



Supply Network Limited

ABN 12 003 135 680

**ANNUAL
REPORT
2005**



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

Annual Report 30 June 2005

Supply Network Limited

ABN 12 003 135 680

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Corporate Information

Directors

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

Company Secretary

P W Gill

Registered Office

151 Fairfield Road
Guildford NSW 2161

Telephone 02 9892 3888
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 9415 4000
Facsimile 61 2 8234 5050

Stock Exchange Listing

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

Chairman's Report 2005

On behalf of your Directors I am pleased to present the Annual Report of Supply Network Limited for the 2004-2005 financial year.

Financial Performance

Group sales revenue increased by 4.8% from \$33.43 million to \$35.05 million. This is below forecast growth primarily as a result of the shortfall in sales in the establishment phase of Globac Limited.

Net profit also fell below our initial forecast for the year but was mid range on the revised forecast released to the market on 27 May 2005 at \$1.18 million. Earnings per share of 5.35 cents is the second highest recorded and is a commendable result.

Geoff Stewart gives more details of current trading activities and outlines plans for future expansion of wholesale business activities in his review of operations.

On a positive note we have in the year under review opened a new Multispares outlet servicing South East Melbourne and South East Victoria based in Dandenong, expanded the Auckland Distribution Centre and initiated the development of a new outlet servicing the Australian Capital Territory and South West NSW based in Canberra.

Dividend

I am pleased to confirm that the Board has declared a fully franked final dividend of 1.5 cents per share payable on 23 September 2005 to shareholders registered on 1 September 2005.

This amounts to a total payout for the year of 2.75 cents per share, which is the highest payout in the past decade and is within our target range at 51.3% of after tax earnings per share.

Strategic Review

On a bi-annual basis the Directors and Executive consult with the Australian and New Zealand management teams to review and establish priorities for the future development of our business. This year the highest priority was given to establishing additional outlets in strategic locations, concentration on product development in specific areas and expansion of product development in identified areas of opportunity.

As a result acquisition consideration has focussed on proposals within our core business areas and whilst a number have been reviewed, the return on shareholder funds and contribution to earnings have not met our criteria.

Our Balance Sheet remains strong and we will continue to investigate opportunities that emerge but we will not make investments that do not meet our expectations.

The Board

As many will be aware I have announced my intention to retire as a non-executive Director at the end of 2005 and consideration is being given to a suitable replacement who could be appointed prior to this year's Annual General Meeting.

Mr Anderson has given notice of his intention to resign at the close of the Annual General Meeting in November and a search is now on to appoint a suitable replacement.

I conclude writing of this my Eighteenth and final Chairman's report by extending my personal thanks to all our employees for their dedicated service through the good and not so good times. Special thanks go to Geoff, his executive and management team and of course my fellow Directors who have ably supported and advised me over the years.

Whilst I may be retiring from active duty I have volunteered my knowledge and experience when required on an ongoing basis and will remain an interested major shareholder.

Managing Director's Report

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

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

Review of Operations

Multispares Australia - European & Japanese Heavy Vehicle Parts

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

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

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

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

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

Finally the decision to open two new branches has meant a substantial investment in our future. New branches in regional markets take a number of years to reach the efficiency levels of established branches in major centres. However they immediately make a significant contribution to our distribution and the strength of our staffing, with the opportunity to bring in new people with local industry knowledge. Opening new branches does impact earnings in the short term but if they are well supported then over a 5-10 year horizon the returns can be excellent. While there are limited opportunities, opening new branches in carefully selected regional markets remains an important part of our long-term outlook.

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

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

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

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

Globac - Heavy Vehicle Brake Friction, Foundation & Control

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

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

Managing Director's Report (continued)

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

Daconti - Specialist Vehicle Parts

Daconti is another start up company specialising in a market niche where we have significant supply opportunities and there are natural synergies with our established businesses. It is in the early stages of development and will require financial support for about two years before it breaks even. Clearly the decision to start Daconti places pressure on profitability in the current year.

