</b>	2,285	-	(1,238)	<b>13,612</b>	12,324
Profit before income tax and finance costs							<b>15,305</b>	12,768
Finance revenue							<b>2</b>	6
Finance costs							<b>(1,695)</b>	(450)
Profit before income tax							<b>13,612</b>	12,324
Income tax expense							<b>(4,064)</b>	(3,634)
Profit after income tax expense							<b>9,548</b>	8,690
<b>Assets</b>								
Segment assets	<b>87,620</b>	58,234	<b>25,268</b>	17,863	<b>(6,307)</b>	(6,386)	<b>106,581</b>	69,711
<b>Liabilities</b>								
Segment liabilities	<b>52,046</b>	25,169	<b>12,459</b>	6,613	<b>(249)</b>	(330)	<b>64,256</b>	31,452
<b>Other segment information</b>								
Additions to property, plant and equipment, intangible assets and other non-current assets	<b>1,737</b>	756	<b>228</b>	2,194	-	-	<b>1,965</b>	2,950
Additions to right of use assets	<b>32,652</b>	-	<b>6,429</b>	-	-	-	<b>39,081</b>	-
Depreciation	<b>967</b>	994	<b>343</b>	348	-	-	<b>1,310</b>	1,342
Depreciation for right of use assets	<b>3,501</b>	-	<b>871</b>	-	-	-	<b>4,372</b>	-
Other non-cash expenses	<b>465</b>	(68)	<b>53</b>	161	-	-	<b>518</b>	93

Segment accounting policies are the same as the Group's policies described in Note 2.

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.



## 28. Key economic risks

### Financial risk management

The Group's principal financial instruments, other than derivatives, comprise cash, bank loans, bank overdrafts and bank trade facility. The main purpose of these financial instruments is to finance the Group's operations.

The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The Group also enters into derivative transactions, principally forward currency contracts, the purpose of which is to manage the currency risk arising from the Group's operations. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's operations are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group also has to manage its capital. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

#### (a) Interest rate risk

The Group is exposed to interest rate risk through financial assets and liabilities. The Group's main interest rate risk arises from long-term borrowings (refer Note 12).

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

Financial instruments - Contractual Maturities	Floating interest rate (i) \$000	Fixed interest rate maturing			Non- interest bearing \$000	Total \$000	Weighted average interest rate	
		1 year or less \$000	1 to 5 years \$000	Over 5 years \$000			Floating %	Fixed %
<b>Consolidated</b>								
<b>30 June 2020</b>								
<b>Financial assets</b>								
Cash	1,635	-	-	-	-	1,635	1.0	-
Trade receivables	-	-	-	-	15,048	15,048	-	-
Forward currency contracts	-	-	-	-	1,543	1,543	-	-
Other receivables	-	-	-	-	55	55	-	-
	<b>1,635</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,646</b>	<b>18,281</b>		
<b>Financial liabilities</b>								
Trade and other payables	-	-	-	-	19,549	19,549	-	-
Bank loans and overdrafts	4,415	-	5,175	-	-	9,590	1.8	4.1
Lease liability	-	3,599	13,283	16,170	-	33,052	-	3.6
Forward currency contracts	-	-	-	-	1,546	1,546	-	-
	<b>4,415</b>	<b>3,599</b>	<b>18,458</b>	<b>16,170</b>	<b>21,095</b>	<b>63,737</b>		
<b>Consolidated</b>								
<b>30 June 2019</b>								
<b>Financial assets</b>								
Cash	1,612	-	-	-	-	1,612	1.5	-
Trade receivables	-	-	-	-	13,908	13,908	-	-
Forward currency contracts	-	-	-	-	1,492	1,492	-	-
Other receivables	-	-	-	-	101	101	-	-
	<b>1,612</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15,501</b>	<b>17,113</b>		
<b>Financial liabilities</b>								
Trade and other payables	-	-	-	-	19,644	19,644	-	-
Bank loans and overdrafts	3,824	-	4,205	-	-	8,029	3.5	4.7
Bank trade facility	-	1,371	-	-	-	1,371	2.8	-
Forward currency contracts	-	-	-	-	1,506	1,506	-	-
	<b>3,824</b>	<b>1,371</b>	<b>4,205</b>	<b>-</b>	<b>21,150</b>	<b>30,550</b>		

