



**Supply Network Limited**

ABN 12 003 135 680

**ANNUAL REPORT 2007**

A decorative graphic consisting of several parallel diagonal stripes in white and dark blue, slanted from the top-left towards the bottom-right, set against a dark blue background.

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

# Supply Network Limited

ABN 12 003 135 680

## Annual Report for the year ended 30 June 2007

### Contents

### Page

Corporate Information	2
Chairman and Managing Director's Report	3
Directors' Report	5
Corporate Governance Statement	12
Income Statement	16
Balance Sheet	17
Statement of Changes in Equity	18
Cash Flow Statement	19
Notes to the Financial Statements	20
Directors' Declaration	45
Independent Audit Report	46
ASX Additional Information	48
Consolidated Financial Summary	Inside back cover

# Corporate Information

## Directors

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

## Company Secretary

P W Gill

## Registered Office

151 Fairfield Road  
Guildford NSW 2161

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 9611 5711  
Facsimile 61 2 8234 5050

## Stock Exchange Listing

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

# Board of directors



Garry Lingard



Geoff Stewart



Greg Forsyth



Peter McKenzie

# Chairman and Managing Director's Report

Some 12 months ago we indicated a 2-3 year time frame to achieve significantly improved results. In the year just finished revenue of \$34.5m was flat compared with the prior year. Sales patterns continued to be erratic but we did get sales growth in core products. Margins were under pressure throughout the year and the trend towards higher sales of core products helped us to maintain our average margin position.

Group EBIT was \$835k, down \$150k compared with the prior year. This decline was a consequence of rising costs on a flat revenue base in a very competitive environment that has prevented margin growth.

Management budgets show continuing growth in core product sales using our established infrastructure and this will underpin a turnaround in performance. Recent months have shown an improving trend with revenue and profitability both rising and we confirm our expectations for a significantly better result in the current year.

## Review of Operations

### **Multispares Australia – European & Japanese Heavy Vehicle Parts**

Overall sales revenue was flat but with mixed results in different geographic markets. As is generally the case, our results were best in States where economic growth was strongest.

Multispares delivered solid growth in all major customer groups except the Independent Repairers and in this customer group declines were predominantly in non-core products. Across European and Japanese core product groups, volumes were up over the year and in some cases up significantly.

Multispares continues to promote its full supply concept to major Bus Fleets. Over the last year the concept has been implemented in two large Sydney fleets and one Brisbane fleet, and another implementation is in progress in Melbourne. Each implementation is tailored to specific operating conditions and priorities, but the underlying principles of reduced “total cost” of parts procurement for the customer and profitable supply for Multispares have been achieved in every case.

### **Multispares New Zealand – European, Japanese & Trailer Heavy Vehicle Parts**

Sales revenue in New Zealand was down 5% for the second year running, which was a disappointing result. The losses have been concentrated in Auckland and to a lesser extent Christchurch, with Wellington showing solid growth. Major changes have been implemented by our new Christchurch manager and early results are very encouraging. More recently one of our senior management team has returned to the Auckland Manager role to take responsibility for lifting local sales performance.

Last year we reported considerable effort to broaden our product range with the addition of new suppliers and the extension of our trailer brake and suspension range. Brake program growth for truck and trailer has been maintained at around 10% year-on-year, underpinning strong brand positions.

Growth across the whole trailer program was around 16% but revenue remains well below market potential. Our trailer range is market leading and we expect continued double digit revenue growth year-on-year.

### **Globac – Wholesale Heavy Vehicle Brake Friction, Foundation and Control**

Globac was founded about five years ago on a simple set of principles; a sustainable low cost wholesale structure and a focused range of high quality branded products. Over several lean years we have stuck to these principles to achieve client loyalty and recognition.

Recent management changes have dramatically improved Globac's position. In the year just finished revenue grew by 60% and strong growth has continued into the current year. Globac is now profitable and we expect its performance to continue to improve.

### **Capital Management**

Group cash flow has remained positive despite the downturn and reported difficulties. Given our strong financial position and forecasts of improved profitability Directors have maintained the final dividend at 1.0 cent per share fully franked. This helps reduce the impact on shareholders of a cyclical downturn.

The Board recognises there is significant unrealised value in our franking balance and has under consideration opportunities to distribute these credits.

### **Acquisition Strategy**

Over the past year the Board has reviewed a number of acquisition proposals. Most have not met our criteria but we are continuing to investigate opportunities. The Board believes any acquisition must complement, not replace continued organic growth.

# Chairman and Managing Director's Report

(continued)

## A Thank You to Shareholders and Staff

Recent declines in the SNL share price have been disappointing. The Board understands that many shareholders will be concerned by these declines and thanks all shareholders for their continuing support.

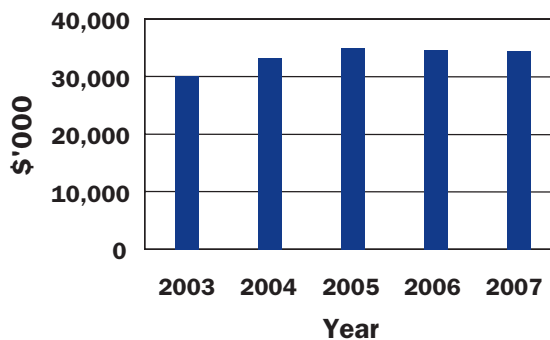
The Board wishes to acknowledge the efforts of management and staff in this difficult environment and to thank them for their contribution and co-operation with the major changes made during the year.

## The Future

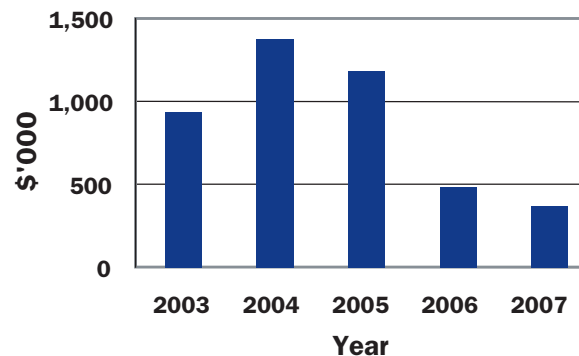
The Company, the structure and the management have undergone much change over the last year. Not the least is a cultural change to a more dynamic and marketing orientated business. These changes have placed us at the forefront of the industry and in a position to move forward and produce the results expected by our shareholders.

## Performance Highlights

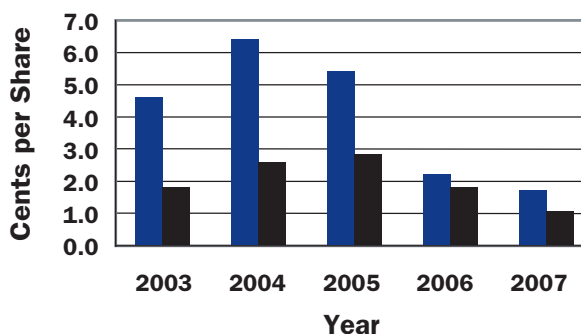
**Total Revenue**



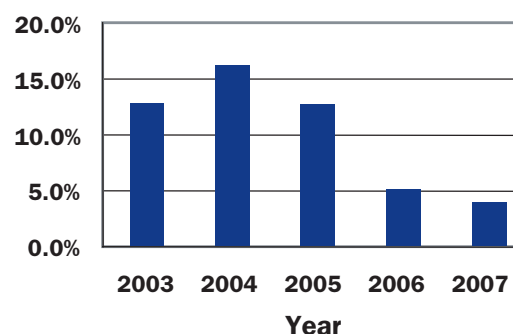
**Net Profit After Tax**



**Earnings Per Share and Dividends Paid**



**Return on Average Total Equity**



■ Earnings per share ■ Dividends

# Directors' Report

The Directors of Supply Network Limited submit their report for the financial year ended 30 June 2007.

