



Supply Network Limited

ABN 12 003 135 680

ANNUAL REPORT 2006



**Networking
the supply of
components
to the road
transport
industry**

Supply Network Limited

ABN 12 003 135 680

Annual Report for the year ended 30 June 2006

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Corporate Information

Directors

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

Company Secretary

P W Gill

Registered Office

151 Fairfield Road
Guildford NSW 2161

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Facsimile 02 9892 2399
E-mail admin@supplynetwork.com.au

Internet Address

www.supplynetwork.com.au

Auditors

Ernst & Young

Bankers

ANZ Banking Group Limited

Solicitors

Bartier Perry
VPro Lawyers

Share Registry

Computershare Investor Services Pty Limited
Level 3, 60 Carrington Street
Sydney NSW 2000
Enquiries (within Australia) 1300 855 080
Enquiries (outside Australia) 61 3 9611 5711
Facsimile 61 2 8234 5050

Stock Exchange Listing

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

Board of directors



Greg Forsyth, Garry Lingard, Peter McKenzie and Geoff Stewart.

Chairman and Managing Director's Report

While our results have been satisfactory in a difficult market, we have not been able to achieve targets set for the business over the past year and this is disappointing. Given commitments to a number of long term investments we needed to maintain sales growth momentum over prior years in order to deliver forecast profits over the full year. As the year unfolded many of our customers were adversely affected by rising fuel costs and slower economic activity. This had a material impact on our sales revenue and subsequently on profit results.

Our managers and staff have redirected their efforts to maximise short-term growth opportunities in these challenging market conditions and this has been done without the need for any fundamental changes to our strategic plan. The long-term outlook remains positive for the road transport industry and the role for aftermarket replacement parts in this industry.

Review of Operations

Multispares Australia – European & Japanese Heavy Vehicle Parts

Sales revenue was flat compared with the prior year. Steady growth became erratic in the later part of the 2004-2005 financial year and sales remained below expectations throughout 2005-2006.

Stock levels had been established to support continued growth so changing market conditions were a good test of new stock management practices. Stock ordering responded to new inputs and stock reductions over the course of the year were a major contributor to positive cash flows.

Changing sales patterns over the past 12 months are being taken into consideration for future planning. In particular diesel engines are undergoing accelerated technology evolution as a result of regulatory requirements to reduce emissions. The newer engines have a different and generally lower replacement parts requirement and we will need to improve market share to maintain revenue. Other major product groups based around strong supplier relationships and in particular a number of exclusive brands have been growing at double-digit rates. These product groups will continue to drive growth well into the future.

Sales performances in the geographic territories supported by new Multispares outlets in Canberra and Dandenong have been pleasing. Further extensions of the Multispares branch network are being considered but management will be concentrating on improving overall performance of the existing network in the current year.

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

Sales revenue in New Zealand was down 5% compared with the prior year. Excluding the reduction in sales to one major customer, where our contract for the supply of replacement parts for their fleet of MAN trucks was in natural decline, revenue was flat compared with the prior year.

For a number of reasons sales revenue in New Zealand has remained relatively flat for three years and this is unacceptable. To put the business back on a growth path we are widening our product range, particularly around axle and suspension parts for heavy trailers. There have been positive early signs and trailer parts are forecast to contribute more than 10% of total revenue over the current year.

Globac – Heavy Vehicle Brake Friction, Foundation and Control

Globac sales revenue grew by 15% compared with the prior year. This was well below expectations and serious action was taken in January to provide new direction and leadership. Since that time a number of changes have been made to accelerate growth in the current year.

Of particular note are new distribution agreements with two high quality brake component manufacturers, Duroline and Wabco. These new agreements complement the existing range and give Globac the backbone for a broadly based heavy vehicle brake program.

Renewed sales efforts have been delivering improved results with a much stronger start to the current year.

Looking Forward

The outlook for the current year is challenging with management attention focused on delivering results from recent investments. We are forecasting Group sales revenue to grow by 5-10% this year and significant improvements to profitability over a 2-3 year period.

Strong cash flows from stock management initiatives over the last year have allowed us to increase dividend payout ratio and reduce the impact of the current downturn on shareholders. Our financial position is sound with debt levels at the lower end of Board guidelines. Future dividends will depend on both cash flow and profitability with no change to the Board's stated position of returning a long-term average 50-60% of after tax profits to shareholders as fully franked dividends.

Chairman and Managing Director's Report

(continued)

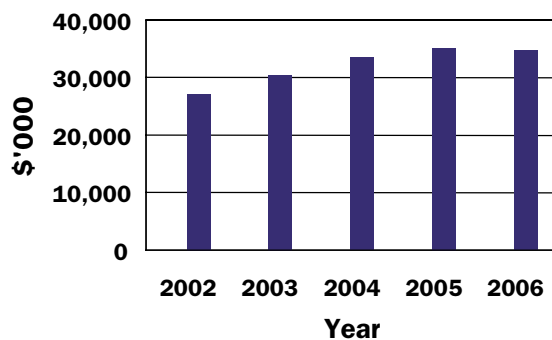
Following the recent departure of two long serving Directors we have appointed Mr Greg Forsyth and Mr Peter McKenzie to the Board. Greg and Peter bring valued skills and energy to Supply Network and are expected to make a significant contribution to the next phase of our development.

Arguably the road transport industry more than any other has born pressure from rising input costs over the last year. When market conditions are difficult the pressures on staff performance are greater and this has been the case over the past 12 months. The Board acknowledges and thanks staff for their efforts to improve results and to build new opportunities for future growth.

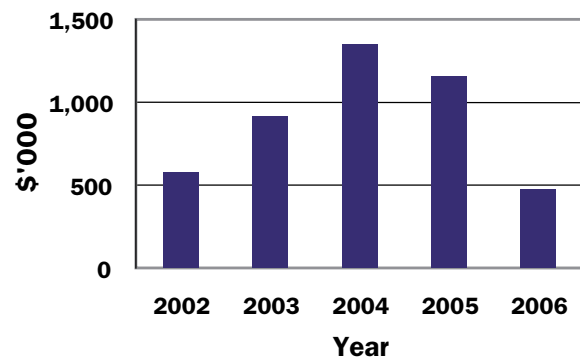
The changing dynamics and consolidation of both customers and suppliers in the transport industry are presenting many challenges and opportunities to your company. But with the recent investments and changes made within the organisation, the directors look forward with confidence to being able to produce improved results in the coming years.

Performance Highlights

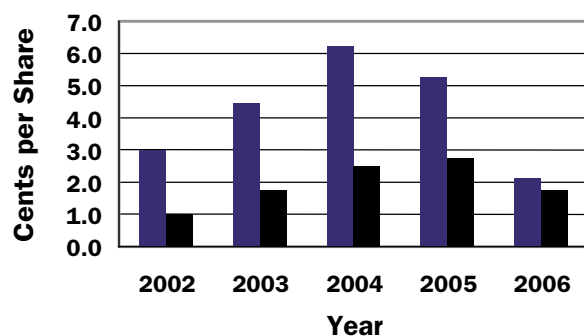
Revenue From Ordinary Activities



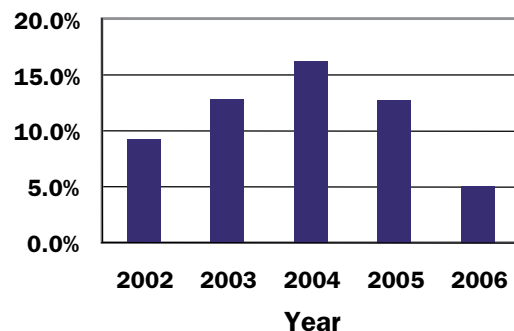
Net Profit After Tax



Earnings Per Share and Dividends Paid



Return on Average Total Equity



■ Earnings per share ■ Dividends

Directors' Report

The Directors of Supply Network Limited submit their report for the financial year ended 30 June 2006.

Directors

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

G T Lingard	(Chairman)
G D H Stewart	(Managing Director)
G J Forsyth	(Appointed 25 January 2006)
P W McKenzie	(Appointed 1 July 2006)
H R Forsyth	(Retired 25 January 2006)
H M O Anderson	(Resigned 24 November 2005)

Principal Activities

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

Results

The profit of the consolidated entity after providing for income tax for the financial year was \$473,000 (2005: \$1,155,000).

Earnings Per Share

Basic earnings per share for the financial year are 2.14 cents per share (2005: 5.25 cents).

Diluted earnings per share for the financial year are 2.14 cents per share (2005: 5.22 cents).

Dividends

Dividends paid or declared for payment are as follows:

Final dividend for 2005 of 1.50 cents per share paid 23 September 2005	\$332,000
Interim dividend of 0.75 cents per share paid 3 March 2006	\$166,000
Final dividend for 2006 of 1.00 cents per share declared 26 July 2006 and payable 22 September 2006	\$221,000

Review of Operations

The consolidated entity sales revenue declined by 1.1% when compared to last year.

The Australian operations recorded minor growth (0.5%) in sales revenue while sales in New Zealand declined by 4.9% when measured in NZ\$ terms, which excludes the impact of exchange fluctuations.

Profit after income tax of \$473,000 is well below (59.0%) the previous year.

During the year the group experienced difficult market conditions characterised by higher fuel prices, which resulted in a slow down in certain sectors of our traditional market. While ongoing cost controls have ensured overheads remain within expected levels, additional fixed operating costs from new Multispares outlets in Australia and additional warehousing capacity in both Australia and New Zealand have impacted on profitability.

Cash flows from operations have returned to a positive position this year and improved inventory management practices have contributed significantly to this position.

There were no additional borrowings during the year and gearing remains at similar levels to last year.

Further information on Review of Operations is detailed in the joint Chairman's and Managing Director's Report.

Significant Changes in the State of Affairs

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

Directors' Report (continued)

Significant Events after Balance Date

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

Likely Developments and Expected Results

The directors expect the consolidated entity's future operating results will continue to improve with sales growth of 5-10%. After a number of years of growth and long term investments the year 2006/07 will focus on maximising short term growth opportunities and consolidation of the established Multispares business. Further expansion of product model coverage and the branch network are ongoing considerations. The group will continue to investigate new specialist wholesale opportunities as a source of future growth.