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

Looking Forward

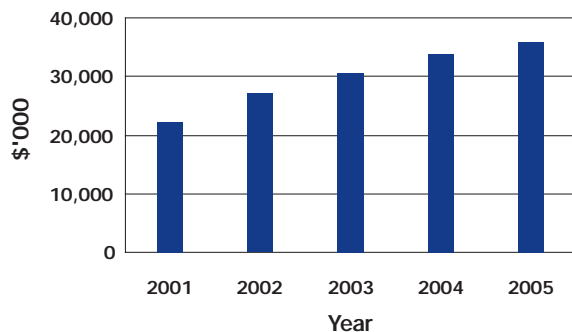
Although our results over the past year include a mixed bag of positives and negatives we have made significant progress on our key principles of building strong relationships with key suppliers, rational management of stock and stock distribution, and active sales teams with strong industry knowledge.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

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

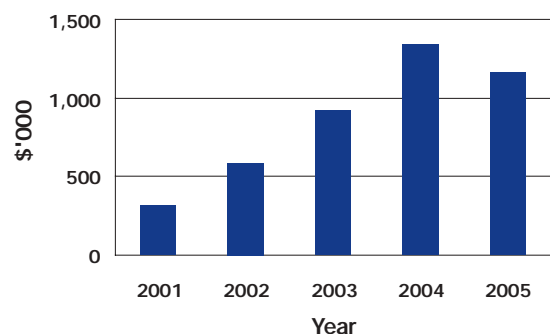
It has been another extraordinary year and one that has seen the maturing of our strategic principles. We have great teams of people across all business units and this has allowed us to bring key strategies into practice. I thank our staff for their contributions over the past year and look forward to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

Performance Highlights

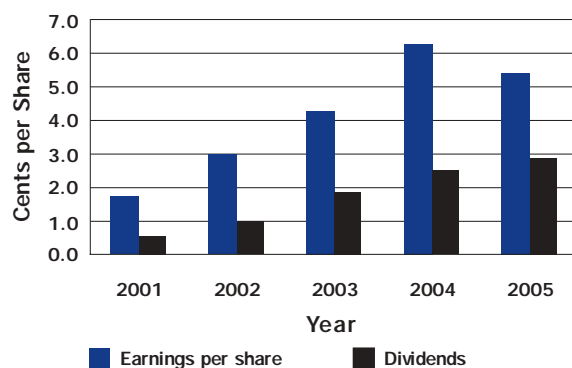
Revenue From Ordinary Activities



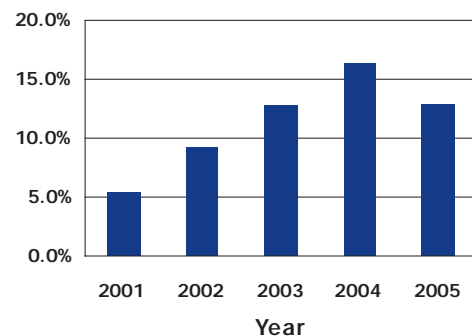
Net Profit After Tax



Earnings Per Share and Dividends Paid



Return on Average Total Equity



Directors' Report

The Directors of Supply Network Limited submit their report for the financial year ended 30 June 2005.

Directors

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

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

Principal Activities

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

Results

The net profit of the consolidated entity after providing for income tax for the financial year was \$1,179,000 (2004: \$1,344,000).

Earnings Per Share

Basic earnings per share for the financial year are 5.35 cents per share (2004: 6.22 cents).

Diluted earnings per share for the financial year are 5.33 cents per share (2004: 6.19 cents).

Dividends

Dividends paid or declared for payment are as follows

Final dividend for 2004 of 1.5 cent per share paid 6 September 2004	331,000
Interim dividend of 1.25 cent per share paid 31 March 2005	276,000
Final dividend for 2005 of 1.5 cents per share declared 28 July 2005 and payable 23 September 2005	332,000

Review of Operations

The consolidated entity sales revenue increased by 4.8% in this financial year.

Ongoing cost controls have ensured overheads remain within expected levels.

Profit from ordinary activities before income tax is \$1,732,000, which is \$173,000 below the corresponding period last year.

Profit from ordinary operations after income tax is \$1,179,000, which is \$165,000 below the same period last year.