## Directors

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

G T Lingard (Chairman)  
G D H Stewart (Managing Director)  
G J Forsyth  
P W McKenzie (appointed 1 July 2006)

## Principal Activities

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

## Results

The profit of the consolidated entity after providing for income tax for the financial year was \$366,000 (2006: \$473,000).

## Earnings Per Share

Basic earnings per share for the financial year are 1.65 cents per share (2006: 2.14 cents).

Diluted earnings per share for the financial year are 1.65 cents per share (2006: 2.14 cents).

## Dividends

Dividends paid or declared for payment are as follows

Final dividend for 2006 of 1.0 cent per share paid 22 September 2006	221,000
Final dividend for 2007 of 1.0 cent per share declared 24 August 2007 and payable 28 September 2007	221,000

## Review of Operations

The consolidated entity sales revenue was \$34.5m for the year, which is a decline of 0.4% when compared to last year.

The Australian operations recorded minor growth (1.3%) in sales revenue while sales in New Zealand declined by 4.8% when measured in NZ\$ terms, which excludes the impact of exchange fluctuations.

Profit after income tax is \$366,000, which is \$107,000 below last year.

During the year the group continued to experience difficult market conditions characterised by intense competition, product price deflation, high fuel prices, longer warranty periods on new vehicles, improved service life of parts and drought in regional Australia. These factors resulted in a slow down in many traditional markets and impacted on the group's results. Ongoing cost controls have minimised the impact of these factors.

The group has continued to develop and expand its total supply arrangements with a number of new contracts commencing during the year.

Cash flows from operations have remained positive over the year.

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

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

## Significant Changes in the State of Affairs

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

# Directors' Report (continued)

## Significant Events after Balance Date

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

## Likely Developments and Expected Results

The directors expect significantly improved operating results for the consolidated entity over 2007/08 with sales growth in the range of 5-10%. Management plans for the year focus on immediate growth opportunities and lifting profitability in the existing operations. Continued expansion of product model coverage, the branch network and investigation of acquisition and specialist wholesale opportunities are ongoing considerations as sources of future growth.

## Share Options

### Unissued shares

As at the date of this report, there were nil unissued ordinary shares under options. No options for shares were issued during the year.

## Information on Directors

### Garry Thomas Lingard - Chairman

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

### Geoffrey David Huston Stewart - Managing Director

Appointed Chief Executive Officer in November 1999 and Managing Director in November 2000. He is a Chartered Professional Engineer and has an MBA from Macquarie University. He also has over 13 years executive management experience in the Road Transport Industry.

### Gregory James Forsyth

Appointed to the Board on 25 January 2006 as Non-executive Director, Chairman of the Audit Committee and a member of the Remuneration Committee. He is a Portfolio Manager with a funds management business specialising in Australian listed equities and has over 20 years experience in financial markets.

### Peter William McKenzie

Appointed to the Board on 1 July 2006 as Non-executive Director, Chairman of the Remuneration Committee and a member of the Audit Committee. He holds a Masters Degree in Business Administration, has over 11 years experience in transport industry and operates a consultancy practice providing advice to clients primarily in the transport industry.

## Directors' Meetings

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

	Directors Meetings		Audit Committee		Remuneration Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
G T Lingard	12	11	3	3	-	-
G J Forsyth	12	12	3	3	-	-
P W McKenzie	12	12	3	3	-	-
G D H Stewart	12	12	-	-	-	-

As at the date of this report the company had an Audit Committee of the Board of Directors which met three times during the year, and a Remuneration Committee which did not meet during the year.



# Directors' Report (continued)

## Directors' Interests

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

- (a) G T Lingard is deemed to have a relevant interest in shares held by GT Lingard Holdings Pty Ltd (207,842 shares).
- (b) 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) and Boboco Pty Limited (50, 000 shares).
- (c) G J Forsyth holds 20,000 ordinary shares of the company and is deemed to have a relevant interest in shares held by Odalisque Pty Ltd (300,000 shares).
- (d) P W McKenzie is deemed to have a relevant interest in shares held by PW & LJ McKenzie Superannuation Fund, a substantial shareholder (1,996,752 shares).

## Indemnification of Directors

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

## Company Secretary

### **P.W.Gill B.Bus, CA, ACIS**

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

## Environmental Regulation and Performance

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

## Remuneration Report

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

### **Remuneration Committee\***

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

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

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

### **Non-executive director compensation\***

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

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

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

# Directors' Report (continued)

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

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

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

The compensation of non-executive directors for the period ending 30 June 2007 is detailed in Table 1 below.

## Executive director and senior executives compensation\*

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

Compensation consists of the following two elements:

- fixed compensation and
- variable compensation - short term incentive

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

## Fixed Compensation

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

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

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

## Variable Compensation - Short Term Incentive\*

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

The short-term incentive payable to executives depends on the extent to which the company's performance exceeds a specific operating target, which is set at the beginning of the year. The cost of these incentives is deducted from the financial results before determining the performance rewards.

On an annual basis after completion of the audit of the company results the short-term incentives are approved by the Remuneration Committee and usually paid in September.

# 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.

## Key Management Personnel\*

Details of key management personnel are as follows:

### Directors

G T Lingard	Chairman (non-executive)
G D H Stewart	Managing Director (executive)
G J Forsyth	Director (non-executive) – appointed 25 January 2006
P W McKenzie	Director (non-executive) – appointed 1 July 2006

### Executives

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

## Compensation of Key Management Personnel

**Table 1: Compensation of Key Management Personnel for the year ended 30 June 2007\***

	Short Term		Post Employment			Share Based	Total	Total Performance Related %
	Salary & Fees	Bonus Payable	Non Monetary	Super-annuation	Retirement Benefits	Options Granted		
<b>Directors</b>								
G T Lingard	55,068	-	-	4,956	-	-	60,024	-
G J Forsyth	36,708	-	-	3,301	-	-	40,009	-
P W McKenzie	30,590	-	-	9418	-	-	40,008	-
G D H Stewart	192,936	-	32,850	20,630	-	-	246,416	-
<b>Executives</b>								
B A McKenna	143,936	-	32,485	20,967	-	-	197,388	-
P W Gill	126,620	-	28,000	45,004	-	-	199,624	-
<b>Total</b>	<b>585,858</b>	<b>-</b>	<b>93,335</b>	<b>104,276</b>	<b>-</b>	<b>-</b>	<b>783,469</b>	<b>-</b>

# Directors' Report (continued)

**Table 2: Compensation of Key Management Personnel for the year ended 30 June 2006\***

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

**Table 3: Details of bonus provided\***

There were no bonuses paid or provided for in the years ended 30 June 2007 and 2006.

**Table 4: Compensation by Category\***

	Consolidated	
	2007	2006
	\$	\$
Short term	679,196	635,164
Post employment	104,276	100,505
Terminations benefits	-	260,500
Share based payments	-	-
Other long term benefits	-	-
	<b>783,469</b>	<b>996,169</b>

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

## Rounding

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

## Auditors' Independence Declaration

A copy of the Auditors' Independence declaration for the year ended 30 June 2007 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	\$493
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Signed in accordance with a resolution of directors.



**G T Lingard**  
Director  
Sydney  
24 August 2007

## Auditor's Independence Declaration to the Directors of Supply Network Limited

In relation to our audit of the financial report of Supply Network Limited for the year ended 30 June 2007, 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



**Geoffrey Applebee**  
Partner  
24 August 2007

# Corporate Governance Statement

Supply Network Limited (SNL) Board members, as representatives of the shareholders, are committed to setting a cultural framework within the organization that engenders responsible citizenship amongst all employees, with an attitude of “doing the right thing” by all stakeholders.