Share Options

Unissued shares

As at the date of this report, there were nil unissued ordinary shares under options. Refer to Note 14 of the financial statements for further details of the options outstanding.

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

Shares issued as a result of the exercise of options

During the financial year, employees have exercised the option to acquire 12,500 fully paid ordinary shares in Supply Network Limited at an exercise price of 20 cents.

Information on Directors

Garry Thomas Lingard - Chairman

Appointed Chairman of the Board 15 December 2005, Non-executive Director since 1996, Chairman of the Remuneration Committee and a member of the Audit Committee. He has significant experience in managing and developing a diverse range of companies.

Geoffrey David Huston Stewart - Managing Director

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

Gregory James Forsyth

Appointed to the Board on 25 January 2006 as Non-executive Director, Chairman of the Audit Committee and a member of the Remuneration Committee. He is a Portfolio Manager with a funds management business specialising in Australian listed equities and has over 19 years experience in financial markets.

Peter William McKenzie

Appointed to the Board on 1 July 2006 as Non-executive Director. He holds a Masters Degree in Business Administration, has over 10 years experience in transport industry and operates a consultancy practice providing advice to clients primarily in the transport industry.

Harry Robert Forsyth (Retired 25 January 2006)

Chairman of the Board from 1986 to December 2005, Chief Executive until September 1993, member of the Audit and Remuneration Committees, and Chairman of those Committees until March 1998. Previously held senior executive positions with the British Leyland Group in Australia.

Hugh Munro Outram Anderson (Resigned 24 November 2005)

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

Directors' Report (continued)

Directors' Meetings

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

	Directors Meetings		Audit Committee		Remuneration Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
G T Lingard	12	12	4	4	3	3
G D H Stewart	12	12	-	-	-	-
G J Forsyth	6	6	2	2	2	2
P W McKenzie	-	-	-	-	-	-
H R Forsyth	6	6	2	2	1	1
H M O Anderson	5	5	2	2	-	-

As at the date of this report the company had an Audit Committee of the Board of Directors which met four times during the year, and a Remuneration Committee which met three times during the year.

Directors' Interests

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

- G T Lingard is deemed to have a relevant interest in shares held by GT Lingard Holdings Pty Ltd (207,842 shares).
- G D H Stewart holds 414,000 ordinary shares of the company and is deemed to have a relevant interest in shares held by D G Stewart (214,000 shares).
- G J Forsyth holds 20,000 ordinary shares of the company and is deemed to have a relevant interest in shares held by Odalisque Pty Ltd (300,000 shares).
- P W McKenzie is deemed to have a relevant interest in shares held by PW & LJ McKenzie Superannuation Fund (201,642 shares) and Proom Pty Ltd, a substantial shareholder (1,497,637 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 premium.

Company Secretary

P W Gill B.Bus, CA, ACIS

P W Gill has been the Company Secretary and Senior Finance Executive of Supply Network Limited for over 10 years. Mr Gill has been a Chartered Accountant for over 20 years.

Environmental Regulation and Performance

The consolidated entity'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 Supply Network Limited.

Directors' Report (continued)

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 the consolidated entity.

The broad remuneration policy is to ensure 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 assess the appropriateness of the amount of remuneration of directors and senior executives on an annual basis by reference to relevant employment market survey data.

Non-executive director compensation

The Board seeks to set aggregate compensation at a level which would enable the company to attract and retain suitably qualified directors at a cost which is acceptable to shareholders.

The present maximum aggregate sum for non-executive directors is \$200,000. This amount was approved by shareholders at the 2002 Annual General Meeting.

Non-executive Directors receive a fee for being a director of the company. 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.

Non-executive Directors, appointed prior to 30 June 2004, are entitled to a retiring allowance as approved by shareholders at the 1997 Annual General Meeting. The retiring allowance is a multiple (determined by length of service as a non-executive director) of the non-executive directors average last three years fees. The Directors have resolved to freeze the rate on which this entitlement is calculated at the level of compensation as at 30 June 2004. The retiring allowance multiples are as follows:

Length of Service	Retiring Allowance Multiple
Less than 3 years	nil
More than 3 years under 5 years	1.5
More than 5 years under 10 year	2.0
10 years and over	3.0

The Directors have also resolved to pay all non-executive directors, appointed after 30 June 2004, on a fee only basis with no retiring allowance being offered.

The compensation of non-executive directors for the period ending 30 June 2006 is detailed in Table 1 below.

Executive director and senior executives compensation

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

Compensation consists of the following two elements:

- fixed compensation and
- variable compensation - short term incentive

The Board has not used equity-based compensation for executives during the financial year and has no plans to introduce it at this stage.

Fixed Compensation

The level of fixed compensation is set to provide a level of 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 input from the Managing Director and relevant employment market survey 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 (including motor vehicles) and superannuation.

The fixed compensation component of the most highly remunerated executives is detailed in Table 1 below.

Directors' Report (continued)

Variable Compensation - Short Term Incentive

The objective of the short-term incentive is to link the company's performance and operational targets with the compensation of the executives. The operational target is set at a level, which provides sufficient incentive for senior managers to achieve the performance hurdle and at a reasonable cost to the company.

The short-term incentive payable to executives depends on the extent to which the company's performance exceeds a specific operating target, which is set at the beginning of the year. 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 company results the short-term incentives are approved by the Remuneration Committee and usually paid in September.

Employment contracts

All Supply Network Limited executives are employed under contracts with the following common terms and conditions:

- No fixed terms
- Contract may be terminated by 3 months notice in writing by either party
- In the event that the contract is terminated on the ground of redundancy the executive is entitled to 20 weeks severance payment in addition to required three months notice
- The company may terminate the contract at any time without notice for Causes as defined.

Key Management Personnel

Details of key management personnel are as follows:

Directors

G T Lingard	Chairman (non-executive)
G D H Stewart	Managing Director (executive)
G J Forsyth	Director (non-executive) – appointed 25 January 2006
P W McKenzie	Director (non-executive) – appointed 1 July 2006
H R Forsyth	Chairman (non-executive) – retired 25 January 2006
H M O Anderson	Director (non-executive) – resigned 24 November 2005

Executives

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

Compensation of Key Management Personnel

Table 1: Compensation of Key Management Personnel for the year ended 30 June 2006*

	Short Term		Post Employment			Share Based	Total	Total Performance Related %
	Salary & Fees	Bonus Payable	Non Monetary	Super-annuation	Retirement Benefits	Options Granted		
Directors								
G T Lingard	45,882	-	-	4,129	-	-	50,011	-
G D H Stewart	190,734	-	28,340	20,436	-	-	239,510	-
G J Forsyth	16,060	-	-	1,445	-	-	17,505	-
H R Forsyth	29,352	-	-	-	157,696	-	187,048	-
H M O Anderson	-	-	-	13,336	102,804	-	116,140	-
Executives								
B A McKenna	131,262	-	39,631	20,967	-	-	191,860	-
P W Gill	123,320	-	30,583	40,192	-	-	194,095	-
Total	536,610	-	98,554	100,505	260,500	-	996,169	-

Directors' Report (continued)

Table 2: Compensation of Key Management Personnel for the year ended 30 June 2005*

	Short Term		Post Employment			Share Based Payment	Total	Total Performance Related %
	Salary & Fees	Bonus Payable	Non Monetary	Super-annuation	Retirement Benefits	Options Granted		
Directors								
G T Lingard	36,696	-	-	3,304	-	-	40,000	-
G D H Stewart	187,526	21,804	25,952	16,877	-	-	252,159	8.65%
H R Forsyth	-	-	-	58,700	-	-	58,700	-
H M O Anderson	-	-	-	40,000	-	-	40,000	-
Executives								
B A McKenna	132,412	12,460	39,382	18,055	-	-	202,309	6.16%
P W Gill	120,788	7,787	30,583	35,193	-	-	194,351	4.01%
Total	477,422	42,051	95,917	172,129	-	-	787,519	5.34%

Table 3: Details of bonus provided*

	2006			2005		
	Potential bonus	Bonus payable	Bonus forfeited	Potential bonus	Bonus payable	Bonus forfeited
Directors						
G T Lingard	-	-	-	-	-	-
G D H Stewart	-	-	-	21,804	21,804	-
G J Forsyth	-	-	-	-	-	-
H R Forsyth	-	-	-	-	-	-
H M O Anderson	-	-	-	-	-	-
Executives						
B A McKenna	-	-	-	12,460	12,460	-
P W Gill	-	-	-	7,787	7,787	-
Total	-	-	-	42,051	42,051	-

All bonuses for the year ended 30 June 2005 were paid in September 2005.

Table 4: Compensation by Category*

	Consolidated	
	2006	2005
	\$	\$
Short term	635,164	615,390
Post employment	100,505	172,129
Terminations benefits	260,500	-
Share based payments	-	-
Other long term benefits	-	-
	996,169	787,519

* The disclosures marked with an asterisk have been included with the remuneration report and audited in accordance with the exemption under the Corporations Amendments Regulations 2006.

Directors' Report (continued)

Rounding

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

Auditors' Independence Declaration

A copy of the Auditors' Independence declaration for the year ended 30 June 2006 is set out below.

Non-Audit Services

The following non-audit services were provided by the entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of the non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

Tax compliance services	\$5,756
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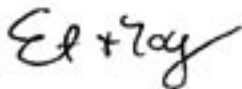
Signed in accordance with a resolution of directors.



G T Lingard
Director
Sydney
30 August 2006

Auditors' Independence Declaration

In relation to our audit of the financial report of Supply Network Limited for the financial year ended 30 June 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



Christopher D. George
Partner
Sydney
30 August 2006

Corporate Governance Statement

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

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

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

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

Principle 1 – Lay solid foundations for management and oversight

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

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

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

Principle 2 – Structure the Board to add value

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

The skills of the current Directors and their terms of office are detailed in our Annual report. Three of the four Directors are in non-executive roles.