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2020 (CONTINUED)

### 28. Key economic risks (continued)

#### (a) Interest rate risk (continued)

- (i) Floating interest rates are the most recently determined rate applicable to the instrument at balance date. Floating rate liabilities and non-interest bearing liabilities have contractual maturities of between 1-4 years.

The Group uses a mix of fixed and variable rate debt.

Fixed interest rate debts are used for long term funding. Amounts and maturity dates of long term funding for interest rate repricing vary depending on the interest rates offered at date of maturity. At balance date maturity dates range from 1-4 years.

Variable rate facilities such as bank overdrafts and trade facility are used for short term funding and are subject to annual renewal and market fluctuations in interest rates.

Surplus funds are invested with banks in short term call accounts and are subject to market fluctuations in interest rates.

Management have assessed the impact of any changes of effective interest rates and have determined there would be minimal effect on the Group's profit after income tax.

#### (b) Foreign exchange risk

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

The following table summarises the forward currency contracts outstanding at balance date.

Currency		Average exchange rate		Buy	Buy
		2020	2019	2020	2019
				\$000	\$000
Euro currency	3 months or less	0.61	0.61	853	888
US dollar	3 months or less	0.69	0.69	305	406
Japanese yen	3 months or less	73.74	74.56	388	172
GB pound	3 months or less	-	0.54	-	21
Swedish krona	3 months or less	-	6.47	-	19
<b>Total</b>				<b>1,546</b>	<b>1,506</b>

Net exposure at balance date refer Note 16.

Management have assessed the impact of a material movement in the Australian dollar exchange rate on trade payables and have determined that there would be minimal effect on the Group's profit after income tax.

The Group has an investment in a foreign subsidiary operation whose net assets are exposed to foreign currency translation risk. Currency exposure arising from this foreign operation is managed primarily through borrowings in that subsidiary's foreign currency.

#### (c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer fails to meet its contractual obligations and arises primarily from the financial assets of the Group, which comprises cash and cash equivalents and trade and other receivables.

The Group'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 balance sheet.

The Group 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.

An allowance for impairment loss is recognised when there is objective evidence that the Group will not be able to collect a trade receivable.

## 27. Key economic risks (continued)

### (d) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as and when they fall due. Liquidity is managed to ensure, as far as possible, that sufficient funds are available to meet liabilities when they fall due without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate banking facilities and borrowing facilities by continuously monitoring forecasts and actual cash flows and matching maturity profiles of financial assets and liabilities. See Note 24(b) for undrawn facilities the Group has available to further reduce liquidity risk.

### (e) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which comprises the borrowings detailed in Note 12, cash and cash equivalents (refer Note 5) and equity attributable to equity holders of the parent, comprising issued capital (refer Note 17), reserves (refer Note 18) and retained earnings.

The Board reviews the capital structure on a regular basis. As part of this review the cost of capital and the risks associated with each class of capital is considered. The Group balances its overall capital structure through the payment of dividends, operation of dividend reinvestment plan, new share issues, share buy-backs and additional borrowings.

	Consolidated	
	2020	2019
	\$000	\$000
<b>28. Related party transactions</b>		
(a) Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.		
Transactions with related parties:		
Key management personnel of the Group		
Sales to related parties	940	451
Amounts owed by related parties	468	39

(b) Mr P W McKenzie is a Director of a company to which the Group sells goods on normal commercial terms and conditions.

(c) The names of each person holding the position of Director of Supply Network Limited during the last two financial years were; G J Forsyth, P W McKenzie, G D H Stewart and P W Gill.