The consolidated group has continued developing its stock management initiatives. Inventory levels have increased by \$1.7 million, which has resulted in a negative cash flow from operations. This has been financed primarily through additional borrowing.

During the year the Australian operation opened an additional Multispares outlet in Dandenong and is currently developing another outlet in Canberra. In New Zealand the Auckland distribution centre was also established. This capital expenditure was also funded through increased borrowings.

Further information on Review of Operations is detailed in the Managing Directors Report.

Directors' Report (continued)

Significant Changes in the State of Affairs

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

Significant Events after Balance Date

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

Likely Developments and Expected Results

The directors expect the consolidated entity's future operating results will continue to improve with sales growth of 5-10%. After a number of years of strong organic growth the 2005/06 year will see a consolidation of the well established Multispares business. Further expansion of product model coverage and the branch network are ongoing considerations. The group will continue to investigate new specialist wholesale opportunities as a source of future growth.

Share Options

Unissued shares

As at the date of this report, there were 25,000 unissued ordinary shares under options. Refer to Note 18 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 and directors have exercised the option to acquire 475,000 fully paid ordinary shares in Supply Network Limited at an exercise price of 20 cents.

Information on Directors

Harry Robert Forsyth - Chairman

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

Geoffrey David Huston Stewart - Managing Director

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

Hugh Munro Outram Anderson

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

Garry Thomas Lingard

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

Directors' 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 of Meetings Held	13	5	3
Number of Meetings Attended			
H R Forsyth	13	5	3
H M O Anderson	12	5	2
G T Lingard	12	5	3
G D H Stewart	13	-	-

As at the date of this report the company had an Audit Committee of the Board of Directors which met five 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:

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

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.

Remuneration Report

The report outlines the remuneration arrangements in place for Directors and Executives of Supply Network Limited.

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.

Directors' Report (continued)

Non-executive director remuneration

The Board seeks to set aggregate remuneration 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 remuneration or equity incentives are offered.

Non-executive Directors 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 remuneration 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 future non-executive directors on a fee only basis with no retiring allowance being offered.

The remuneration of non-executive directors for the period ending 30 June 2005 is detailed in Table 1 below.

Executive director and senior executives remuneration

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

Remuneration consists of the following two elements:

- fixed remuneration and
- variable remuneration - short term incentive

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

Fixed Remuneration

The level of fixed remuneration is set to provide a level of remuneration that is both appropriate to the position and competitive in the market place. Executives fixed remuneration 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 remuneration package in a variety of forms including salary, fringe benefits (including motor vehicles) and superannuation.

The fixed remuneration component of the most highly remunerated executives is detailed in Table 2 below.

Variable Remuneration - Short Term Incentive

The objective of the short-term incentive is to link the company's performance and operational targets with the remuneration 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.

Directors' Report (continued)

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.

Table 1: Directors Remuneration for the year ended 30 June 2005

Name	Salary & Fees \$	Bonus \$	Other \$	Superannuation \$	Total \$
H R Forsyth	-	-	-	58,700	58,700
H M O Anderson	-	-	-	40,000	40,000
G T Lingard	36,696	-	-	3,304	40,000
G D H Stewart	195,977	21,804	25,952	19,877	263,610

Table 2: Remuneration of the Executives who receive the highest remuneration for the year ended 30 June 2005

Name	Salary & Fees \$	Bonus \$	Other \$	Superannuation \$	Total \$
B A McKenna	137,412	12,460	39,382	18,055	207,309
P W Gill	124,788	7,787	30,583	35,193	198,351

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.

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.

Tax Consolidation

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

Auditors' Independence Declaration

A copy of Auditors' Independence declaration for the year ended 30 June 2005 is set out on page 11.

Directors' Report (continued)

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	\$10,380
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Signed in accordance with a resolution of directors.