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

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

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

## **Principle 1 – Lay solid foundations for management and oversight**

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

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

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

## **Principle 2 – Structure the Board to add value**

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

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

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

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

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

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

Mr G Stewart, Managing Director, and Mr P McKenzie, a trustee and member of PW & LJ McKenzie Superannuation Fund, which is a substantial shareholder in SNL, are considered not to be independent.

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

# Corporate Governance Statement (continued)

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

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

## **Principle 3 - Promote ethical and responsible decision making**

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

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

## **Principle 4 – Integrity in financial reporting**

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

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

## **Principle 5 – Make timely and balanced disclosure**

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

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

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

## **Principle 6 – Respect the rights of shareholders**

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

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

## **Principle 7 – Recognise and manage risk**

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

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

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

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

# Corporate Governance Statement (continued)

## **Principle 8 – Encourage enhanced performance**

An annual review of the performance of the Board as a unit and of its members is undertaken internally. The Board members are 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.

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

## **Principle 9 – Remunerate fairly and responsibly**

Board members are remunerated by reference to industry standards.

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

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

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

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

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

Please also refer to the Remuneration Report on page 7.

## **Principle 10 – Recognise the legitimate interest of stakeholders**

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

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

## **Other Issues**

### ***Board meetings***

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

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

### ***Board committees***

There are two permanent Board Committees, Audit and Remuneration, each chaired by a Non-executive 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.



# Corporate Governance Statement (continued)

## **Insurances**

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

## **Communications and community support**

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

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

## **Finally**

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

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

# Income Statement

for the year ended 30 June 2007

	Note	Consolidated		Parent	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
Revenue	3	<b>34,519</b>	34,663	<b>655</b>	895
Finance revenue	3	<b>20</b>	13	<b>2</b>	4
Other income		<b>33</b>	10	-	-
Changes in inventories of finished goods		<b>(21,148)</b>	(21,225)	-	-
Employee benefits expenses		<b>(6,556)</b>	(6,468)	<b>(128)</b>	(94)
Depreciation and amortisation		<b>(454)</b>	(449)	-	-
Other expenses	3	<b>(5,559)</b>	(5,546)	<b>(80)</b>	(86)
Finance costs	3	<b>(295)</b>	(302)	-	-
<b>Profit before income tax</b>		<b>560</b>	696	<b>449</b>	719
Income tax expense	4	<b>(194)</b>	(223)	<b>(11)</b>	(28)
<b>Profit after income tax</b>		<b>366</b>	473	<b>438</b>	691
<b>Net profit for the year</b>		<b>366</b>	473	<b>438</b>	691
<b>Net profit attributable to members of the parent</b>	18	<b>366</b>	473	<b>438</b>	691
Basic earnings per share (cents per share)	20	<b>1.65</b>	2.14		
Diluted earnings per share (cents per share)	20	<b>1.65</b>	2.14		
Dividends per share (cents per share)	19	<b>1.00</b>	2.25		

The above income statement should be read in conjunction with the accompanying notes.

# Balance Sheet

at 30 June 2007

	Note	Consolidated		Parent	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	5	763	816	51	1
Trade and other receivables	6	4,299	4,590	7,685	7,461
Inventories	7	12,123	11,350	-	-
Other current assets	8	47	85	-	-
Derivatives	9	-	1	-	-
<b>Total current assets</b>		<b>17,232</b>	16,842	<b>7,736</b>	7,462
<b>Non-current assets</b>					
Other financial assets	10	-	-	1,398	1,398
Property, plant and equipment	11	1,136	1,447	-	-
Deferred tax assets	4	708	670	39	39
<b>Total non-current assets</b>		<b>1,844</b>	2,117	<b>1,437</b>	1,437
<b>TOTAL ASSETS</b>		<b>19,076</b>	18,959	<b>9,173</b>	8,899
<b>LIABILITIES</b>					
<b>Current liabilities</b>					
Trade and other payables	12	5,486	5,791	26	31
Interest bearing loans and borrowings	13	135	110	-	-
Income tax payable	14	78	-	65	-
Provisions	15	407	366	109	112
Derivatives	9	13	-	-	-
<b>Total current liabilities</b>		<b>6,119</b>	6,267	<b>200</b>	143
<b>Non-current liabilities</b>					
Interest bearing loans and borrowings	13	3,143	3,217	-	-
Provisions	15	320	313	-	-
<b>Total non-current liabilities</b>		<b>3,463</b>	3,530	-	-
<b>TOTAL LIABILITIES</b>		<b>9,582</b>	9,797	-	143
<b>NET ASSETS</b>		<b>9,494</b>	9,162	<b>8,973</b>	8,756
<b>EQUITY</b>					
Contributed equity	16	5,398	5,398	5,398	5,398
Reserves	17	42	(145)	-	-
Retained earnings	18	4,054	3,909	3,575	3,358
<b>TOTAL EQUITY</b>		<b>9,494</b>	9,162	<b>8,973</b>	8,756

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

# Statement of Changes in Equity

for the year ended 30 June 2007

	Note	Consolidated		Parent	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>Total equity at the beginning of the financial year</b>		<b>9,162</b>	9,396	<b>8,756</b>	8,560
Adjustments from translation of foreign controlled entities	17	<b>187</b>	(212)	-	-
Net income recognised in equity attributable to members of the company		<b>9,349</b>	9,184	<b>8,756</b>	8,560
Net profit for the financial year		<b>366</b>	473	<b>438</b>	691
Total recognised income and expense for the financial year		<b>9,715</b>	9,657	<b>9,194</b>	9,251
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity by members of the company	16	-	3	-	3
Dividends paid to members of the company	19	<b>(221)</b>	(498)	<b>(221)</b>	(498)
<b>Total equity at the end of the financial year</b>		<b>9,494</b>	9,162	<b>8,973</b>	8,756

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

# Cash Flow Statement

for the year ended 30 June 2007

	Note	Consolidated		Parent	
		2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>Inflows / (Outflows)</b>					
<b>Cash flows from operating activities</b>					
Receipts from customers		<b>38,524</b>	39,035	-	-
Payments to suppliers and employees		<b>(37,818)</b>	(36,679)	<b>(6)</b>	8
Interest received		<b>12</b>	9	<b>2</b>	4
Interest paid		<b>(297)</b>	(305)	-	-
Income tax paid		<b>(46)</b>	(360)	-	-
Net cash flows from (used in) operating activities	25(a)	<b>375</b>	1,700	<b>(4)</b>	12
<b>Cash flows from investing activities</b>					
Purchase of property, plant and equipment		<b>(134)</b>	(341)	-	-
Proceeds from sale of property, plant and equipment		-	1	-	-
Advances to and by wholly owned related parties		-	-	<b>275</b>	484
Net cash flows from (used in) investing activities		<b>(134)</b>	(340)	<b>275</b>	484
<b>Cash flows from financing activities</b>					
Proceeds from borrowings		<b>208</b>	159	-	-
Proceeds from issue of shares		-	3	-	3
Repayment of borrowings		<b>(319)</b>	(268)	-	-
Equity dividends paid		<b>(221)</b>	(498)	<b>(221)</b>	(498)
Net cash flows from (used in) financing activities		<b>(332)</b>	(604)	<b>(221)</b>	(495)
Net increase (decrease) in cash and cash equivalents		<b>(91)</b>	756	<b>50</b>	1
Cash and cash equivalents at beginning of year		<b>816</b>	49	<b>1</b>	-
Exchange rate adjustment to balances held in foreign currencies		<b>14</b>	11	-	-
Cash and cash equivalents at end of year	5	<b>739</b>	816	<b>51</b>	1

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

# Notes to the Financial Statements

for the year ended 30 June 2007

## 1. Corporate information

The financial report of Supply Network Limited (the company) for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the directors on 24 August 2007.

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

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

## 2. Statement of significant accounting policies

### (a) Basis of accounting

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis, except for selected non-current assets, financial assets and liabilities, which have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the class order applies.