The Directors are expected to bring independent views and judgements to the Board's decision-making.

The Board has reviewed the independence of each of the Directors in office at the date of this report in light of the interests disclosed by them. Two of the members of the Board, Mr G Lingard (Chairman) and Mr G Forsyth, are considered to be independent.

Mr G Lingard is a Director and shareholder of Carwill Pty Limited a company that lease premises on normal commercial terms to wholly owned and controlled entities. Carwill is not a material supplier to the Supply Network Limited (SNL) group and the SNL group is not a material customer of Mr Lingard's group of companies. The Board has determined that the relationship does not interfere with Mr Lingard's ability to exercise independent judgement in decision-making.

Mr G Forsyth is related to Mr H Forsyth, the previous Chairman of SNL and a Director of Hergfor Enterprises Pty Limited (Hergfor), a substantial shareholder in SNL. Mr G Forsyth is not an officer of Hergfor and has no direct or indirect interest in Hergfor. The Board has determined that the relationship does not have an adverse impact on Mr G Forsyth's ability to exercise independent judgement in decision-making.

Mr G Stewart, Managing Director, and Mr P McKenzie, a Director and shareholder of Proom Pty Limited, which is a substantial shareholder in SNL, are considered not to be independent.

The Board has approved the Chairman's job specification and in his role as Chairman, he has the support of the Board. The Chairman and Managing Director have regular contact but the Chairman does not interfere in the day-to-day management.

Corporate Governance Statement (continued)

With a small Board, there is no need for a formal Nomination Committee, but the Board spends considerable time on succession planning. When the Board seeks to fill vacancies it uses a skills matrix and aims to appoint people with complementary skills.

The Board acknowledges the ASX recommendation that a majority of Directors be independent and will consider this for any future appointments however the Board does not believe the addition of a fifth member is justified at this point in time.

Principle 3 - Promote ethical and responsible decision making

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

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

Principle 4 – Integrity in financial reporting

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

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

Principle 5 – Make timely and balanced disclosure

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

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

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

Principle 6 – Respect the rights of shareholders

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

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

Principle 7 – Recognise and manage risk

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

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

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

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

Corporate Governance Statement (continued)

Principle 8 – Encourage enhanced performance

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

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

Principle 9 – Remunerate fairly and responsibly

Board members are remunerated by reference to industry standards.

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

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

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

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

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

Please also refer to the Remuneration Report on page 7.

Principle 10 – Recognise the legitimate interest of stakeholders

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

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

Other Issues

Board meetings

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

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

Board committees

There are two permanent Board Committees, Audit and Remuneration. Each calls meetings on an as needs basis and asks non-committee members to attend on occasions.

Strategy

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

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

Human resources

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

Corporate Governance Statement (continued)

Insurances

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

Communications and community support

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

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

Finally

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

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

Income Statement

for the year ended 30 June 2006

	Note	Consolidated		Parent	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
Revenue	3	34,663	35,051	895	1,168
Finance revenue	3	13	4	4	2
Other income		10	15	-	-
Changes in inventories of finished goods		(21,225)	(21,219)	-	-
Employee benefits expenses		(6,468)	(6,324)	(94)	(148)
Depreciation and amortisation		(449)	(368)	-	-
Other expenses	3	(5,546)	(5,182)	(86)	(89)
Finance costs	3	(302)	(279)	-	-
Profit before income tax		696	1,698	719	933
Income tax expense	4	(223)	(543)	(28)	(2)
Profit after income tax		473	1,155	691	931
Profit for the period		473	1,155	691	931
Profit attributable to members of the parent		473	1,155	691	931
Basic earnings per share (cents per share)	18	2.14	5.25		
Diluted earnings per share (cents per share)	18	2.14	5.22		
Dividends per share (cents per share)	17	2.25	2.75		

Balance Sheet

at 30 June 2006

	Note	Consolidated		Parent	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
ASSETS					
Current assets					
Cash and cash equivalents	23	816	156	1	-
Trade and other receivables	5	4,590	5,108	7,461	7,580
Inventories	6	11,350	11,519	-	-
Other current assets	7	85	14	-	-
Derivatives	27	660	-	-	-
Total current assets		17,501	16,797	7,462	7,580
Non-current assets					
Other financial assets	8	-	-	1,398	1,398
Property, plant and equipment	9	1,447	1,562	-	-
Deferred tax assets	4	670	715	39	124
Total non-current assets		2,117	2,277	1,437	1,522
TOTAL ASSETS		19,618	19,074	8,899	9,102
LIABILITIES					
Current liabilities					
Trade and other payables	10	5,791	5,106	31	24
Interest bearing loans and borrowings	11	110	216	-	-
Income tax payable	12	-	77	-	123
Provisions	13	366	559	112	375
Derivatives	27	659	-	-	-
Total current liabilities		6,926	5,958	143	522
Non-current liabilities					
Interest bearing loans and borrowings	11	3,217	3,369	-	-
Provisions	13	313	351	-	20
Total non-current liabilities		3,530	3,720	-	20
TOTAL LIABILITIES		10,456	9,678	143	542
NET ASSETS		9,162	9,396	8,756	8,560
EQUITY					
Contributed equity	14	5,398	5,395	5,398	5,395
Reserves	15	(145)	67	-	-
Retained earnings	16	3,909	3,934	3,358	3,165
TOTAL EQUITY		9,162	9,396	8,756	8,560

Statement of Changes in Equity

for the year ended 30 June 2006

	Note	Consolidated		Parent	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
Total equity at the beginning of the financial period		9,396	8,751	8,560	8,142
Adjustments from translation of foreign controlled entities	15	(212)	3	-	-
Net income recognised in equity attributable to members of the company		9,184	8,754	8,560	8,142
Net profit for the financial period		473	1,155	691	931
Total recognised income and expense for the financial period		9,657	9,909	9,251	9,073
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity by members of the company	14	3	94	3	94
Dividends paid to members of the company	17	(498)	(607)	(498)	(607)
Total equity at the end of the financial period		9,162	9,396	8,756	8,560

Cash Flow Statement

for the year ended 30 June 2006

Note	Consolidated		Parent		
	2006 \$000	2005 \$000	2006 \$000	2005 \$000	
	Inflows / (Outflows)				
Cash flows from operating activities					
Receipts from customers	39,035	38,515	-	-	
Payments to suppliers and employees	(36,668)	(38,223)	8	(1)	
Interest received	9	4	4	2	
Interest paid	(305)	(256)	-	-	
Income tax paid	(360)	(689)	-	-	
Net cash flows from (used in) operating activities	23b	1,711	(649)	12	1
Cash flows from investing activities					
Purchase of property, plant and equipment	(341)	(515)	-	-	
Proceeds from sale of property, plant and equipment	1	-	-	-	
Advances to and by wholly owned related parties	-	-	484	511	
Net cash flows from (used in) investing activities	(340)	(515)	484	511	
Cash flows from financing activities					
Proceeds from borrowings	159	1,695	-	-	
Proceeds from issue of shares	3	94	3	95	
Repayment of borrowings	(268)	(292)	-	-	
Equity dividends paid	(498)	(607)	(498)	(607)	
Net cash flows from (used in) financing activities	(604)	890	(495)	(512)	
Net increase (decrease) in cash and cash equivalents	767	(274)	1	-	
Cash and cash equivalents at beginning of period	49	323	-	-	
Cash and cash equivalents at end of period	23a	816	49	1	-

Notes to the Financial Statements

for the year ended 30 June 2006

1. Corporate information

The financial report of Supply Network Limited (the company) for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the directors on 30 August 2006.

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

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

2. Statement of significant accounting policies

(a) Basis of accounting

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis, except for selected non-current assets, financial assets and liabilities, which have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged.

The financial report is 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 Class Order 98/100. The Company is an entity to which the class order applies.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Reporting Standards (IFRS).

This is the first financial report based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly except for the adoption of AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*. The Company has adopted the exemption under AASB1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* from having to apply AASB 132 and AASB 139 to the comparative period. Reconciliations of AIFRS equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AIFRS are detailed in note 29.

Except for the revised AASB 119 *Employee Benefits* (issued December 2005), Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2006:

Notes to the Financial Statements

for the year ended 30 June 2006

2. Statement of significant accounting policies (continued)

(b) Statement of compliance (continued)

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for Group
2004-3	AASB 1 <i>First-time adoption of AIFRS</i> , AASB 101 <i>Presentation of Financial Statements</i> , AASB 124 <i>Related Party Disclosures</i>	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005-1	AASB 139 <i>Financial Instruments: Recognition and Measurement</i>	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005-5	AASB 1 <i>First-time adoption of AIFRS</i> , AASB 139 <i>Financial Instruments: Recognition and Measurement</i>	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005-6	AASB 3 <i>Business Combinations</i>	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005-10	AASB 132 <i>Financial Instruments: Disclosure and Presentation</i> , AASB 101 <i>Presentation of Financial Statements</i> , AASB 114 <i>Segment Reporting</i> , AASB 117 <i>Leasing</i> , AASB 133 <i>Earnings per Share</i> , AASB 139 <i>Financial Instruments: Recognition and Measurement</i> , AASB 1 <i>First-time adoption of AIFRS</i> , AASB 4 <i>Insurance Contracts</i> , AASB 1023 <i>General Insurance Contracts</i> , and AASB 1038 <i>Life Insurance Contracts</i>	No change to accounting policy required. Therefore no impact	1 January 2007	1 July 2007
2006-1	AASB 121 <i>The Effects of Changes in Foreign Exchange Rates</i>	No change to accounting policy required. Therefore no impact	1 January 2007	1 July 2007

New Standard or revised Standard / UIG Affected Standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for Group
AASB 7 <i>Financial Instruments: Disclosures</i>	No change to accounting policy required. Therefore no impact	1 January 2007	1 July 2007
AASB 119 <i>Employee Benefits</i>	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006

* Application date is for the annual reporting periods beginning on or after the date shown in the table above