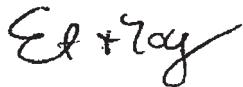
H R Forsyth
Director

Sydney
25 August 2005

Auditors' Independence Declaration

In relation to our audit of the financial report of Supply Network Limited for the financial year ended 30 June 2005, 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

25 August 2005

Corporate Governance Statement

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

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

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

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

Principle 1 – Lay solid foundations for management and oversight

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

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

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

Principle 2 – Structure the Board to add value

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

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

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

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

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

Principle 3 – Promote ethical and responsible decision making

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

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

Corporate Governance Statement (continued)

Principle 4 – Integrity in financial reporting

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

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

Principle 5 – Make timely and balanced disclosure

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

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

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

Principle 6 – Respect the rights of Shareholders

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

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

Principle 7 – Recognise and manage Risk

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

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

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

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

Principle 8 – Encourage enhanced performance

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

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

Principle 9 – Remunerate fairly and responsibly

Board members are remunerated by reference to industry standards.

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

Corporate Governance Statement (continued)

They have 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 and having an independent Chairman, monitors industry practice and advises the Board, which sets the remuneration levels of Executives.

Please also refer to the Remuneration Report on page 8.

Principle 10 – Recognise the legitimate interest of stakeholders

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

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

Other Issues

Board Meetings

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

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

Board Committees

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

Strategy

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

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

Human Resources

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

Insurances

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

Communications and community support

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

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

Finally

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

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

Statement of Financial Performance

for the year ended 30 June 2005

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

Statement of Financial Position

at 30 June 2005

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

Statement of Cash Flows

for the year ended 30 June 2005

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

Notes to the Financial Statements

for the year ended 30 June 2005

1. Statement of Significant Accounting Policies

(a) Basis of Accounting

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

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

(b) Principles of Consolidation

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

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

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

(c) Changes in Accounting Policies

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

(d) Foreign Currency Transactions

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

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

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

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

Specific hedges

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

Translation of financial reports of overseas operations

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

(e) Cash and Cash Equivalents

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

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

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

(f) Receivables

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

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

Notes to the Financial Statements

for the year ended 30 June 2005

1. Statement of Significant Accounting Policies (continued)

(g) Inventories

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

(h) Recoverable Amount

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

(i) Investments

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

(j) Leased Assets

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

Operating leases

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

Finance leases

There were no finance leases during the year.

(k) Property, Plant and Equipment

Plant and equipment is measured at cost.

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

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

(l) Employee Benefits

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

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

Employee entitlement expenses arising in respect of the following categories

- wages and salaries, non monetary benefits, annual leave, long service leave, sick leave and other leave entitlements; and
- other types of employee entitlements

are charged against profits on a net basis in their respective categories.

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

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

(m) Contributed Equity

Issued and paid up capital is recognised at the fair value of the consideration received by the company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

Notes to the Financial Statements

for the year ended 30 June 2005

1. Statement of Significant Accounting Policies (continued)

(n) Payables

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

Payables to related parties are carried at the principal amount.

(o) Provisions

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

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

(p) Interest Bearing Liabilities

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

(q) Revenue Recognition

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

Sale of goods

Control of goods passes to the buyer on despatch.

Interest

Control of the right to receive the interest payment.

Dividends

Control of the right to receive the dividend payment.

(r) Taxes

Income taxes

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

Goods and Services Tax (GST)

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

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

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

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

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

(s) Earnings Per Share

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

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

(t) Comparatives

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

Notes to the Financial Statements

for the year ended 30 June 2005

	Consolidated		Parent	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
2. Revenue from Ordinary Activities				
Revenue from operating activities				
Revenue from sale of goods	35,051	33,434	-	-
Revenues from non-operating activities				
Dividends received from				
- Wholly owned group	-	-	928	998
Interest received from				
- Other persons	4	10	2	1
Net foreign exchange gains from non-speculative activities	12	20	-	-
Management fees received from				
- Wholly owned group	-	-	240	228
Proceeds from sale of non-current assets (Note 3(a) below)	-	18	-	-
Other income	67	36	-	-
Total revenues from non-operating activities	83	84	1,170	1,227
Total revenues from ordinary activities	35,134	33,518	1,170	1,227
3. Expenses and Losses (Gains)				
Expenses				
Cost of goods sold	21,278	20,455	-	-
Depreciation of non-current assets				
- Plant and equipment	355	287	-	-
Other expenses				
Salaries and employee benefit expenses	6,324	5,804	148	148
Operating lease expenses	1,497	1,359	-	-
Other expenses	3,176	3,053	87	78
Utility expenses	288	362	2	2
Bad and doubtful debt – trade debtors	54	24	-	-
Provision for inventory obsolescence	157	62	-	-
Sale non-current asset expenses (Note 3(a) below)	10	30	-	-
Total other expenses	11,506	10,694	237	228
Total expenses from ordinary activities excluding borrowing costs	33,139	31,436	237	228
Borrowing Costs				
Interest paid to or payable to				
- Other persons	263	177	-	-
Total expenses from ordinary activities	33,402	31,613	237	228
(a) Revenue from sale of property, plant and equipment	-	18	-	-
Less expenses from sale of property, plant and equipment	10	30	-	-
Net (profit)/loss on disposal of property, plant and equipment	(10)	(12)	-	-