### (b) Statement of compliance

Certain Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2007. The directors have not early adopted any of these new or amended standards or Interpretations. The directors have not fully assessed the impact of these new or amended standards (to the extent relevant to the Group) and interpretations.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). The financial report also complies with International Financial Reporting Standards (IFRS).

### (c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Supply Network Limited and its subsidiaries as at 30 June each year (the Group).

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

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

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

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

#### (i) Significant accounting judgements

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

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

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

#### *Impairment of assets*

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

#### *Long service leave provision*

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

# Notes to the Financial Statements

for the year ended 30 June 2007

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

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

#### *Make good provision*

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

### (e) Foreign currency transactions

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

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

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

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

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

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

#### *Subsidiary Company*

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

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

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

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

### (f) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

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

### (g) Trade and other receivables

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

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

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

### (h) Inventories

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

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

Finished Goods – weighted average cost into store.

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

Obsolete and redundant inventories are provided for as appropriate.

# Notes to the Financial Statements

for the year ended 30 June 2007

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

### (i) Investments

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

### (j) Leases

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

#### *Group as a lessee*

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

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

There were no finance leases during the year.

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

### (k) Property, plant and equipment

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

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

	2007	2006
Plant and equipment	2-10 years	2-10 years

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

#### *(i) Impairment*

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

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash inflows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

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

#### *(ii) Derecognition and disposal*

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

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

### (l) Derivative financial instruments

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

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



# Notes to the Financial Statements

for the year ended 30 June 2007

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

### (m) Trade and other payables

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

### (n) Provisions

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

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

Provisions are measured at present value of managements' best estimate of the expenditure required to settle the present obligation at the Balance Sheet date.

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

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

### (o) Employee leave benefits

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

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

#### (ii) Long Service Leave

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

### (p) Post employment benefits

Contributions are made to employee superannuation fund and are charged against profit when incurred (refer note 24).

### (q) Contributed equity

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

### (r) Interest bearing liabilities

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

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

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

# Notes to the Financial Statements

for the year ended 30 June 2007

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

### (s) Share based transactions

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

The cost of equity-settled transactions with employees (for awards granted after 7 November 2002 that were vested at 1 January 2005) is measured by reference to the fair value of the equity instruments at the date at which they are granted. In valuing equity-settled transactions, no account is taken of any performance conditions.

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

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

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

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

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

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see note 20).

### (t) Impairment of assets

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

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

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

# Notes to the Financial Statements

for the year ended 30 June 2007

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

### (u) Revenue recognition

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

#### (i) Sale of goods

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

#### (ii) Interest Income

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

#### (iii) Dividends

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

#### (iv) Management Fees

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

### (v) Borrowing costs

Borrowing costs are recognised in income in the period in which they are incurred

### (w) Income tax

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

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

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

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

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

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

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

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

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

# Notes to the Financial Statements

for the year ended 30 June 2007

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

### (w) Income tax (continued)

Income taxed relating to items recognised directly in equity are recognised in equity and not in profit or loss.

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

The tax consolidated current tax expense and other deferred tax assets are required to be allocated to the members of the tax consolidated group in accordance with UIG 1052. The group uses a group allocation method for this purpose where the allocated current tax payable, current tax loss, deferred tax assets and other tax credits for each member of the tax consolidated group is determined as if the company is a stand-alone taxpayer but modified as necessary to recognise membership of a tax consolidated group. Recognition of amounts allocated to members of the tax consolidated group has regard to the tax consolidated groups future tax profits

### (x) Other taxes

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

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

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

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

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

### (y) Earnings per share

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

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

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

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

# Notes to the Financial Statements

for the year ended 30 June 2007

	Consolidated		Parent	
	2007	2006	2007	2006
	\$000	\$000	\$000	\$000
<b>3. Revenues and expenses</b>				
<b>Revenue and expenses from operating activities</b>				
<b>(a) Revenue</b>				
Sale of goods	34,519	34,663	-	-
Dividends	-	-	415	625
Management fees	-	-	240	270
	<b>34,519</b>	<b>34,663</b>	<b>655</b>	<b>895</b>
<b>(b) Finance revenue</b>				
Bank Interest receivable	12	9	2	4
Make good provision discount adjustment	8	4	-	-
	<b>20</b>	<b>13</b>	<b>2</b>	<b>4</b>
<b>(c) Other expenses</b>				
Bad and doubtful debts – trade receivables	(24)	(47)	-	-
Freight and cartage expenses	(795)	(723)	-	-
Insurance expense	(297)	(302)	(10)	(12)
Operating lease expense	(1,683)	(1,658)	-	-
Utility expenses	(435)	(474)	(1)	(2)
Other	(2,325)	(2,342)	(69)	(72)
	<b>(5,559)</b>	<b>(5,546)</b>	<b>(80)</b>	<b>(86)</b>
<b>(d) Finance costs</b>				
Bank loans and overdrafts	(293)	(299)	-	-
Finance charges payable under hire purchase contracts	(2)	(3)	-	-
	<b>(295)</b>	<b>(302)</b>	<b>-</b>	<b>-</b>

# Notes to the Financial Statements

for the year ended 30 June 2007

	Consolidated		Parent	
	2007	2006	2007	2006
	\$000	\$000	\$000	\$000

## 4. Income tax

The major components of income tax expense are:

### Income statement

#### Current income tax

Current income tax charge	220	254	10	114
Adjustments in respect of current income tax of previous years	-	-	1	-

#### Deferred income tax

Adjustment to deferred tax assets for change in the tax rate	12	-	-	-
Relating to origination and reversal of temporary differences	(38)	(31)	-	(86)
Income tax expense reported in the income statement	194	223	11	28

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

Accounting profit before income tax	560	696	449	719
-------------------------------------	-----	-----	-----	-----

At the Group's statutory income tax rate of 30% (2006:30%)	168	208	135	216
Adjustments in respect of current income tax of previous years	-	-	1	-

Adjustment to deferred tax assets for change in tax rate	12	-	-	-
Expenditure not allowable for income tax purposes	14	15	-	-
Fully franked dividends received	-	-	(125)	(188)
	194	223	11	28

	Balance sheet		Income Statement	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000

### Deferred income tax

Deferred income tax at 30 June relates to the following:

#### Consolidated

##### Deferred tax assets

Accelerated depreciation for tax purposes	125	86	39	36
Provision for doubtful debts	13	17	(4)	(10)
Provision for employee benefits	321	309	12	(51)
Provision for stock obsolescence	168	187	(19)	5
Provision for decommission of leased assets	1	4	(3)	3
Unrealised profit in stock	36	28	8	(8)
Other	44	39	5	(6)
	708	670	38	(31)

#### Parent

##### Deferred tax assets

Provision for employee benefits	33	34	-	(85)
Other	6	5	-	(1)
	39	39	-	(86)

# Notes to the Financial Statements

for the year ended 30 June 2007

Consolidated		Parent	
2007	2006	2007	2006
\$000	\$000	\$000	\$000

## 4. Income tax (continued)

### Tax consolidation

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

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

For the current year the entities have decided to enter into a tax funding agreement under which the funding amounts are based on the amounts of current tax expense allocated to the subsidiary and recognised by it in accordance with the accounting policy. The funding amounts are recognised as an increase/ decrease in the subsidiaries' inter company accounts with the tax consolidated group head company. The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current inter company receivables or payables (see note 6).

## 5. Cash and cash equivalents

Cash at bank and in hand	712	816	-	-
Short-term deposits	51	-	51	1
	<u>763</u>	<u>816</u>	<u>51</u>	<u>1</u>

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

Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

### Reconciliation to Cash Flow Statement

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June.