Notes to the Financial Statements

for the year ended 30 June 2006

2. Statement of significant accounting policies (continued)

(b) Statement of compliance (continued)

The following amendments are not applicable to the Group and therefore have no impact:

AASB Amendment	Affected Standard(s)
2005-2	AASB 1023 <i>General Insurance Contracts</i>
2005-4	AASB 139 <i>Financial Instruments: Recognition and Measurement</i> , AASB 132 <i>Financial Instruments: Disclosure and Presentation</i> , AASB 1 <i>First-time adoption of AIFRS</i> , AASB 1023 <i>General Insurance Contracts</i> , and AASB 1038 <i>Life Insurance Contracts</i>
2005-9	AASB 4 <i>Insurance Contracts</i> , AASB 1023 <i>General Insurance Contracts</i> , AASB 139 <i>Financial Instruments: Recognition and Measurement</i> , and AASB 132 <i>Financial Instruments: Disclosure and Presentation</i>
2005-12	AASB 1038 <i>Life Insurance Contracts</i> and AASB 1023 <i>General Insurance Contracts</i>
2005-13	AAS 25 <i>Financial Reporting by Superannuation Plans</i>
UIG	UIG 4 <i>Determining whether an Arrangement contains a Lease</i>
UIG	UIG 5 <i>Rights to Interests in Decommissioning, Restoration and Environmental Rehabilitation Funds</i>
UIG	UIG 6 <i>Liabilities Arising from Participating in a Specific Market – Waste electrical and Electrical Equipment</i>
UIG	UIG 7 <i>Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies</i>
UIG	UIG 8 <i>Scope of AASB 2</i>
UIG	UIG 9 <i>Reassessment of Embedded Derivatives</i>

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Supply Network Limited and its subsidiaries as at 30 June each 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 profit 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 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. This requires an estimation of the recoverable amount of the cash generating units to which the assets are allocated.

(e) Foreign currency transactions

Both the functional and presentation currency of Supply Network Limited and its Australian subsidiaries is 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.

Notes to the Financial Statements

for the year ended 30 June 2006

2. Statement of significant accounting policies (continued)

(e) Foreign currency transactions (continued)

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.

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

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

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

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

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 short-term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original 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.

(g) Trade and other receivables

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for trade and other receivables applicable for the years ended 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006

Trade receivables, which generally have 30 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written-off when identified.

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

Accounting policies applicable for the year ending 30 June 2005

Trade receivables were recognised and carried at original invoice amount less a provision for any uncollectible debts.

An estimate for doubtful debts was made when collection of the full amount was no longer probable. Bad debts were written off as incurred.

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

(h) Inventories

Inventories are valued at the lower of cost and net realisable value.

Cost incurred in bringing each product to its present location and condition are 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 of completion and the estimated costs necessary to make the sale.

Notes to the Financial Statements

for the year ended 30 June 2006

2. Statement of significant accounting policies (continued)

(h) Inventories (continued)

Obsolete and redundant inventories are provided for as appropriate.

(i) Investments

Investments in controlled entities are recorded in the parent entity's financial statements at cost.

(j) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of an arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit and loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

There were no finance leases during the year.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

(k) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

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

	2006	2005
Plant and equipment	2-10 years	2-10 years

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

(i) Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with the recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash inflows 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.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, the impairment losses are recognised in the income statement.

(ii) Derecognition and disposal

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 the income statement in the year the asset was derecognised.

(l) Derivative financial instruments

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

Notes to the Financial Statements

for the year ended 30 June 2006

2. Statement of significant accounting policies (continued)

(l) Derivative financial instruments (continued)

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies applicable for the years ended 30 June 2006 and 30 June 2005.

Accounting policy applicable for the year ending 30 June 2006

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 fair 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 to the income statement.

Accounting policy applicable for the year ended 30 June 2005

Under AGAAP, foreign currency monetary items that are outstanding at the reporting date are translated using the spot rate at the end of the financial year.

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

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

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

(m) Employee leave benefits

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick 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. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(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 using the projected unit credit method. 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 national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(n) Post employment benefits

Contributions are made to employee superannuation funds and are charged against profit when incurred (refer note 22).

(o) Contributed equity

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

(p) Trade and other payables

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for trade and other payables applicable for the years ended 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006

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.

Accounting policies applicable for the year ending 30 June 2005

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

Notes to the Financial Statements

for the year ended 30 June 2006

2. Statement of significant accounting policies (continued)

(q) 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 presented in the income statement net of any reimbursement.

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 as a borrowing cost.

(r) Interest bearing liabilities

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for interest-bearing loans and borrowings applicable for the years ended 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006

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.

Gains and losses are recognised in profit or loss when the liabilities are derecognised.

Accounting policies applicable for the year ending 30 June 2005

All loans were measured at the principle amount. Interest was recognised as an expense as it accrued.

(s) Share based transactions

The Group provides benefits to employees (including senior executives) of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The Group has elected to apply the option available under AASB 1 to apply AASB 2, to share options issued after 7 November 2002 and vested after 1 January 2005, from 1 July 2005.

The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. In valuing equity-settled transactions, no account is taken of any performance conditions.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and, or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of those conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see note 18).

Notes to the Financial Statements

for the year ended 30 June 2006

2. Statement of significant accounting policies (continued)

(t) Impairment of 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.

(u) Revenue recognition

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

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

(ii) Interest Income

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 July 2005. Outlined below are the relevant accounting policies for interest income applicable for the years ended 30 June 2006 and 30 June 2005.

Accounting policies applicable for the year ending 30 June 2006

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.

Accounting policies applicable for the year ending 30 June 2005

Revenue is recognised when the Group's right to receive payment is established.

(iii) Dividends

Revenue is recognised when the Group's right to receive the dividend payment is established.

(iv) Management Fees

Revenue is recognised in the parent entity's financial statements when services are provided to wholly owned entities.

(v) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

Notes to the Financial Statements

for the year ended 30 June 2006

2. Statement of significant accounting policies (continued)

(w) 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.

Unrecognised deferred income tax assets are reviewed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

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 taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

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.

(x) 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 Cash Flow Statement 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.

Notes to the Financial Statements

for the year ended 30 June 2006

2. Statement of significant accounting policies (continued)

(y) Earnings per share

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

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

- cost of servicing equity (other than dividends) and the preference share 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.

(z) Comparatives

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

Notes to the Financial Statements

for the year ended 30 June 2006

	Consolidated		Parent	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
3. Revenues and expenses				
Revenue and expenses from operating activities				
(a) Revenue				
Sale of goods	34,663	35,051	-	-
Dividends	-	-	625	928
Management fees	-	-	270	240
	34,663	35,051	895	1,168
(b) Finance revenue				
Bank Interest receivable	9	4	4	2
Make good provision discount adjustment	4	-	-	-
	13	4	4	2
(c) Other expenses				
Bad and doubtful debts – trade receivables	(47)	(54)	-	-
Freight and cartage expenses	(723)	(568)	-	-
Insurance expense	(302)	(369)	(12)	(16)
Operating lease expense	(1,658)	(1,382)	-	-
Provision for inventory obsolescence	(61)	(157)	-	-
Utility expenses	(323)	(288)	(2)	(2)
Other	(2,432)	(2,364)	(72)	(71)
	(5,546)	(5,182)	(86)	(89)
(d) Finance costs				
Bank loans and overdrafts	(299)	(263)	-	-
Make good provision discount adjustment	-	(16)	-	-
Finance charges payable under hire purchase contracts	(3)	-	-	-
	(302)	(279)	-	-

Notes to the Financial Statements

for the year ended 30 June 2006

	Consolidated		Parent	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000

4. Income tax

The major components of income tax expense are:

Income statement

Current income tax

Current income tax charge	254	495	114	20
Adjustments in respect of current income tax of previous years	-	3	-	-

Deferred income tax

Relating to origination and reversal of temporary differences	(31)	45	(86)	(18)
Income tax expense reported in the income statement	223	543	28	2

Statement of recognised income and expense

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

Accounting profit before income tax	696	1,698	719	933
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At the Group's statutory income tax rate of 30% (2005:30%)	208	530	216	280
Adjustments in respect of current income tax of previous years	-	(3)	-	-
Expenditure not allowable for income tax purposes	15	16	-	-
Fully franked dividends received	-	-	(188)	(278)
	223	543	28	2

	Balance sheet		Income Statement	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000

Deferred income tax

Deferred income tax at 30 June relates to the following:

Consolidated

Deferred tax assets

Accelerated depreciation for tax purposes	86	51	36	30
Provision for doubtful debts	17	27	(10)	1
Provision for employee entitlements	309	364	(51)	31
Provision for stock obsolescence	187	190	5	30
Provision for decommission of leased assets	4	5	3	5
Unrealised profit in stock	28	33	(8)	(16)
Other	39	45	(6)	(36)
	670	715	(31)	45

Parent

Deferred tax assets

Provision for employee entitlements	34	118	(85)	3
Other	5	6	(1)	(21)
	39	124	(86)	(18)

Notes to the Financial Statements

for the year ended 30 June 2006

Consolidated		Parent	
2006	2005	2006	2005
\$000	\$000	\$000	\$000

4. Income tax (continued)

Tax consolidation

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

Tax effect accounting by members of the tax-consolidation group

Members of the tax-consolidated group have entered into a tax funding agreement. The funding agreement provides for the allocation of current taxes to members of the tax consolidated group in accordance with their accounting profit for the period, while deferred taxes are allocated to members of the tax consolidated group in accordance with the principles of AASB 112 *Income Taxes*. Allocations under the tax funding agreement are made at the end of each quarter.

The allocation of taxes under the tax funding agreement is recognised as an increase/decrease in the subsidiaries' inter-company accounts with the tax consolidated group head company, Supply Network Limited.

Tax is allocated to each member of the consolidated group using the modified stand-alone taxpayer approach. Certain intercompany transactions have not been tax affected where they do not have overall tax implications to the group.