(d) Investments in controlled entities

	Country of Incorporation
Multispares N.Z. Limited	New Zealand
Multispares Limited	Australia
Globac Limited	Australia
Supply Network Services Limited	Australia

The controlled entities were 100% owned for the years ended 30 June 2020 and 30 June 2019.

# DIRECTORS' DECLARATION

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

1. In the directors' opinion:
  - (a) the financial statements and notes set out on pages 14 to 44 are in accordance with the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and
    - (ii) complying with Australian Accounting Standards and the 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.
  - (c) at the date of this declaration, there are reasonable grounds to believe that the members of the closed group identified in Note 26 will be able to meet any obligation or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 26.
2. The directors have been given the declarations by the chief executive officer and chief financial officer for the year ended 30 June 2020 required by section 295A of the *Corporations Act 2001*.
3. The notes to the financial statements include a statement of compliance with International Financial Reporting Standards.

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

On behalf of the Board



**G J Forsyth**  
Director  
Sydney, NSW  
28 August 2020

# INDEPENDENT AUDITOR'S REPORT



To the members of Supply Network Limited

## REPORT ON THE AUDIT OF THE FINANCIAL REPORT

### Opinion

We have audited the financial report of Supply Network Limited (“the Company”) and its controlled entities (collectively “the Group”), which comprises the consolidated balance sheet as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors’ declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group’s financial position as at 30 June 2020 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the Corporations Regulations 2001.

### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board’s *APES 110 Code of Ethics for Professional Accountants* (“the Code”) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor’s report.

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

[hib.com.au](http://hib.com.au)

**HLB Mann Judd (NSW Partnership) ABN 34 482 821 289**

Level 19, 207 Kent Street Sydney NSW 2000 Australia

T: +61 (0)2 9020 4000 F: +61 (0)2 9020 4190 E: [mailbox@hibnsw.com.au](mailto:mailbox@hibnsw.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.

HLB Mann Judd (NSW Partnership) is a member of HLB International, the global advisory and accounting network.



# INDEPENDENT AUDITOR'S REPORT

(CONTINUED)



## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the key audit matter
<p><b>Inventory Valuation and Existence</b></p> <p>The consolidated balance sheet of the Group as at 30 June 2020 shows inventories at \$47,269,000. This represents the lower of cost and net realisable value for inventories on hand at 30 June 2020.</p> <p>We have identified the Existence and Valuation of Inventories as a Key Audit Matter due to the size of this asset. Also, judgement is involved in management's estimation of the net realisable value of inventories, which is based on certain assumptions.</p>	<p><b>1. In relation to Existence, we:</b></p> <ul style="list-style-type: none"> <li>(a) Considered the Group inventory count procedures at or near the year-end. We attended the year-end stocktake at a number of locations where inventories are held and observed the count procedures and controls.</li> <li>(b) We further tested these controls by performing our own test counts.</li> <li>(c) We reviewed differences between inventory counted and inventories shown in the Group's inventory records.</li> <li>(d) We reviewed records of physical movement of inventories before and after the inventory counts to ensure that these items had been included in the correct accounting period.</li> </ul> <p><b>2. In relation to Valuation we:</b></p> <ul style="list-style-type: none"> <li>(a) Tested the recorded cost of a sample of items on hand at interim date to purchase invoices, including invoices for freight and other costs associated with bringing the items to their present location. We then performed analytical review of interim date valuations against 30 June stock report.</li> <li>(b) Evaluated management's process for identifying slow-moving inventories and tested the accuracy of reports used by management in making their estimates of net realisable value.</li> <li>(c) Considered the assumptions made by management and compared them with historical experience of the sale of inventories by the Group.</li> </ul> <p>We reviewed the accounting policies used by the Group for inventories, and the disclosures in the financial report.</p>

### **Information Other than the Financial Report and Auditor's Report Thereon**

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of the Directors for the Financial Report**

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### **Auditor's Responsibilities for the Audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

# INDEPENDENT AUDITOR'S REPORT

## (CONTINUED)

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### REPORT ON THE REMUNERATION REPORT

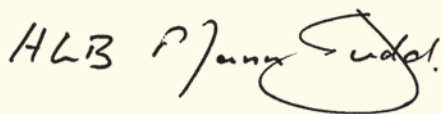
#### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 11 of the directors' report for the year ended 30 June 2020.