Cash at bank and in hand	712	816	-	-
Short-term deposits	51	-	51	1
Bank overdrafts (note 13)	(24)	-	-	-
	<u>739</u>	<u>816</u>	<u>51</u>	<u>1</u>

# Notes to the Financial Statements

for the year ended 30 June 2007

	Consolidated		Parent	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>6. Trade and other receivables</b>				
Trade receivables (i)	4,331	4,533	-	-
Allowance for impairment loss	(44)	(54)	-	-
	<b>4,287</b>	<b>4,479</b>	-	-
Amounts receivable from wholly owned subsidiaries (ii)	-	-	7,685	7,445
Income tax receivable	-	88	-	16
Other receivables	12	23	-	-
	<b>4,299</b>	<b>4,590</b>	<b>7,685</b>	<b>7,461</b>

(i) Trade receivables are non-interest bearing and generally on 30 day terms. An allowance for impairment loss is made when there is objective evidence that a trade receivable is impaired. An allowance of \$15,000 has been recognised as an expense for the current year for specific debtors for whom such evidence exists. The amount of the impairment loss had been measured as the difference between the carrying amount of the trade receivables and the estimated future cash flow expected to be received from the relevant debtors.

(ii) Amounts receivable from wholly owned subsidiaries are non-interest bearing and are repayable in full on demand (refer note 30).

Details regarding the effective interest rate and the credit risk of current receivables are disclosed in note 29.

## 7. Inventories

Finished goods at net realisable value	10,452	9,219		
Stock in transit (at cost) – finished goods	1,671	2,131	-	-
Total Inventories at lower of cost and net realisable value	<b>12,123</b>	<b>11,350</b>		

## 8. Other current assets

Prepayments	47	85	-	-
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## 9. Derivatives

### Current Assets

Net forward currency contracts-cash flow hedges	-	1	-	-
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### Current Liabilities

Net forward currency contracts-cash flow hedges	13	-	-	-
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### (a) Instrument used by the Group

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

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

Currency		Average exchange rate		Buy	Buy
		2007	2006	2007 \$000	2006 \$000
Euro currency	3 months or less	0.63	0.59	758	624
Japanese yen	3 months or less	98.9	85.2	137	35
US currency	3 months or less	0.85	-	111	-
Australian currency	3 months or less	0.89	-	81	-
Total				<b>1,087</b>	<b>659</b>



# Notes to the Financial Statements

for the year ended 30 June 2007

Consolidated		Parent	
2007	2006	2007	2006
\$000	\$000	\$000	\$000

## 10. Other financial assets (non-current)

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

	Country of incorporation	Percentage Holdings	2007 \$	2006 \$
Multispares N.Z. Limited	New Zealand	100%	<b>1,030,600</b>	1,030,600
Multispares Limited	Australia	100%	<b>367,429</b>	367,429
Daconti Limited	Australia	100%	<b>2</b>	2
Globac Limited	Australia	100%	<b>2</b>	2
Supply Network Services Limited	Australia	100%	<b>2</b>	2
			<b>1,398,035</b>	1,398,035

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

- (b) Supply Network Limited, Multispares Limited, Globac Limited, Daconti Limited and Supply Network Services Limited (Closed Group) have entered into a Deed of Cross Guarantee dated 5 June 1992 which provides that all parties to the deed will guarantee to each creditor payment in full of any debt of each company participating in the deed on winding-up of that company. As a result of the Class Order 98/1418 issued by the Australian Securities Commission, Multispares Limited, Globac Limited, Daconti Limited and Supply Network Services Limited are relieved from the requirement to prepare financial statements.

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

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

	Closed Group	
	2007	2006
<b>Income Statement</b>	<b>\$000</b>	<b>\$000</b>
Profit before income tax	<b>581</b>	702
Income tax expense	<b>(187)</b>	(224)
Profit after income tax	<b>394</b>	478
Net profit attributable to members of the parent	<b>394</b>	478
<b>Retained Earnings</b>		
Retained earnings at the beginning of the year	<b>3,004</b>	3,024
Profit after income tax	<b>394</b>	478
Dividends provided for or paid	<b>(221)</b>	(498)
Retained earnings at end of the year	<b>3,177</b>	3,004

# Notes to the Financial Statements

for the year ended 30 June 2007

## 10. Other financial assets (non-current) (continued)

Balance Sheet	Closed Group	
	2007	2006
	\$000	\$000
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	761	679
Trade and other receivables	3,767	3,908
Inventories	9,903	9,453
Other current assets	42	79
Intercompany	15	71
Derivatives	994	594
<b>Total current assets</b>	<b>15,482</b>	<b>14,784</b>
<b>Non-current assets</b>		
Other financial assets	1,031	1,031
Property, plant and equipment	858	1,153
Deferred tax assets	559	528
<b>Total non-current assets</b>	<b>2,448</b>	<b>2,712</b>
<b>TOTAL ASSETS</b>	<b>17,930</b>	<b>17,496</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	4,764	4,915
Interest bearing loans and borrowings	111	110
Income tax payable	65	-
Provisions	407	366
Derivatives	1,006	594
<b>Total current liabilities</b>	<b>6,353</b>	<b>5,985</b>
<b>Non-current liabilities</b>		
Interest bearing loans and borrowings	2,735	2,846
Provisions	267	262
<b>Total non-current liabilities</b>	<b>3,002</b>	<b>3,108</b>
<b>TOTAL LIABILITIES</b>	<b>9,355</b>	<b>9,093</b>
<b>NET ASSETS</b>	<b>8,575</b>	<b>8,403</b>
<b>EQUITY</b>		
Contributed equity	5,398	5,398
Retained earnings	3,177	3,005
<b>TOTAL EQUITY</b>	<b>8,575</b>	<b>8,403</b>

# Notes to the Financial Statements

for the year ended 30 June 2007

	Consolidated		Parent	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>11. Property, plant and equipment</b>				
<b>Property, plant and equipment at cost</b>				
<b>Plant and equipment</b>				
Opening balance	3,639	3,589	-	-
Additions	134	371	-	-
Disposals	(65)	(258)	-	-
Adjustment	59	(63)	-	-
Closing balance	<b>3,767</b>	3,639	-	-
<b>Accumulated depreciation</b>				
Opening balance	2,192	2,027	-	-
Depreciation for the year	454	449	-	-
Disposals	(47)	(253)	-	-
Adjustment	32	(31)	-	-
Closing balance	<b>2,631</b>	2,192	-	-
Net book value	<b>1,136</b>	1,447	-	-
<b>Total property, plant and equipment</b>	<b>1,136</b>	1,447	-	-

## 12. Trade and other payables

Trade payable	(i)	5,467	5,770	26	31
Interest payable	(ii)	19	21	-	-
		<b>5,486</b>	5,791	<b>26</b>	<b>31</b>

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

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

Information regarding the effective interest rate and credit risk of current payables is set out in note 29.

## 13. Interest bearing loans and borrowings

### Current

	Maturity				
Obligations under hire purchase contracts (i)	2008	11	10	-	-
Bank overdraft – secured (ii)	On demand	24	-	-	-
Bank loans (iii)	2008	100	100	-	-
		<b>135</b>	110	-	-

### Non-current

Obligations under hire purchase contracts (i)	2009	10	21	-	-
Bank loans (iii)	2008-2011	3,133	3,196	-	-
		<b>3,143</b>	3,217	-	-

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

(ii) Bank overdrafts and bank loans are secured by fixed and floating charges over the assets of Supply Network Limited and controlled entities. Bank overdrafts have no specific term and are subject to annual review in November each year. Interest rates on overdrafts are variable and during the year average interest rate was 10.1% (2006: 10.3%).

(iii) Bank loans comprise fixed interest only loans of \$2,758,000 with effective interest rate of 6.95% to 9.43% maturing between August 2008 to July 2011 and a fixed interest loan of \$475,000 at 8.17% maturing November 2010 and repayable by quarterly instalments.