5. Trade and other receivables

Trade receivables (i)	4,533	5,186	-	-
Allowance for doubtful debts	(54)	(88)	-	-
	4,479	5,098	-	-
Amounts receivable from wholly owned subsidiaries (ii)	-	-	7,445	7,580
Income tax receivable	88	-	16	-
Other receivables	23	10	-	-
	4,590	5,108	7,461	7,580

(i) Trade receivables are non-interest bearing and generally on 30 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. An allowance of \$27,000 has been recognised as an expense for the current year for specific debtors for which such evidence exists. The amount of the allowance/impairment loss had been measured as the difference between the carrying amount of the trade receivables and the estimated future cash flow expected to be received from the relevant debtors.

(ii) Amounts receivable from wholly owned subsidiaries are non-interest bearing and are repayable in full on demand (refer note 28).

Details regarding the effective interest rate and the credit risk of current receivables are disclosed in note 27.

6. Inventories

Finished goods at net realisable value	9,219	10,387	-	-
Stock in transit (at cost) – finished goods	2,131	1,132	-	-
Finished goods at lower of cost or net realisable value	11,350	11,519	-	-

7. Other current assets

Prepayments	85	14	-	-
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Notes to the Financial Statements

for the year ended 30 June 2006

Consolidated		Parent	
2006	2005	2006	2005
\$000	\$000	\$000	\$000

8. Other financial assets (non-current)

(a) Investments in controlled entities	-	-	1,398	1,398
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The consolidated financial statements include the financial statements of Supply Network Limited and the subsidiaries listed in the following table:

	Country of incorporation	Percentage Holdings	2006 \$	2005 \$
Multispares N.Z. Limited	New Zealand	100%	1,030,600	1,030,600
Multispares Limited	Australia	100%	367,429	367,429
Daconti Limited	Australia	100%	2	2
Globac Limited	Australia	100%	2	2
Supply Network Services Limited	Australia	100%	2	2
			1,398,035	1,398,035

The financial year of all controlled entities are the same as that of the parent entity. All entities operate solely in their country of incorporation.

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

The Income Statement and Balance Sheet of all entities included in the class order "Closed Group" are set out in Note (c).

- (c) The consolidated income statement and balance sheet of the entities that are members of the "Closed Group" are as follows:

	Closed Group	
	2006	2005
Consolidated Income Statement	\$000	\$000
Profit before income tax expense	702	1,197
Income tax expense	(224)	(373)
Profit after income tax	478	824
Profit attributable to members of the parent	478	824
Retained Earnings		
Retained earnings at the beginning of the year	3,024	2,807
Profit after income tax	478	824
Dividends provided for or paid	(498)	(607)
Retained earnings at end of the year	3,004	3,024

Notes to the Financial Statements

for the year ended 30 June 2006

8. Other financial assets (non-current) (continued)

Consolidated Balance Sheet	Closed Group	
	2006	2005
	\$000	\$000
ASSETS		
Current assets		
Cash and cash equivalents	679	154
Trade and other receivables	3,908	4,343
Inventories	9,453	9,498
Other current assets	79	10
Intercompany	71	27
Derivatives	594	-
Total current assets	14,784	14,032
Non-current assets		
Other financial assets	1,031	1,031
Property, plant and equipment	1,153	1,172
Deferred tax assets	528	572
Total non-current assets	2,712	2,775
TOTAL ASSETS	17,496	16,807
LIABILITIES		
Current liabilities		
Trade and other payables	4,915	4,345
Interest bearing loans and borrowings	110	109
Income tax payable	-	123
Provisions	366	560
Derivatives	594	-
Total current liabilities	5,985	5,137
Non-current liabilities		
Interest bearing loans and borrowings	2,846	2,957
Provisions	262	294
Total non-current liabilities	3,108	3,251
TOTAL LIABILITIES	9,093	8,388
NET ASSETS	8,403	8,419
EQUITY		
Contributed equity	5,398	5,395
Retained earnings	3,005	3,024
TOTAL EQUITY	8,403	8,419

Notes to the Financial Statements

for the year ended 30 June 2006

	Consolidated		Parent	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
9. Property, plant and equipment				
Property, plant and equipment at cost				
Plant and equipment				
Opening balance	3,589	3,120	-	-
Additions	371	582	-	-
Disposals	(258)	(115)	-	-
Currency translation adjustment	(63)	2	-	-
Closing balance	3,639	3,589	-	-
Accumulated depreciation				
Opening balance	2,027	1,764	-	-
Depreciation for the year	449	368	-	-
Disposals	(253)	(105)	-	-
Currency translation adjustment	(31)	-	-	-
Closing balance	2,192	2,027	-	-
Net book value	1,447	1,562	-	-
Total property, plant and equipment	1,447	1,562	-	-

10. Trade and other payables

Trade payables	(i)	5,770	5,082	31	24
Interest payable	(ii)	21	24	-	-
		5,791	5,106	31	24

(i) Trade creditors are non interest bearing and are generally settled on 30-60 day terms

(ii) Interest payable is normally settled monthly throughout the year

Information regarding the effective interest rate and credit risk of current payables is set out in note 27.

11. Interest bearing loans and borrowings

Current

	Maturity				
Obligations under hire purchase contracts (i)	2007	10	9	-	-
Bank overdraft – secured (ii)	On demand	-	107	-	-
Bank loans (iii)	2007	100	100	-	-
		110	216	-	-

Non-current

Obligations under hire purchase contracts (i)	2009	21	32	-	-
Bank loans (iii)	2007-2011	3,196	3,337	-	-
		3,217	3,369	-	-

(i) Obligations under hire purchase contract are secured on a certain asset of certain controlled entity. The agreement is for four years and subject to monthly repayment and matures in April 2009. The interest rate on the agreement is 9.2%

(ii) Bank overdrafts and bank loans are secured by fixed and floating charges over the assets of Supply Network Limited and controlled entities. Bank overdrafts have no specific term and are subject to annual review in November each year. Interest rates on overdrafts are variable and during the year average interest rate was 10.3% (2005: 9.9%).

(iii) Bank loans comprise fixed interest only loans of \$2,720,000 with effective interest rate of 6.95% to 8.46% maturing between August 2007 to July 2011 and a fixed interest loan of \$575,000 at 8.17% maturing November 2007 and repayable by quarterly instalments.

Notes to the Financial Statements

for the year ended 30 June 2006

	Consolidated		Parent	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
12. Current tax liabilities				
Current year tax payable	-	77	-	123
13. Provisions				
		Long service leave \$000	Lease make good \$000	Total \$000
Consolidated				
At 1 July 2005		719	191	910
Arising during the year		84	30	114
Utilised		(304)	-	(304)
Foreign currency translation		-	(6)	(6)
Discount rate adjustment		(31)	(4)	(35)
At 30 June 2006		468	211	679
Current 2006		366	-	366
Non-current 2006		102	211	313
		468	211	679
Current 2005		559	-	559
Non-current 2005		160	191	351
		719	191	910
Parent				
At 1 July 2005		395	-	395
Arising during the year		(1)	-	(1)
Utilised		(282)	-	(282)
Discount rate adjustment		-	-	-
At 30 June 2006		112	-	112
Current 2006		112	-	112
Non-current 2006		-	-	-
		112	-	112
Current 2005		375	-	375
Non-current 2005		20	-	20
		395	-	395

Lease make good provision

In accordance with its lease agreements, the Group must restore the leased premises to their original condition at the end of the lease term. An equivalent liability is recognised under AASB 137 *Provision, Contingent Liabilities and Contingent Assets*.

Additional provision of \$30,000 was made for two new lease contracts entered into during the year.

Notes to the Financial Statements

for the year ended 30 June 2006

	Consolidated		Parent	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
14. Contributed equity				
(a) Issued and paid up capital 22,126,345 ordinary shares fully paid (2005: 22,113,845)	5,398	5,395	5,398	5,395
(b) Movements in shares on issue				
	2006		2005	
	Number of Shares	\$000	Number of Shares	\$000
Balance at beginning of year	22,113,845	5,395	21,638,845	5,301
Issue of shares under share option plan	12,500	3	475,000	94
Balance at end of the year	22,126,345	5,398	22,113,845	5,395

(c) Share Options

Options over ordinary shares:

At the end of the year there were no (2005: 25,000) unissued ordinary shares in respect of which options were outstanding.

During the year 12,500 shares were issued and 12,500 lapsed.

(d) Terms and conditions of contributed equity

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

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

	Consolidated		Parent	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
15. Reserves				
Foreign currency translation				
Balance at beginning of year	67	64	-	-
Currency translation differences	(212)	3	-	-
Balance at end of year	(145)	67	-	-

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

16. Retained earnings

Retained earnings

Balance at beginning of year	3,934	3,386	3,165	2,841
Net profit	473	1,155	691	931
Total available for appropriation	4,407	4,541	3,856	3,772
Less dividends provided or paid	498	607	498	607
Balance at end of year	3,909	3,934	3,358	3,165

Notes to the Financial Statements

for the year ended 30 June 2006

	Consolidated		Parent	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
17. Dividends paid and proposed for on ordinary shares				
(a) Dividends declared and paid during the year				
Current year interim fully franked dividend (0.75 cents per share) (2005: 1.25 cents)	166	276	166	276
Previous year final fully franked dividend (1.50 cents per share) (2005: 1.50 cents)	332	331	332	331
Total dividends paid	<u>498</u>	<u>607</u>	<u>498</u>	<u>607</u>
(b) Dividends proposed subsequent to 30 June and not recognised as a liability				
Current year final fully franked dividend (1.00 cents per share) (2005: 1.50 cents)	221	332	221	332
(c) Franking credit balance				
The amount of franking credits available for the subsequent financial year are:				
- franking account balance as at the end of the financial year at 30% (2005: 30%)			3,631	3,474
- franking credits that will arise from the payment of income tax payable as the end of the financial year			(18)	120
			<u>3,613</u>	<u>3,594</u>
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:			(221)	(332)
			<u>3,392</u>	<u>3,262</u>

The tax rate at which paid dividends have been franked is 30% (2005: 30%). Dividends proposed will be franked at the rate of 30% (2005: 30%).