Notes to the Financial Statements

for the year ended 30 June 2005

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

Tax Consolidation

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

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

5. Receivables (Current)

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

(a) Terms and conditions

Terms and conditions relating to the above financial instruments

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

Notes to the Financial Statements

for the year ended 30 June 2005

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

9. Other Financial Assets

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

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2005

9. Other Financial Assets (continued)

(c) Financial information for class order closed group

Consolidated statement of financial performance for the year ended 30 June 2005

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

Consolidated statement of financial position at 30 June 2005

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

Notes to the Financial Statements

for the year ended 30 June 2005

	Consolidated		Parent	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
10. Property, Plant and Equipment				
Property, plant and equipment at cost				
Plant and equipment				
Opening balance	3,012	2,614	-	-
Additions	515	754	-	-
Disposals	(115)	(370)	-	-
Currency translation difference	3	14	-	-
Closing balance	3,415	3,012	-	-
Accumulated Depreciation				
Opening balance	1,752	1,796	-	-
Depreciation for the year	355	287	-	-
Disposals	(105)	(340)	-	-
Currency translation difference	-	9	-	-
Closing balance	2,002	1,752	-	-
Net book value	1,413	1,260	-	-
Total property, plant and equipment	1,413	1,260	-	-

11. Deferred Tax Assets (Non-Current)

Future income tax benefits

Attributable to timing differences

- Provision for doubtful debts	27	26	21	20
- Provision for employee entitlements	364	334	348	317
- Provision for obsolescence	190	160	117	99
- Other	119	162	74	70
	700	682	560	506

12. Payables (Current)

Unsecured liabilities

Trade creditors and accruals	2,200	2,722	24	24
Foreign currency payable - unhedged Note 30	1,317	1,198	-	-
Foreign currency payable - hedged Note 30	1,099	1,491	-	-
	4,616	5,411	24	24

(a) Terms and conditions

Terms and conditions relating to the above financial instruments

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

Notes to the Financial Statements

for the year ended 30 June 2005

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

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

(b) Refer Note 16 (b) for details of other loans

14. Current Tax Liabilities

Current year tax payable	77	197	123	199
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15. Provisions (Current)

Employee entitlements	Note 25	1,048	984	375	329
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16. Interest Bearing Liabilities (Non-Current)

Bank loans - secured (a)	3,337	1,975		
Other loans - secured (b)	32	-		
	3,369	1,975	-	-

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

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

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

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

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

17. Provisions (Non-Current)

Employee entitlements	Note 25	160	124	20	56
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Notes to the Financial Statements

for the year ended 30 June 2005

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

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

(c) Share Options

Options over ordinary shares:

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

(d) Terms and conditions of contributed equity

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2005

	Consolidated		Parent	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
20. Retained Profits				
Retained Profits				
Balance at beginning of year	3,396	2,484	2,841	2,275
Net profit	1,179	1,344	931	998
Total available for appropriation	4,575	3,828	3,772	3,273
Less dividends provided or paid	607	432	607	432
Balance at end of year	3,968	3,396	3,165	2,841

21. Dividends Paid or Provided for on Ordinary Shares

(a) Dividends paid during the year

Current year interim fully franked dividend (1.25 cents per share) (2004: 1.00 cent)	276	216	276	216
Previous year final fully franked dividend (1.50 cents per share) (2004: 1.00 cent)	331	216	331	216
Total dividends paid	607	432	607	432