# Notes to the Financial Statements

for the year ended 30 June 2007

	Consolidated		Parent	
	2007	2006	2007	2006
	\$000	\$000	\$000	\$000
<b>14. Current tax liabilities</b>				
Current year tax payable	78	-	65	-

## 15. Provisions

	Long	Lease	Total
	Service	make	
	Leave	good	
	\$000	\$000	\$000
<b>Consolidated</b>			
At 1 July 2006	468	211	679
Arising during the year	73	-	73
Utilised	(5)	-	(5)
Adjustment	-	5	5
Discount rate adjustment	(17)	(8)	(25)
At 30 June 2007	519	208	727
Current 2007	407	-	407
Non-current 2007	112	208	320
	519	208	727
Current 2006	366	-	366
Non-current 2006	102	211	313
	468	211	679

	Directors	Total
	Retirement	
	Benefit	
	\$000	\$000
<b>Parent</b>		
At 1 July 2006	112	112
Arising during the year	(3)	(3)
Utilised	-	-
Discount rate adjustment	-	-
At 30 June 2007	109	109
Current 2007	109	109
Non-current 2007	-	-
	109	109
Current 2006	112	112
Non-current 2006	-	-
	112	112

### Lease make good provision

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

# Notes to the Financial Statements

for the year ended 30 June 2007

	Consolidated		Parent	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>16. Contributed equity</b>				
(a) Issued and paid up capital 22,126,345 ordinary shares fully paid (2006: 22,113,845)	<b>5,398</b>	5,398	<b>5,398</b>	5,398

	2007		2006	
	Number of Shares	\$000	Number of Shares	\$000
(b) Movements in Shares on Issue				
Balance at beginning of year	<b>22,126,345</b>	<b>5,398</b>	22,113,845	5,395
Issue of shares under share option plan	-	-	12,500	3
Balance at end of the year	<b>22,126,345</b>	<b>5,398</b>	22,126,345	5,398

(c) Share Options

Options over ordinary shares:

At the end of the year there were nil (2006: nil) 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	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>17. Reserves</b>				
<b>Other reserves</b>				
Balance at beginning of year	(145)	67	-	-
Currency translation differences	<b>187</b>	(212)	-	-
Balance at end of year	<b>42</b>	(145)	-	-

Other reserves are used to record exchange differences arising from the translation of the functional currency (NZ\$) of the foreign subsidiary into the presentation currency (AUD\$) of the consolidated financial statements

**18. Retained earnings**

<b>Retained earnings</b>				
Balance at beginning of year	<b>3,909</b>	3,934	<b>3,358</b>	3,165
Net profit	<b>366</b>	473	<b>438</b>	691
Total available for appropriation	<b>4,275</b>	4,407	<b>3,796</b>	3,856
Less dividends provided or paid	<b>221</b>	498	<b>221</b>	498
Balance at end of year	<b>4,054</b>	3,909	<b>3,575</b>	3,358

# Notes to the Financial Statements

for the year ended 30 June 2007

	Consolidated		Parent	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>19. Dividends paid and proposed for on ordinary shares</b>				
<b>(a) Dividends declared and paid during the year</b>				
Current year interim fully franked dividend (2007: nil) (2006: 0.75 cent per share)	-	166	-	166
Previous year final fully franked dividend (2006: 1.00 cent per share) (2005: 1.50 cent)	<b>221</b>	332	<b>221</b>	332
Total dividends paid	<b>221</b>	498	<b>221</b>	498
<b>(b) Dividends proposed subsequent to 30 June and not recognised as a liability</b>				
Current year final fully franked dividend (2007: 1.00 cent per share) (2006: 1.00 cent)	<b>221</b>	221	<b>221</b>	221

**(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% (2006: 30%)		<b>3,618</b>	3,631
- franking credits that will arise from the payment of income tax payable as the end of the financial year		<b>65</b>	(18)
		<b>3,683</b>	3,613

The amount of franking credits available for the future reporting periods:

- impact of franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period:		<b>(95)</b>	(95)
		<b>3,588</b>	3,518

The tax rate at which paid dividends have been franked is 30% (2006: 30%).

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

**20. Earnings per share**

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

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

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

	Consolidated	
	2007 \$000	2006 \$000
Net profit attributable to ordinary equity holders of the parent	<b>366</b>	473
Weighted average number of ordinary shares for basic earnings per share	<b>22,126,345</b>	22,122,852
Effect of dilution:		
- Share options	-	12,877
Weighted average number of ordinary shares adjusted for the effect of dilution	<b>22,126,345</b>	22,135,729

# Notes to the Financial Statements

for the year ended 30 June 2007

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
<b>21. Lease commitments</b>				
Operating lease commitments payable				
- not later than one year	<b>1,386</b>	1,453	-	-
- later than one year and not later than five years	<b>1,784</b>	1,889	-	-
	<b>3,170</b>	3,342	-	-

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.

## 22. Auditors compensation

Amounts received or due and receivable by

Ernst & Young (Australia) for:

- an audit or review of the financial report of the entity and any other entity in the consolidated group

<b>93,063</b>	76,807	<b>11,200</b>	10,580
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Amounts received or due and receivable by

Ernst & Young (New Zealand) for:

- an audit or review of the financial report of the subsidiary

<b>24,535</b>	20,240	-	-
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- tax compliance

<b>493</b>	5,756	-	-
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<b>25,028</b>	25,996	<b>11,200</b>	10,580
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<b>118,091</b>	102,803	<b>11,200</b>	10,580
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Amounts received or due and receivable by the auditors for other services:

- Ernst & Young New Zealand – tax compliance

<b>493</b>	5,756	-	-
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## 23. Key management personnel

### (a) Compensation of key management personnel

Details of key management personnel are as follows:

#### Directors

G T Lingard	Chairman (non-executive)
G J Forsyth	Director (non-executive) – appointed 25 January 2006
P W McKenzie	Director (non-executive) – appointed 1 July 2006
G D H Stewart	Managing Director (executive)

#### Executives

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

The company has applied the exemption under Corporations Amendments Regulation 2006 (No. 4) which exempts listed companies from providing remuneration disclosure in relation to their key management personnel in their annual financial reports by accounting standard AASB 124 *Related Party Disclosures*. These remuneration disclosures are provided in the Remuneration Report section of the Directors' Report on page 7 to 10 designated as audited.

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

	Consolidated		Parent	
	2007	2006	2007	2006
	\$	\$	\$	\$
Short term	<b>679,193</b>	635,164	<b>122,366</b>	91,294
Post employment	<b>104,276</b>	100,505	<b>17,675</b>	18,910
Terminations benefits	-	260,500	-	260,500
Share based payments	-	-	-	-
Other long term benefits	-	-	-	-
	<b>783,469</b>	996,169	<b>140,041</b>	370,704

# Notes to the Financial Statements

for the year ended 30 June 2007

## 23. Key management personnel (continued)

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

No options were granted or vested during the years ended 30 June 2007 and 30 June 2006.

### (c) Shares issued on exercise of compensation options

There were no shares issued on exercise of compensation options during the years ended 30 June 2007 and 30 June 2006.

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

There were no options held by key management personnel at balance date 30 June 2007 and 30 June 2006.