18. 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:

	Consolidated	
	2006 \$000	2005 \$000
Net profit attributable to ordinary equity holders of the parent	<u>473</u>	1,155
Weighted average number of ordinary shares for basic earnings per share	22,122,852	22,018,365
Effect of dilution:		
- Share options	12,877	120,480
Weighted average number of ordinary shares adjusted for the effect of dilution	<u>22,135,729</u>	22,138,845

Notes to the Financial Statements

for the year ended 30 June 2006

	Consolidated		Parent	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
19. Lease commitments				
Operating lease commitments payable				
- not later than one year	1,453	1,602	-	-
- later than one year and not later than five years	1,889	2,207	-	-
	3,342	3,809	-	-

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

	Consolidated		Parent	
	2006 \$	2005 \$	2006 \$	2005 \$
20. Auditors compensation				
Amounts received or due and receivable by Ernst & Young (Australia) for:				
- an audit or review of the financial report of the entity and any other entity in the consolidated group	76,807	68,145	10,580	12,000
Amounts received or due and receivable by Ernst & Young (New Zealand) for:				
- an audit or review of the financial report of the subsidiary	20,240	17,862	-	-
- tax compliance	5,756	10,380	-	-
	102,803	96,387	10,580	12,000
Amounts received or due and receivable by the auditors for other services:				
- Ernst & Young New Zealand – tax compliance	5,756	10,380	-	-

21. Key management personnel

(a) Compensation of key management personnel

Details of key management personnel are as follows:

Directors

G T Lingard	Chairman (non-executive)
G D H Stewart	Managing Director (executive)
G J Forsyth	Director (non-executive) – appointed 25 January 2006
P W McKenzie	Director (non-executive) – appointed 1 July 2006
H R Forsyth	Chairman (non-executive) – retired 25 January 2006
H MO Anderson	Director (non-executive) – resigned 24 November 2005

Executives

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

The company has applied the exemption under Corporations Amendments Regulation 2006 which exempts listed companies from providing remuneration disclosure in relation to their key management personnel in their annual financial reports by accounting standard AASB 124 *Related Party Disclosures*. These remuneration disclosures are provided in the Remuneration Report section of the Directors' Report on page 7 to 10 designated as audited.

The remuneration paid or payable to key management personnel of the parent and the group are as follows:

Short term	635,164	615,390	91,294	36,696
Post employment	100,505	172,129	18,910	102,004
Termination benefits	260,500	-	260,500	-
Share based payments	-	-	-	-
Other long term benefits	-	-	-	-
	996,169	787,519	370,704	138,700

Notes to the Financial Statements

for the year ended 30 June 2006

21. Key management personnel (continued)

(b) Compensation options: granted and vested during the year

No options were granted or vested during the years ended 30 June 2006 and 30 June 2005.

(c) Shares issued on exercise of compensation options

30 June 2006

There were no shares issued on exercise of compensation options during the year.

30 June 2005

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

(d) Option holdings of key management personnel

There were no options held by key management personnel at balance date 30 June 2006 and 30 June 2005.

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

	Balance 1 July 2005	Options Exercised	Balance 30 June 2006
Directors			
G T Lingard	207,842	-	207,842
G D H Stewart	628,000	-	628,000
G J Forsyth (i)	-	-	320,000
P W McKenzie (ii)	-	-	1,671,054
H R Forsyth (iii)	6,097,314	-	-
H M O Anderson (iv)	514,000	-	-
Executives			
B A McKenna	152,425	-	152,425
P W Gill	290,500	-	290,500
	<u>7,890,081</u>	-	<u>3,269,821</u>

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

- (i) Mr G J Forsyth was appointed as a director of Supply Network Limited on 25 January 2006
(ii) Mr P W McKenzie was appointed as a director of Supply Network Limited on 1 July 2006
(iii) Mr H R Forsyth retired as a director of Supply Network Limited on 25 January 2006
(iv) Mr H M O Anderson resigned as a director of Supply Network Limited on 24 November 2005

Notes to the Financial Statements

for the year ended 30 June 2006

22. Employee entitlements

Share option plan

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

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

	2006		2005	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of year	25,000	0.20	500,000	0.20
Issued	-	-	-	-
Exercised	(12,500)	0.20	(475,000)	0.20
Lapsed	(12,500)	-	-	-
Balance at end of year	-	-	25,000	0.20
Exercisable at end of year	-	-	25,000	0.20

(a) Options held at beginning of year

The following table summarises information about options held by employees at 1 July 2005

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

(b) Options granted

There were no options granted during the years ended 30 June 2006 and 30 June 2005.

(c) Options exercised

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

	Number of Options	Grant Date	Vesting Date	Expiry Date	Weighted Average Exercise Price	Proceeds from Shares Issued	Number of Shares Issued	Issue Date	Fair Value of Shares Issued
30 June 2006	12,500	24/4/2002	24/4/2004	24/4/2007	\$0.20	\$2,500	12,500	10/10/2005	\$0.35
30 June 2005	400,000	24/4/2002	24/4/2004	24/4/2007	\$0.20	\$80,000	400,000	10/8/2004	\$0.51
	75,000	24/4/2002	24/4/2004	24/4/2007	\$0.20	\$15,000	75,000	3/3/2005	\$0.65

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

Notes to the Financial Statements

for the year ended 30 June 2006

22. Employee entitlements (continued)

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

There were no options held by employees at 30 June 2006.

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

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

Superannuation commitments

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

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

Employee numbers

	Consolidated		Parent	
	2006	2005	2006	2005
Number of employees at year end	104	102	3	2

Notes to the Financial Statements

for the year ended 30 June 2006

Consolidated		Parent	
2006	2005	2006	2005
\$000	\$000	\$000	\$000

23. Notes to the Statement of Cash Flows

(a) Reconciliation of cash

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

Cash on hand and at bank	816	156	1	-
Bank overdraft	-	(107)	-	-
	816	49	1	-

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

Net profit after income tax	473	1,155	691	931
Adjustments for non-cash income and expense items				
Dividends received	-	-	(625)	(928)
(Profit)/loss on sale of property, plant and equipment	3	10	-	-
Depreciation of property, plant and equipment	449	368	-	-
Other	-	-	(426)	119
Transfers to provisions				
- Inventory obsolescence	8	157	-	-
- Employee entitlements	(176)	99	(19)	9
- Doubtful debts	(32)	4	-	-
Net exchange differences	(237)	-	-	-
Increase (decrease) in provision for:				
- Income tax payable	(166)	(120)	(139)	(76)
- Deferred taxes	46	(26)	521	(54)
Changes in assets and liabilities				
(Increase) decrease in:				
Trade receivable	653	(277)	-	-
Inventories	186	(1,260)	-	-
Other assets	(9)	19	-	-
(Decrease) increase in:				
Trade and other payables	513	(778)	9	-
Net cash flow from operating activities	1,711	(649)	12	1

(c) Financing facilities available:

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

Total credit facilities				
Facilities used at reporting date	4,691	4,161	-	-
Facilities unused at reporting date	(3,327)	(3,585)	-	-
	1,364	576	-	-

The major facilities are summarised as follows:

Bank overdrafts	664	683	-	-
Facilities used	-	(107)	-	-
Facilities unused at reporting date	664	576	-	-
Bank loans	4,027	3,478	-	-
Facilities used	(3,327)	(3,478)	-	-
Facilities unused at reporting date	700	-	-	-

Notes to the Financial Statements

for the year ended 30 June 2006

24. Contingent liabilities

As explained in Note 8 the parent entity has entered a Deed of Cross Guarantee in accordance with a Class Order issued by the Australian Securities & Investments Commission. The parent entity and all the controlled entities which are a party to the Deed have guaranteed the repayment of all current and future creditors in the event that any of these companies are wound-up.

25. Subsequent events

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

26. Segment information

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

Geographical segments	Australia		New Zealand		Eliminations		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000

Revenue

Sales to customers outside the consolidated entity	28,450	28,318	6,213	6,733	-	-	34,663	35,051
Other revenues from outside the consolidated entity	20	15	3	4	-	-	23	19
Intersegment revenues	1,003	1,202	3	48	(1,006)	(1,250)	-	-
Total segment revenues	29,473	29,535	6,219	6,785	(1,006)	(1,250)	34,686	35,070

Results

Segment results	703	1,197	(26)	516	19	(15)	696	1,698
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Consolidated entity profit from ordinary activities before income tax expense							696	1,698
Income tax expense							(223)	(543)
Consolidated entity profit from ordinary activities after income tax expense							473	1,155
Net profit							473	1,155

Assets

Segment assets	17,496	16,807	3,467	3,426	(1,345)	(1,159)	19,618	19,074
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Liabilities

Segment liabilities	9,093	8,388	1,613	1,341	(250)	(51)	10,456	9,678
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Other segment information

Acquisition of property, plant and equipment, intangible assets and other non-current assets	352	336	19	246	-	-	371	582
Depreciation	367	309	82	59	-	-	449	368
Non-cash expenses other than depreciation	218	333	38	33	-	-	256	366

Segment accounting policies are the same as the consolidated entity'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.