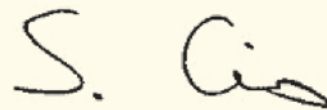
In our opinion, the Remuneration Report of Supply Network Limited for the year ended 30 June 2020 complies with section 300A of the *Corporations Act 2001*.

#### Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



**HLB MANN JUDD**  
Chartered Accountants



**S Grivas**  
Partner

Sydney, NSW  
28 August 2020

# ASX ADDITIONAL INFORMATION

## a) Shareholdings

The number of shareholders by size of their holdings as at 28 August 2020 are:

			Shareholdings
1	to	1,000	426
1,001	to	5,000	339
5,001	to	10,000	86
10,001	to	100,000	124
100,001	to	and over	32
Total shareholders			1,007

- (b) The number of shareholders who hold less than a marketable parcel is 36.
- (c) All ordinary shares carry one vote per share.
- (d) The address of the Principal Registered Office in Australia is 1 Turnbull Close Pemulwuy NSW 2145.
- (e) The share registry is at Computershare Investor Services Pty Ltd Level 3, 60 Carrington Street, Sydney NSW 2000.
- (f) The company's auditors are HLB Mann Judd (NSW Partnership) 207 Kent Street Sydney NSW 2000.
- (g) The company's securities are listed on the Australian Securities Exchange.
- (h) The name of the Company Secretary is P W Gill.
- (i) Twenty largest shareholders

At 28 August 2020 the twenty largest shareholders were:

Name	Ordinary Shares Held	% of issued Ordinary Shares
Hergfor Enterprises Pty Ltd	12,561,895	30.8%
PW & LJ McKenzie Super Fund	4,478,045	11.0%
Dixson Trust Pty Ltd	2,609,328	6.4%
Mrs J E Davies	1,900,000	4.7%
Mr D J Woodcock	1,810,000	4.4%
HSBC Custody Nominees	1,214,881	3.0%
J P Morgan Nominees	1,102,546	2.7%
Kailva Pty Ltd	1,040,000	2.6%
LJA Holdings Pty Ltd	1,038,330	2.5%
Boboco Pty Ltd	955,947	2.3%
Keiser Investments Pty Ltd	937,722	2.3%
Odalisque Pty Ltd	626,635	1.5%
D & RJ McKenzie	573,347	1.4%
Mr Masashi Nakayama	482,875	1.2%
Sherkane Pty Ltd	450,000	1.1%
Trilon Nominees Pty Ltd	433,957	1.1%
Gotterdamung Pty Ltd	382,438	0.9%
Lingard Super Fund	380,618	0.9%
Irrawang Holdings Pty Ltd	280,000	0.7%
Forest Coach Lines Retirement Fund Pty Ltd	280,000	0.7%
	<b>33,526,564</b>	<b>82.3%</b>

The company's register of substantial shareholders at 28 August 2020 is:

Hergfor Enterprises Pty Ltd	12,561,895	30.8%
PW & LJ McKenzie Super Fund	4,478,045	11.0%
Dixson Trust Pty Ltd	2,609,328	6.4%