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

		Balance 1 July 2006	Options Exercised	Net Change Other	Balance 30 June 2007
<b>Directors</b>					
G T Lingard		207,842	-	-	207,842
G J Forsyth	(i)	320,000	-	-	320,000
P W McKenzie	(ii)	1,671,054	-	325,698	1,996,752
G D H Stewart		678,000	-	-	678,000
<b>Executives</b>					
B A McKenna		152,425	-	-	152,425
P W Gill		290,500	-	-	290,500
		<u>3,319,821</u>	-	<u>325,698</u>	<u>3,645,519</u>

		Balance 1 July 2005	Options Exercised	Net Change Other	Balance 30 June 2006
<b>Directors</b>					
G T Lingard		207,842	-	-	207,842
G J Forsyth	(i)	-	-	-	320,000
P W McKenzie	(ii)	-	-	-	1,671,054
H R Forsyth	(iii)	6,097,314	-	-	-
H M O Anderson	(iv)	514,000	-	-	-
G D H Stewart		628,000	-	50,000	678,000
<b>Executives</b>					
B A McKenna		152,425	-	-	152,425
P W Gill		290,500	-	-	290,500
		<u>7,890,081</u>	-	<u>50,000</u>	<u>3,319,821</u>

(i) Mr G J Forsyth was appointed as a director of Supply Network Limited on 25 January 2006

(ii) Mr P W McKenzie was appointed as a director of Supply Network Limited on 1 July 2006

(iii) Mr H R Forsyth retired as a director of Supply Network Limited on 25 January 2006

(iv) Mr H M O Anderson resigned as a director of Supply Network Limited on 24 November 2005



# Notes to the Financial Statements

for the year ended 30 June 2007

## 24. Employee entitlements

### Share option plan

A share option plan has been established where executive directors and certain members of staff of the consolidated entity are issued with options over ordinary shares of Supply Network Limited. The options, issued for nil consideration are granted 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.

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

	2007		2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of year	-	-	25,000	0.20
Issued	-	-	-	-
Exercised	-	-	(12,500)	0.20
Lapsed	-	-	(12,500)	-
Balance at end of year	-	-	-	-

#### (a) Options held at beginning of year

There were no options held by employees at 1 July 2006.

#### (b) Options granted

There were no options granted during the years ended 30 June 2007 and 30 June 2006.

#### (c) Options exercised

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

Number of Options	Grant Date	Vesting Date	Expiry Date	Weighted Average Exercise Price	Proceeds from Shares Issued	Number of Shares Issued	Issue Date	Fair Value of Shares Issued
<b>30 June 2007</b>								
-	-	-	-	-	-	-	-	-
<b>30 June 2006</b>								
12,500	4/4/2002	24/4/2004	24/4/2007	\$0.20	\$2,500	12,500	10/10/2005	\$0.35

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

There were no options held by employees at 30 June 2007.

### 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 time earnings to the funds, with employees contributing various percentages of their gross salary. The funds are accumulation funds and have been established to provide benefits to employees on retirement, death or disability.

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

### Employee numbers

	Consolidated		Parent	
	2007	2006	2007	2006
Number of employees at year end	96	104	3	3

# Notes to the Financial Statements

for the year ended 30 June 2007

	Consolidated		Parent	
	2007 \$000	2006 \$000	2007 \$000	2006 \$000
<b>25. Cash Flow Information</b>				
<b>(a) Reconciliation of net profit after tax to the net cash flows from operations</b>				
Net profit after income tax	366	473	438	691
<b>Adjustments for non-cash income and expense items</b>				
Dividends received	-	-	(415)	(625)
(Profit)/loss on sale of property, plant and equipment	4	3	-	-
Depreciation of property, plant and equipment	454	449	-	-
Other	-	-	(94)	(426)
Transfers to provisions				
- Inventory obsolescence	(125)	8	-	-
- Employee entitlements	39	(176)	(9)	(19)
- Doubtful debts	(12)	(32)	-	-
Net exchange differences	200	(248)	-	-
Increase (decrease) in provision for:				
- Income tax payable	174	(166)	81	(139)
- Deferred taxes	(26)	46	-	521
<b>Changes in assets and liabilities</b>				
(Increase) decrease in:				
Trade receivable	202	653	-	-
Inventories	(670)	186	-	-
Other assets	41	(9)	-	-
(Decrease) increase in:				
Trade and other payables	(272)	513	(5)	9
Net cash flow from (used in) operating activities	<b>375</b>	1,700	<b>(4)</b>	12

**(b) Financing facilities available:**

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

Total credit facilities	4,636	4,691	-	-
Facilities used at reporting date	(3,255)	(3,327)	-	-
Facilities unused at reporting date	<b>1,381</b>	1,364	-	-

The major facilities are summarised as follows:

Bank overdrafts	681	664	-	-
Facilities used	24	-	-	-
Facilities unused at reporting date	<b>657</b>	664	-	-
Bank loans	3,933	3,996	-	-
Facilities used	(3,233)	(3,296)	-	-
Facilities unused at reporting date	<b>700</b>	700	-	-

# Notes to the Financial Statements

for the year ended 30 June 2007

## 26. Contingent liabilities

As explained in note 10 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.

A claim for damages in the amount of \$76,000 plus costs for the supply of allegedly defective goods has been brought against a controlled entity. The action is being defended and advice from legal counsel indicated that it is possible, but not probable, that the action will succeed and accordingly, no provision for any liability has been recognised in the financial statements.

## 27. 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.

## 28. Segment information

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

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

Geographical segments	Australia		New Zealand		Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Revenue</b>								
Sales to customers outside the consolidated entity	<b>28,812</b>	28,450	<b>5,707</b>	6,213	-	-	<b>34,519</b>	34,663
Other revenues from outside the consolidated entity	<b>30</b>	20	<b>23</b>	3	-	-	<b>53</b>	23
Intersegment revenues	<b>878</b>	1,003	<b>67</b>	3	<b>945</b>	(1,006)	-	-
Total segment revenues	<b>29,720</b>	29,473	<b>5,797</b>	6,219	<b>945</b>	(1,006)	<b>34,572</b>	34,686
<b>Results</b>								
Segment results	<b>581</b>	703	<b>7</b>	(26)	<b>(28)</b>	19	<b>560</b>	696
Consolidated entity profit from ordinary activities before income tax expense							<b>560</b>	696
Income tax expense							<b>(194)</b>	(223)
Consolidated entity profit from ordinary activities after income tax expense							<b>366</b>	473
Net profit							<b>366</b>	473
<b>Assets</b>								
Segment assets	<b>17,930</b>	17,496	<b>3,530</b>	3,467	<b>(1,334)</b>	(1,345)	<b>20,126</b>	19,618
<b>Liabilities</b>								
Segment liabilities	<b>9,355</b>	9,093	<b>1,506</b>	1,613	<b>(229)</b>	(250)	<b>10,632</b>	10,456
<b>Other segment information</b>								
Acquisition of property, plant and equipment, intangible assets and other non-current assets	<b>101</b>	352	<b>33</b>	19	-	-	<b>134</b>	371
Depreciation	<b>378</b>	367	<b>76</b>	82	-	-	<b>454</b>	449
Non-cash expenses other than depreciation	<b>140</b>	218	<b>11</b>	38	-	-	<b>129</b>	256

Segment accounting policies are the same as the consolidated entity's policies described in note 2. During the year, there were no changes in segment accounting policies that had a material effect on the segment information.

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

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

# Notes to the Financial Statements

for the year ended 30 June 2007

## 29. Financial instruments

The Group's principal financial instruments, other than derivatives, comprise bank loans and overdrafts, hire purchase contracts and cash. The main purpose of these financial instruments is to raise finance for the Group's operations.