Notes to the Financial Statements

for the year ended 30 June 2006

27. Financial instruments

The Group's principle financial instruments, other than derivatives, comprise bank loans and overdrafts, hire purchase contracts and cash. The main purpose of these financial instruments is to raise finance for 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 instrument shall be undertaken. The main risks arising from the Group's financial instruments are interest rate risk liquidity risk, foreign currency risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

(a) Interest rate risk

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

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

Financial instruments	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 %
Consolidated								
30 June 2006								
Financial assets								
Cash	808	-	-	-	8	816	1.4	-
Receivables	-	-	-	-	4,533	4,533	-	-
Forward currency contracts	-	-	-	-	660	660	-	-
Other debtors	-	-	-	-	112	112	-	-
	808	-	-	-	5,313	6,121	-	-
Financial liabilities								
Payables	-	-	-	-	5,791	5,791	-	-
Bank loans	-	100	3,195	-	-	3,295	-	7.9
Forward currency contracts	-	-	-	-	659	659	-	-
Other loans	-	9	23	-	-	32	-	9.2
	-	109	3,218	-	6,450	9,777	-	-
30 June 2005								
Financial assets								
Cash	150	-	-	-	6	156	1.0	-
Receivables	-	-	-	-	5,186	5,186	-	-
Other debtors	-	-	-	-	10	10	-	-
	150	-	-	-	5,202	5,352	-	-
Financial liabilities								
Payables	-	-	-	-	5,082	5,082	-	-
Bank loans and overdrafts	107	100	3,337	-	-	3,544	9.9	8.2
Other loans	-	9	32	-	-	41	-	9.2
	107	109	3,369	-	5,082	8,667	-	-

Notes to the Financial Statements

for the year ended 30 June 2006

27. Financial Instruments (continued)

Financial instruments	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 %
Parent								
30 June 2006								
Financial assets								
Cash	1	-	-	-	-	1	3.9	-
Receivables	-	-	-	-	7,445	7,445	-	-
	1	-	-	-	7,445	7,446		
Financial liabilities								
Payables	-	-	-	-	31	31	-	-
	-	-	-	-	31	31		
30 June 2005								
Financial assets								
Cash	-	-	-	-	-	-	-	-
Receivables	-	-	-	-	7,580	7,580	-	-
	-	-	-	-	7,580	7,580		
Financial liabilities								
Payables	-	-	-	-	24	24	-	-
	-	-	-	-	24	24		

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

(b) Foreign exchange risk

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

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

Currency		Average exchange rate		2006	2005
		2006	2005	Buy \$000	Buy \$000
Japanese yen	3 months or less	85.2	81.2	35	158
Great British pound	3 months or less	-	0.41	-	5
Euro currency	3 months or less	0.59	0.61	624	852
US currency	3 months or less	-	0.77	-	84
Total				659	1,099

(c) Credit Risk Exposure

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2006

27. Financial instruments (continued)

(d) Net fair value of financial assets and liabilities

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

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

Recognised financial instruments

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

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

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

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

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

28. Related party transactions

	Consolidated		Parent	
	2006	2005	2006	2005
	\$000	\$000	\$000	\$000
(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:				
(i) Wholly owned controlled entities				
Management fees	-	-	270	240
Dividends	-	-	625	928
(ii) Key management personnel				
Lease rental (property)	550	390	-	-
Consultancy fees	2	-	-	-
(b) The parent entity entered into the following transactions during the year with related parties in the wholly owned group.				
Loans were advanced and repayments received on short term intercompany accounts. Dividends and management fees were received from wholly owned controlled entities (see note 2).				
These transactions were undertaken on commercial terms and conditions.				
(c) Amounts due to and receivable from related parties in the wholly owned group are set out in the respective notes to the financial statements.				
(d) The ownership interests in related parties in the wholly owned group are disclosed in note 8.				
(e) The ultimate controlling entity of the consolidated entity is Supply Network Limited.				
(f) The names of each person holding the position of Director of Supply Network Limited during the last two financial years were G T Lingard, G D H Stewart, G J Forsyth (appointed 25 January 2006), P W McKenzie (appointed 1 July 2006), H R Forsyth (retired 25 January 2006) and H M O Anderson (resigned 24 November 2005),				
(g) Mr G T Lingard is a director and shareholder in a company, which leases premises on normal commercial terms and conditions to wholly owned controlled entities. Total payments in 2006: \$550,000 (2005: \$390,000).				
(h) Mr P W McKenzie was appointed a director on 1 July 2006 and during the year was paid a consultancy fee of \$2,000 (2005: nil) on normal commercial terms and conditions.				
(i) Directors' shareholdings				

Shares and share options held by directors and their director-related entities in parent entity at end of the year

	2006	2005
Ordinary shares	1,155,842	7,447,156

Notes to the Financial Statements

for the year ended 30 June 2006

29. Transition to AIFRS

For all periods up to and including the year ended 30 June 2005, the Group prepared its financial statements in accordance with Australian generally accepted accounting practice (AGAAP). These financial statements for the year ended 30 June 2006 are the first the Group is required to prepare in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

Accordingly, the Group has prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in note 2. In preparing these financial statements, the Group has started from an opening balance sheet as at 1 July 2004, the Group's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB1 first-time adoption of AIFRS.

This note explains the principle adjustments made by the Group in restating its AGAAP balance sheet as at 1 July 2004 and its previously published financial statements for the year ended 30 June 2005.

Exemptions applied

AASB 1 allows first-time adopters certain exemptions from the general requirement to apply AIFRS retrospectively.

The Group has taken the following exemptions:

- Comparative information for financial instruments is prepared in accordance with AGAAP and the company and group have adopted AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Recognition and Measurement* from 1 July 2005.
- AASB2 *Share Based Payments* is only applied to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

Explanation of material adjustments to the cash flow statement

There are no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under previous AGAAP.

Notes to the Financial Statements

for the year ended 30 June 2006

29. Transition to AIFRS (continued)

Balance Sheet reflecting reconciliation of adjustments to AIFRS as at 1 July 2004

Note	Consolidated			Parent		
	AGAAP \$000	AIFRS Impact \$000	AIFRS \$000	AGAAP \$000	AIFRS Impact \$000	AIFRS \$000
ASSETS						
Current assets						
	476	-	476	-	-	-
	4,855	-	4,855	6,846	-	6,846
(a)	10,419	(3)	10,416	-	-	-
	13	-	13	-	-	-
Total current assets	15,763	(3)	15,760	6,846	-	6,846
Non-current assets						
	-	-	-	1,398	-	1,398
(b)	1,260	96	1,356	-	-	-
(d)	682	5	687	506	-	506
Total non-current assets	1,942	101	2,043	1,904	-	1,904
TOTAL ASSETS	17,705	98	17,803	8,750	-	8,750
LIABILITIES						
Current liabilities						
	5,411	-	5,411	24	-	24
	253	-	253	-	-	-
	197	-	197	199	-	199
	984	-	984	329	-	329
Total current liabilities	6,845	-	6,845	552	-	552
Non-current liabilities						
	1,975	-	1,975	-	-	-
(b)	124	108	232	56	-	56
Total non-current liabilities	2,099	108	2,207	56	-	56
TOTAL LIABILITIES	8,944	108	9,052	608	-	608
NET ASSETS	8,761	(10)	8,751	8,142	-	8,142
EQUITY						
	5,301	-	5,301	5,301	-	5,301
	64	-	64	-	-	-
	3,396	(10)	3,386	2,841	-	2,841
<i>Breakdown of impact on retained earnings</i>						
(a)		(3)			-	
(b)		(12)			-	
		-			-	
		-			-	
(d)		5			-	
TOTAL EQUITY	8,761	(10)	8,751	8,142	-	8,142

Notes to the Financial Statements

for the year ended 30 June 2006

29. Transition to AIFRS (continued)

Balance Sheet reflecting reconciliation of adjustments to AIFRS as at 30 June 2005

	Note	Consolidated			Parent		
		AGAAP \$000	AIFRS Impact \$000	AIFRS \$000	AGAAP \$000	AIFRS Impact \$000	AIFRS \$000
ASSETS							
Current assets							
Cash and cash equivalents		156	-	156	-	-	-
Trade and other receivables		5,108	-	5,108	7,580	-	7,580
Inventories	(a)	11,525	(6)	11,519	-	-	-
Other current assets		14	-	14	-	-	-
Total current assets		16,803	(6)	16,797	7,580	-	7,580
Non-current assets							
Other financial assets		-	-	-	1,398	-	1,398
Property, plant and equipment	(b)	1,413	149	1,562	-	-	-
Deferred tax assets	(d)	700	15	715	124	-	124
Total non-current assets		2,113	164	2,277	1,522	-	1,522
TOTAL ASSETS		18,916	158	19,074	9,102	-	9,102
LIABILITIES							
Current liabilities							
Trade and other payables	(c)	5,105	1	5,106	24	-	24
Interest bearing loans and borrowings		216	-	216	-	-	-
Income tax payable		77	-	77	123	-	123
Provisions		559	-	559	375	-	375
Total current liabilities		5,957	1	5,958	522	-	522
Non-current liabilities							
Interest bearing loans and borrowings		3,369	-	3,369	-	-	-
Provisions	(b)	160	191	351	20	-	20
Total non-current liabilities		3,529	191	3,720	20	-	20
TOTAL LIABILITIES		9,486	192	9,678	542	-	542
NET ASSETS		9,430	(34)	9,396	8,560	-	8,560
EQUITY							
Contributed equity		5,395	-	5,395	5,395	-	5,395
Reserves		67	-	67	-	-	-
Retained earnings		3,968	(34)	3,934	3,165	-	3,165
<i>Breakdown of impact on retained earnings</i>							
Reclassification of rebate income	(a)		(6)			-	
Amortisation of decommissioned assets	(b)		(25)			-	
Movement in fair value of make good provision	(b)		(16)			-	
Recognition of operating lease costs	(c)		(2)			-	
Income tax	(d)		15			-	
TOTAL EQUITY		9,430	(34)	9,396	8,560	-	8,560

Notes to the Financial Statements

for the year ended 30 June 2006

29. Transition to AIFRS (continued)

Income Statement For the year ended 30 June 2005

	Note	Consolidated			Parent		
		AIFRS			AIFRS		
		AGAAP \$000	Impact \$000	AIFRS \$000	AGAAP \$000	Impact \$000	AIFRS \$000
Revenue		35,051	-	35,051	1,168	-	1,168
Finance revenue		4	-	4	2	-	2
Other income	(a)	18	(3)	15	-	-	-
Changes in inventories of finished goods		(21,219)	-	(21,219)	-	-	-
Employee benefits expenses		(6,324)	-	(6,324)	(148)	-	(148)
Depreciation and amortisation	(b)	(355)	(13)	(368)	-	-	-
Other expenses	(c)	(5,180)	(2)	(5,182)	(89)	-	(89)
Finance costs	(b)	(263)	(16)	(279)	-	-	-
Profit before income tax		1,732	(34)	1,698	933	-	933
Income tax expense	(d)	(553)	10	(543)	(2)	-	(2)
Profit after income tax		1,179	(24)	1,155	931	-	931
Profit for the period		1,179	(24)	1,155	931	-	931
Profit attributable to members of the parent		1,179	(24)	1,155	931	-	931