# FIVE YEARS CONSOLIDATED FINANCIAL SUMMARY

	2020	2019	2018	2017	2016
	\$000	\$000	\$000	\$000	\$000
<b>Financial data:</b>					
Sales revenue	136,827	123,882	112,065	97,625	87,176
Total revenue	136,836	123,898	112,094	97,662	87,216
EBITDA	20,987	14,110	13,073	10,929	8,077
EBIT	15,305	12,768	11,982	9,853	7,131
Profit (loss) before tax	13,612	12,324	11,722	9,641	6,895
Profit (loss) after tax	9,548	8,690	8,176	6,772	4,843
Earnings per share (cents)	23.42	21.32	20.06	16.62	11.88
Dividends (cents per share)	15.00	14.00	11.00	9.50	9.00
Total assets	106,581	69,711	59,426	54,021	49,024
Total interest bearing debt (excluding lease liabilities)	9,591	9,400	4,053	3,474	3,594
Total equity	42,325	38,259	34,796	31,453	28,641
Cash flow from (used in) operating activities	11,232	2,399	6,058	5,527	3,730
Cash flow from (used in) investing activities	(1,957)	(2,834)	(2,945)	(615)	(2,936)
Cash flow from (used in) financing activities	(8,912)	(1,140)	(4,512)	(3,984)	(4,059)
Net movement in cash	363	(1,575)	(1,399)	928	(3,265)
<b>Financial ratios:</b>					
Inventory turnover (a)	2.1	2.0	2.3	2.1	2.1
Interest cover (b)	12.4	31.8	50.3	51.5	34.2
Gearing (c)	22.7%	24.6%	11.6%	11.0%	12.5%
Net tangible asset backing (cents per share)	103.8	93.9	85.4	77.2	70.3
Return on average total assets	10.8%	13.5%	14.4%	13.1%	10.1%
Return on average total equity	23.7%	23.8%	24.7%	22.5%	17.5%

(a) Inventory turnover (times) – cost of goods sold divided by average finished goods

(b) Interest cover (times) – EBITDA divided by interest

(c) Gearing – total interest bearing debt (excluding lease liabilities) as a % of total equity



# NETWORKING THE SUPPLY OF COMPONENTS TO THE ROAD TRANSPORT INDUSTRY

## MULTISPARES LOCATIONS

### AUSTRALIA

**Parts Hotline** 13 16 15

#### Mackay Branch

Unit 4/70 Connors Road  
Paget QLD 4740

#### Brisbane Branch

Unit 1/2642 Ipswich Road  
Darra QLD 4076

#### Eagle Farm Branch

Unit 4/860 Kingsford Smith Drive  
Eagle Farm QLD 4009

#### Toowoomba Branch

Tenancy 2/20 Carrington Road  
Toowoomba QLD 4076

#### Newcastle Branch

Unit 2/11 Kinta Drive  
Beresfield NSW 2322

#### Sydney Branch

1 Turnbull Close  
Pemulwuy NSW 2145

#### Smeaton Grange Branch

85 Hartley Road  
Smeaton Grange NSW 2567

#### Illawarra Branch

Unit B/38 Industrial Road  
Unanderra NSW 2526

#### Canberra Branch

Unit 1/68 Sheppard Street  
Hume ACT 2620

#### Melbourne Branch

Cnr Fairbairn & Somerville Roads  
Sunshine VIC 3020

#### Dandenong Branch

302 South Gippsland Highway  
Dandenong VIC 3175

#### Somerton Branch

Unit 1/802 Cooper Street  
Somerton VIC 3062

#### Adelaide Branch

193 Cormack Road  
Wingfield SA 5013

#### Perth Branch

Unit 10/511 Abernethy Road  
Kewdale WA 6105

#### Kwinana Branch

31 Beach Street  
Kwinana Beach WA 6167

#### Port Hedland

8 Manganese Street  
Wedgefield WA 6721

### NEW ZEALAND

**Parts Hotline** 0800 404 100

#### Auckland Branch

9 Vesty Drive  
Mount Wellington

#### Hamilton Branch

1388-1390 Arthur Porter Drive  
Te Rapa

#### Wellington Branch


48-56 Seaview Road  
Lower Hutt

#### Christchurch Branch

Unit 2/1 Edmonton Road  
Hornby

#### Dunedin Branch

Unit 3/14 Teviot Street  
Andersons Bay



# TRUCK & BUS PARTS

**SUPPLY NETWORK LIMITED**

1 Turnbull Close Pemulwuy NSW 2145

PO Box 3405 Wetherill Park NSW 2164

Telephone 02 8624 8077

[www.supplynetwork.com.au](http://www.supplynetwork.com.au)