(b) Dividends proposed subsequent to 30 June and not recognised as a liability

Current year final fully franked dividend (1.5 cents per share) (2004: 1.5 cents)	332	331	332	331
---	-----	-----	-----	-----

(c) Franking credit balance

The amount of franking credits available for the subsequent financial year are:				
- franking account balance as at the end of the financial year at 30% (2004: 30%)			3,474	3,275
- franking credits that will arise from the payment of income tax payable as the end of the financial year			120	199
			3,594	3,474

The tax rate at which paid dividends have been franked is 30% (2004: 30%). Dividends proposed will be franked at the rate of 30% (2004: 30%).

22. Lease Commitments

Operating lease commitments payable				
- not later than one year	1,602	1,536	-	-
- later than one year and not later than five years	2,207	3,081	-	-
	3,809	4,617	-	-

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.

Notes to the Financial Statements

for the year ended 30 June 2005

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

24. Directors and Executives Disclosures

(a) Details of Specified Directors and Specified Executives

(i) Specified Directors

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

(ii) Specified Executives

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

(b) Remuneration of Specified Directors and Specified Executives

(i) Remuneration Policy

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

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

Notes to the Financial Statements

for the year ended 30 June 2005

24. Directors and Executives Disclosures (continued)

(ii) Remuneration of Specified Directors and Specified Executives

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

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

No options were granted or vested during the year

Notes to the Financial Statements

for the year ended 30 June 2005

24. Directors and Executives Disclosures (continued)

(d) Shares issued on exercise of remuneration options

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

(e) Option holdings of specified directors and specified executives

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2005

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

Share Option Plan

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

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

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

(a) Options held at beginning of year

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

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

(b) Options granted

There were no options granted during reporting period.

Notes to the Financial Statements

for the year ended 30 June 2005

25. Employee Entitlements (continued)

(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 Shares Issued
30 June 2005								
400,000	24/4/2002	24/4/2004	24/4/2007	\$0.20	\$80,000	400,000	10/8/2004	\$0.51
75,000	24/4/2002	24/4/2004	24/4/2007	\$0.20	\$15,000	75,000	18/9/2003	\$0.65
30 June 2004								
125,000	21/3/2001	21/3/2001	21/3/2004	0.15	\$18,750	125,000	18/9/2003	\$0.34

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

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

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

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

Superannuation Commitments

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

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

Notes to the Financial Statements

for the year ended 30 June 2005

	Consolidated		Parent	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000
26. Notes to the Statement of Cash Flows				
(a) Reconciliation of Cash				
Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:				
Cash on hand and at bank	156	476	-	-
Bank overdraft	(107)	(153)	-	-
	49	323	-	-
(b) Reconciliation of net profit after tax to the net cash flows from operations				
Net profit after income tax	1,179	1,344	931	998
Adjustments for non-cash income and expense items				
Dividends received	-	-	(928)	(998)
(Profit)/Loss on sale of property, plant and equipment	10	12	-	-
Depreciation of property, plant and equipment	355	287	-	-
Other	-	-	119	(30)
Transfers to provisions				
- Inventory obsolescence	157	8	-	-
- Employee entitlements	99	34	9	18
- Doubtful debts	4	(123)	-	-
Increase (decrease) in provision for:				
- Income tax payable	(120)	(163)	(76)	(15)
- Deferred taxes	(16)	(111)	(54)	(7)
Changes in assets and liabilities				
(Increase) decrease in:				
Accounts receivable	(277)	(531)	-	-
Inventories	(1,263)	(1,133)	-	-
Other assets	19	(16)	-	-
(Decrease) increase in:				
Trade creditors and accruals	(796)	1,244	-	7
Net cash flow from operating activities	(649)	852	1	(27)
(c) Financing Facilities Available:				
At reporting date the following facilities had been negotiated and were available:				
Total credit facilities	4,161	3,435	-	-
Facilities used at reporting date	(3,585)	(2,228)	-	-
Facilities unused at reporting date	576	1,207	-	-
The major facilities are summarised as follows:				
Bank overdrafts	683	682	-	-
Facilities used	(107)	(153)	-	-
Facilities unused at reporting date	576	529	-	-
Bank loans	3,478	2,753	-	-
Facilities used	(3,478)	(2,075)	-	-
Facilities unused at reporting date	-	678	-	-