Notes to the Financial Statements

for the year ended 30 June 2006

29. Transition to AIFRS (continued)

Notes to the reconciliation of equity and profit and loss at 1 July 2004 and 30 June 2005

Reference	Item	AGAAP	AIFRS	Consolidated	Parent																
(a)	Rebate Income	Rebates received were recognised as income	Under AASB 102 <i>Inventories</i> , trade discounts, rebates and other similar items are deducted in determining the costs of purchase. An adjustment was required at transition date and also at 30 June 2005 to restate inventories by the value of unearned rebates	<i>Equity at transition:</i> Decrease to both retained earnings and also inventories of \$3,000. <i>Equity at 30 June 2005:</i> Decrease for both retained earnings and inventories of \$6,000 <i>Profit for 30 June 2005:</i> Decrease in profit by \$3,000	Nil																
(b)	Make Good Provisions	Such costs were not required to be recognised	Under AASB 116 <i>Property, Plant & Equipment</i> , where the construction or commissioning of an asset results in the obligation to dismantle or remove the asset and restore the site on which the asset stands, an estimate of such costs is required to be included in the cost of the asset. This includes leasehold improvements, whereby the cost involved in restoring the leased asset at the end of the lease term must be included in the cost of the asset and depreciated over the term of the lease. In accordance with its lease agreements, the Group must restore the leased premises to their original condition at the end of the lease term. An equivalent liability is recognised under AASB 137 <i>Provision, Contingent Liabilities and Contingent Assets</i> .	<i>Equity at transition:</i> Increase to property, plant & equipment of \$96,000, decrease to retained earnings of \$12,000 and a recognition of a provision of \$108,000 <i>Equity at 30 June 2005:</i> Increase to property, plant & equipment of \$53,000, decrease to retained earnings of \$29,000 and a recognition of a provision of \$82,000 <i>Profit for 30 June 2005:</i> Decrease in profit by \$29,000	Nil																
(c)	Operating Leases	Rental payments charged to profit and loss as incurred	Under AASB 117 <i>Leases</i> , lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the term of the lease.	<i>Equity at transition:</i> nil. <i>Equity at 30 June 2005:</i> Increase in trade and other payables of \$1,000 and a decrease in retained earnings of \$1,000. <i>Profit for 30 June 2005:</i> Decrease in profit by \$2,000	Nil																
(d)	Income tax	The income statement method was used, which involved tax-effecting only those items that impacted profit and loss	AASB 112 <i>Income Taxes</i> requires the balance sheet method to be used, which recognises deferred tax balances when there is a difference between the carrying value of an asset or liability and its tax base. As a result of the above adjustments, the deferred tax liabilities and deferred tax assets increased as follows:	<table border="1"> <thead> <tr> <th colspan="2">Consolidated</th> </tr> <tr> <th>30 June 2005</th> <th>1 July 2004</th> </tr> <tr> <th>\$'000</th> <th>\$'000</th> </tr> </thead> <tbody> <tr> <td>Rebate income (a)</td> <td>1</td> </tr> <tr> <td>Property plant & equipment (b)</td> <td>4</td> </tr> <tr> <td>Make good provision (b)</td> <td>-</td> </tr> <tr> <td>Operating leases (c)</td> <td>-</td> </tr> <tr> <td>Increase in deferred tax assets</td> <td>5</td> </tr> </tbody> </table>	Consolidated		30 June 2005	1 July 2004	\$'000	\$'000	Rebate income (a)	1	Property plant & equipment (b)	4	Make good provision (b)	-	Operating leases (c)	-	Increase in deferred tax assets	5	
Consolidated																					
30 June 2005	1 July 2004																				
\$'000	\$'000																				
Rebate income (a)	1																				
Property plant & equipment (b)	4																				
Make good provision (b)	-																				
Operating leases (c)	-																				
Increase in deferred tax assets	5																				

Directors' Declaration

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

- (1) In the opinion of the directors:
 - (a) the financial statements and notes of the company and of the consolidated entity and the additional disclosures included in the Directors' Report designated as audited are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- (2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2006.
- (3) In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 8 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'G T Lingard', with a long horizontal flourish extending to the right.

G T Lingard
Director
Sydney
30 August 2005

Independent Audit Report

Independent audit report to members of Supply Network Limited

Scope

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Supply Network Limited (the company) and the consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information as required in paragraph Aus 25.4 to Aus 25.7.2 of Accounting Standard AASB 124 *Related Party Disclosures* ("remuneration disclosures") under the heading "Remuneration Report" on pages 7 to 10 of the directors' report, as permitted in the Corporations Regulation 2M.6.04.

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

Audit approach

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with Accounting Standard AASB 124 *Related Party Disclosures*. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations, and cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 124 *Related Party Disclosures*.

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

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

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

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

Independence

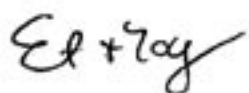
We are independent of the company and the consolidated entity, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Director's Report. In addition to our audit of the financial report and the remuneration disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Independent Audit Report

Audit opinion

In our opinion:

1. the financial report of Supply Network Limited is in accordance with:
 - (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of Supply Network Limited and the consolidated entity at 30 June 2006 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
 - (b) other mandatory financial reporting requirements in Australia.
2. the remuneration disclosures that are contained on pages 7 to 10 of the Directors' Report comply with Accounting Standard AASB 124 *Related Party Disclosures*.



Ernst & Young



Christopher D. George

Partner

Sydney

30 August 2006

ASX Additional Information

a) Shareholdings

The number of shareholders by size of their holdings of fully paid shares as at 28 August 2006 in the company's register was as follows:

			Shareholdings
1	to	1,000	38
1,001	to	5,000	144
5,001	to	10,000	76
10,001	to	100,000	116
100,001	to	and over	28
Total shareholders			402

- b) The number of shareholders who hold less than a marketable parcel is 54.
- c) All ordinary shares carry one vote per share.
- d) The address of the Principal Registered Office in Australia is 151 Fairfield Road, Guildford NSW 2161.
- e) The share registry is at Computershare Investor Services Pty Ltd Level 3, 60 Carrington Street, Sydney NSW 1115.
- f) The company's auditors are Ernst & Young 680 George Street, Sydney NSW 2000.
- g) The company's securities are listed on the Australian Stock Exchange.
- h) The name of the Company Secretary is P W Gill.
- i) Twenty largest shareholders

At 28 August 2006 the twenty largest shareholders were:

Name	Ordinary Shares Held
Hergfor Enterprises Pty Ltd	6,097,314
Mr DJ Woodcock	1,700,000
Proom Pty Ltd	1,497,637
Dixson Trust Pty Ltd	1,266,523
Mrs JE Davies	1,100,000
Birubi Super Fund	514,000
Mr M Nakayama	482,875
Sherkane Pty Ltd	450,000
Trilon Nominees Pty Ltd	433,957
Mr GDH Stewart	414,000
Trazrail Pty Ltd	360,062
Odalisque Pty Ltd	300,000
Kailva Pty Ltd	280,000
Mr R J Almond	257,127
Meadgate Pty Ltd	236,700
Mr B T Birthistle	229,490
Forest Coach Lines Pty. Ltd. (Retirement Fund)	223,000
Mr R L Denison	220,000
Mrs D G Stewart	214,000
G T Lingard Holdings Pty Ltd	207,842

The twenty largest shareholders held 16,484,527 ordinary shares equal to 74.5% of issued ordinary shares.

The company's register of substantial shareholders at 28 August 2006 is:

Hergfor Enterprises Pty Ltd	6,097,314
Mr D J Woodcock	2,800,000
Proom Pty Ltd	1,699,279
Dixon Trust Pty Ltd	1,266,523

Five Years Consolidated Financial Summary

	2006 \$000	2005 \$000	2004 \$000	2003 \$000	2002 \$000
Financial data: (a)					
Sales revenue	34,663	35,051	33,434	30,291	26,344
Total revenue	34,686	35,070	33,518	30,444	27,154
EBITDA	1,434	2,341	2,359	1,889	1,391
EBIT	985	1,973	2,072	1,598	1,066
Profit (loss) before tax	696	1,698	1,905	1,402	845
Profit (loss) after tax	473	1,155	1,344	917	577
Earnings per share (cents)	2.14	5.25	6.22	4.47	2.98
Dividends (cents per share)	1.75	2.75	2.50	1.75	1.00
Total assets	19,618	19,074	17,705	15,343	14,688
Total interest bearing debt	3,327	3,585	2,228	1,893	2,055
Total equity	9,162	9,396	8,761	7,764	6,561
Cash flow from (used in) operating activities	1,711	(649)	852	682	(76)
Cash flow from (used in) investing activities	(340)	(515)	(736)	(463)	390
Cash flow from (used in) financing activities	(604)	890	(231)	(73)	180
Net movement in cash	767	(274)	(115)	146	494

Financial ratios:

Inventory turnover (b)	2.0	2.0	2.2	2.5	2.4
Interest cover (c)	5.0	8.5	13.3	9.6	6.3
Gearing (d)	36.3%	38.2%	25.4%	24.4%	31.3%
Net tangible asset backing (cents per share) (e)	41.4	42.5	40.5	36.1	33.9
Return on average total assets	2.4%	6.3%	8.1%	6.1%	4.1%
Return on average total equity	5.1%	12.7%	16.3%	12.8%	9.1%

(a) 2006 and 2005 have been calculated using AIFRS. 2004 and prior years have been calculated using AGAAP

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

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

(d) Gearing – total interest bearing debt as a % of total equity

(e) Net tangible asset backing – 2003 and earlier are calculated after recognition of Provision for Final Dividend.



Supply Network Limited

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