Notes to the Financial Statements

for the year ended 30 June 2005

27. Contingent Liabilities

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

28. Subsequent Events

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

29. Segment Information

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

Geographical segments	Australia		New Zealand		Eliminations		Consolidated	
	2005 \$000	2004 \$000	2005 \$000	2004 \$000	2005 \$000	2004 \$000	2005 \$000	2004 \$000
Revenue								
Sales to customers outside the consolidated entity	28,318	27,106	6,733	6,328	-	-	35,051	33,434
Other revenues from outside the consolidated entity	71	80	12	4	-	-	83	84
Intersegment revenues	1,202	1,016	48	3	(1,250)	(1,019)	-	-
Total segment revenues	29,591	28,202	6,793	6,335	(1,250)	(1,019)	35,134	33,518
Results								
Segment results	1,225	1,323	522	585	(15)	(3)	1,732	1,905
Consolidated entity profit from ordinary activities before income tax expense							1,732	1,905
Income tax expense							(553)	(561)
Consolidated entity profit from ordinary activities after income tax expense							1,179	1,344
Net profit							1,179	1,344
Assets								
Segment assets	16,675	15,945	3,374	3,162	(1,133)	(1,402)	18,916	17,705
Liabilities								
Segment liabilities	8,254	7,828	1,257	1,420	(25)	(304)	9,486	8,944
Other segment information								
Acquisition of property, plant and equipment, intangible assets and other non-current assets	311	694	204	60	-	-	515	754
Depreciation	299	237	56	50	-	-	355	287
Non-cash expenses other than depreciation	333	144	33	41	-	-	366	185

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2005

30. Financial Instruments

(a) Interest Rate Risk

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

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

Financial Instruments	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 %
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	-	-	-	-	2,200	2,200	-	-
Foreign currency payables – unhedged	-	-	-	-	1,317	1,317	-	-
Bank loans and overdrafts	107	100	3,337	-	-	3,544	9.9	8.2
Other loans	-	9	32	-	-	41	-	9.2
Forward exchange contracts	-	-	-	-	1,099	1,099	-	-
	107	109	3,369	-	4,616	8,201		
30 June 2004								
Financial assets								
Cash	469	-	-	-	7	476	1.0	-
Receivables	-	-	-	-	4,909	4,909	-	-
Other debtors	-	-	-	-	30	30	-	-
	469	-	-	-	4,946	5,415		
Financial liabilities								
Payables	-	-	-	-	2,722	2,722	-	-
Foreign currency payables – unhedged	-	-	-	-	1,198	1,198	-	-
Bank loans	153	100	1,975	-	-	2,228	9.6	7.5
Other loans	-	-	-	-	-	-	-	-
Forward exchange contracts	-	-	-	-	1,491	1,491	-	-
	153	100	1,975	-	5,411	7,639		

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

Notes to the Financial Statements

for the year ended 30 June 2005

30. Financial Instruments (continued)

(b) Foreign Exchange Risk

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

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

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

(c) Credit Risk Exposure

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

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

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

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

(d) Net Fair Value of Financial Assets and Liabilities

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

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

Recognised financial instruments

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

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

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

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

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

Notes to the Financial Statements

for the year ended 30 June 2005

31. Related Party Transactions

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

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

These transactions were undertaken on commercial terms and conditions.

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

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

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

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

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

(g) Directors' Shareholdings

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

Notes to the Financial Statements

for the year ended 30 June 2005

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

(a) Management of the transition to AIFRS

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

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

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

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

Financial Instruments

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

Impairment of Assets

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

Share Based Payments

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

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

Income Taxes

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

Notes to the Financial Statements

for the year ended 30 June 2005

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

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

Leases

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

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

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

Property Plant and Equipment

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

Inventory

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

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

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

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

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

Directors' Declartaiion

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

(1) In the opinion of the directors:

(a) the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 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 2005.

(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 9 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'H R Forsyth', written over a horizontal line.

H R Forsyth
Director

Sydney
25 August 2005

Independent Audit Report

Independent audit report to members of Supply Network Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Supply Network Limited (the company) and the consolidated entity, for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

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

Audit approach

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

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

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

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

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

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

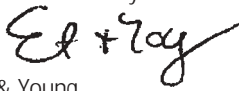

Independence

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

Audit opinion

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

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of Supply Network Limited and the consolidated entity at 30 June 2005 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.


Ernst & Young


Christopher D. George

Partner

Sydney

25 August 2005

ASX Additional Information

a) Shareholdings

The distribution of members and their holdings of 25 cents fully paid shares as at 25 August 2005 in the company's register was as follows:

			Shareholdings
1	to	1,000	46
1,001	to	5,000	168
5,001	to	10,000	94
10,001	to	100,000	135
100,001	to	and over	29
Total shareholders			<u>472</u>

- b) The number of shareholders who hold less than a marketable parcel is 20.
- 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 321 Kent 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 25 August 2005 the twenty largest shareholders were:

Name	Ordinary Shares Held
Hergfor Enterprises Pty Ltd	6,097,314
Mr DJ Woodcock	1,340,000
Dixon Trust Pty Ltd	1,266,523
Niederer Asset Management Pty Ltd	1,054,600
Mrs JE Davies	800,000
Tendword Pty Ltd	750,000
Birubi Super Fund	514,000
Mr M Nakayama	482,875
Sherkane Pty Ltd	450,000
Trilon Nominees Pty Ltd	433,957
Mr G Wieland	419,089
Mr GDH Stewart	414,000
Kailva Pty Ltd	310,000
Trazrail Pty Ltd	261,922
Meadgate Pty Ltd	236,700
Forest Coach Lines Pty. Ltd. (Retirement Fund)	223,000
Odalisque Pty Ltd	214,000
Mrs D G Stewart	214,000
GT Lingard Holdings Pty Ltd	207,842
Bilbini Pty Ltd	200,000

The twenty largest shareholders held 15,889,822 ordinary shares equal to 71.85% of issued ordinary shares.

The company's register of substantial shareholders at 25 August 2005 is:

Hergfor Enterprises Pty Ltd	6,097,314
Mr D J Woodcock	2,140,000
L A Niederer and Company Pty Ltd	1,473,689
Dixon Trust Pty Ltd	1,266,523

Five Year Consolidated Financial Summary

	2005	2004	2003	2002	2001
	\$000	\$000	\$000	\$000	\$000
Financial data:					
Sales revenue	35,051	33,434	30,291	26,344	21,882
Total revenue	35,134	33,518	30,444	27,154	22,113
EBITDA	2,346	2,359	1,889	1,391	977
EBIT	1,991	2,072	1,598	1,066	676
Profit (loss) before tax	1,732	1,905	1,402	845	503
Profit (loss) after tax	1,179	1,344	917	577	315
Earnings per share (cents)	5.35	6.22	4.47	2.98	1.63
Dividends (cents per share)	2.75	2.50	1.75	1.00	0.50
Total assets	18,916	17,705	15,343	14,688	13,242
Total interest bearing debt	3,585	2,228	1,893	2,055	2,001
Total equity	9,430	8,761	7,764	6,561	6,104
Cash flow from (used in) operating activities	(649)	852	682	(76)	86
Cash flow from (used in) investing activities	(515)	(736)	(463)	390	(193)
Cash flow from (used in) financing activities	890	(231)	(73)	180	69
Net movement in cash	(274)	(115)	146	494	(38)
Financial ratios:					
Inventory turnover (a)	2.0	2.2	2.5	2.4	2.1
Interest cover (b)	8.9	13.3	9.6	6.3	5.6
Gearing (c)	38.0%	25.4%	24.4%	31.3%	32.8%
Net tangible asset backing (cents per share)	42.6	40.5	36.1	33.9	31.5
Return on average total assets	6.5%	8.1%	6.1%	4.1%	2.5%
Return on average total equity	13.0%	16.3%	12.8%	9.1%	5.3%

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

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

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

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

Operations



M: Multispares - www.multispares.com.au

G: Globac - www.globac.com.au



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