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

### (a) Interest rate risk

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

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

Financial instruments	Floating interest rate (i) \$000	Fixed interest rate maturing			Non-interest bearing \$000	Total \$000	Weighted average interest rate	
		1 year or less \$000	1 to 5 years \$000	Over 5 years \$000			Floating %	Fixed %
<b>Consolidated</b>								
<b>30 June 2007</b>								
Financial assets								
Cash	757	-	-	-	6	763	1.8	-
Receivables	-	-	-	-	4,331	4,331	-	-
Forward currency contracts	-	-	-	-	1,074	1,074	-	-
Other debtors	-	-	-	-	12	12	-	-
	<b>757</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,423</b>	<b>6,180</b>	<b>-</b>	<b>-</b>
Financial liabilities								
Payables	-	-	-	-	5,486	5,486	-	-
Bank loans and overdrafts	24	1,825	1,408	-	-	3,257	12.9	8.0
Forward currency contracts	-	-	-	-	1,087	1,087	-	-
Other loans	-	11	10	-	-	21	-	9.2
	<b>24</b>	<b>1,836</b>	<b>1,418</b>	<b>-</b>	<b>6,573</b>	<b>9,851</b>	<b>-</b>	<b>-</b>
<b>30 June 2006</b>								
Financial assets								
Cash	808	-	-	-	8	816	1.4	-
Receivables	-	-	-	-	4,533	4,533	-	-
Forward currency contracts	-	-	-	-	660	660	-	-
Other debtors	-	-	-	-	112	112	-	-
	<b>808</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,313</b>	<b>6,121</b>	<b>-</b>	<b>-</b>
Financial liabilities								
Payables	-	-	-	-	5,082	5,082	-	-
Bank loans and overdrafts	-	100	3,195	-	-	3,295	-	7.9
Forward currency contracts	-	-	-	-	659	659	-	-
Other loans	-	9	23	-	-	32	-	9.2
	<b>-</b>	<b>109</b>	<b>3,218</b>	<b>-</b>	<b>6,450</b>	<b>9,777</b>	<b>-</b>	<b>-</b>

# Notes to the Financial Statements

for the year ended 30 June 2007

## 29. Financial Instruments (continued)

Financial instruments	Floating interest rate (i) \$000	Fixed interest rate maturing			Non-interest bearing \$000	Total \$000	Weighted average interest rate	
		1 year or less \$000	1 to 5 years \$000	Over 5 years \$000			Floating %	Fixed %
<b>Parent</b>								
<b>30 June 2007</b>								
Financial assets								
Cash	51	-	-	-	-	51	5.0	-
Receivables	-	-	-	-	7,685	7,685	-	-
	<b>51</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,685</b>	<b>7,736</b>		
Financial liabilities								
Payables	-	-	-	-	26	26	-	-
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26</b>	<b>26</b>		
<b>30 June 2006</b>								
Financial assets								
Cash	1	-	-	-	-	1	3.9	-
Receivables	-	-	-	-	7,461	7,461	-	-
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,461</b>	<b>7,462</b>		
Financial liabilities								
Payables	-	-	-	-	31	31	-	-
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>31</b>	<b>31</b>		

- (i) Floating interest rates are the most recently determined rate applicable to the instrument at balance date.
- (ii) Management have assessed the impact of any changes of effective interest rate and have determined there will be minimal effect on financial liabilities with floating interest rates.
- (iii) Bank loans contractual repricing dates are between November 2007 and July 2008. Bank overdrafts have no specific term and are subject to annual review in November each year.

### (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 accounting policy in regard to forward exchange contracts is detailed in note 2.

Information on outstanding forward exchange contracts at balance date is detailed in note 9.

### (c) Credit risk exposure

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

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

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

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

### (d) Fair value

All assets and liabilities recognised in the balance sheet, whether they are carried at cost or fair value, are recognised at amounts that represents a reasonable approximation of fair value unless otherwise stated in the applicable notes.

# Notes to the Financial Statements

for the year ended 30 June 2007

## 30. Related party transactions

	Consolidated		Parent	
	2007	2006	2007	2006
	\$000	\$000	\$000	\$000
(a) Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.				
Transactions with related parties:				
(i) Wholly owned controlled entities				
Management fees	-	-	240	270
Dividends	-	-	415	625
(ii) Key management personnel				
Lease rental (property)	568	550	-	-
Consultancy fees	15	2	-	-
(b) The parent entity entered into the following transactions during the year with related parties in the wholly owned group.				
Loans were advanced and repayments received on short term intercompany accounts. Dividends and management fees were received from wholly owned controlled entities (see note 3).				
These transactions were undertaken on normal commercial terms and conditions.				
(c) Amounts due to and receivable from related parties in the wholly owned group are set out in the respective notes to the financial statements.				
(d) The ownership interests in related parties in the wholly owned group are disclosed in note 10.				
(e) The ultimate controlling entity of the consolidated entity is Supply Network Limited.				
(f) The names of each person holding the position of Director of Supply Network Limited during the last two financial years were G T Lingard, G D H Stewart, G J Forsyth (appointed 25 January 2006), P W McKenzie (appointed 1 July 2006), H R Forsyth (retired 25 January 2006) and H M O Anderson (resigned 24 November 2005),				
(g) Mr G T Lingard is the Managing Director and shareholder in a company, which leases premises on normal commercial terms and conditions to a wholly owned controlled entity. Total payments in 2007: \$568,000 (2006: \$550,000).				
(h) Mr P W McKenzie was appointed a director on 1 July 2006 and during the year was paid consultancy fees of \$15,000 (2006: \$2,000) on normal commercial terms and conditions.				
(i) Key management personnel details are disclosed in note 23.				
(j) Directors' shareholdings				

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

	2007	2006
Ordinary shares	<u>3,202,594</u>	<u>1,205,842</u>

# Directors' Declaration

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

- (1) In the opinion of the directors:
  - (a) the financial statements and notes and the additional disclosures included in the Directors' Report designated as audited, 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 2007 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 year ending 30 June 2007.
- (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 10 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board

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

**G T Lingard**  
Director  
Sydney  
24 August 2007

# Independent Audit Report

## **Independent auditor's report to the members of Supply Network Limited**

We have audited the accompanying financial report of Supply Network Limited and the entities it controlled during the year ended 30 June 2007, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

The company has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard 124 *Related Party Disclosures* ("remuneration disclosures"), under the heading "Remuneration Report" on pages 7 to 9 of the directors' report, as permitted by Corporations Regulation 2M.6.04-.

### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The financial report, complies with International Financial Reporting Standards. The directors are also responsible for the remuneration disclosures contained in the directors' report.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and that the remuneration disclosures comply with Accounting Standard AASB 124 *Related Party Disclosures*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### *Independence*

In conducting our audit we have met the independence requirements of 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 and the remuneration disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.



# Independent Audit Report

## *Auditor's Opinion*

In our opinion:

1. the financial report of Supply Network Limited is in accordance with:
  - (a) the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the financial position of Supply Network Limited and the consolidated entity at 30 June 2007 and of their performance for the year ended on that date; and
    - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations); and
  - (b) other mandatory financial reporting requirements in Australia.
2. the financial report also complies with International Financial Reporting Standards as disclosed in Note2(b).
3. the remuneration disclosures that are contained on pages 7 to 10 of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures*.



Ernst & Young



**G. R. Applebee**

Partner

Sydney

24 August 2007

# ASX Additional Information

## a) Shareholdings

The number of shareholders by size of their holdings of 25 cents fully paid shares as at 24 August 2007 in the company's register was as follows:

		<b>Shareholdings</b>
1	to	1,000
		34
1,001	to	5,000
		124
5,001	to	10,000
		62
10,001	to	100,000
		94
100,001	to	and over
		29
Total shareholders		<u>343</u>

- b) The number of shareholders who hold less than a marketable parcel is 67.
- c) All ordinary shares carry one vote per share.
- d) The address of the Principal Registered Office in Australia is 151 Fairfield Road, Guildford NSW 2161.
- e) The share registry is at Computershare Investor Services Pty Ltd Level 3, 60 Carrington Street, Sydney NSW 1115.
- f) The company's auditors are Ernst & Young 680 George Street, Sydney NSW 2000.
- g) The company's securities are listed on the Australian Stock Exchange.
- h) The name of the Company Secretary is P W Gill.
- i) Twenty largest shareholders

At 24 August 2007 the twenty largest shareholders were:

<b>Name</b>	<b>Ordinary Shares Held</b>
Hergfor Enterprises Pty Ltd	6,097,314
PW & LJ McKenzie Superannuation Fund	1,996,752
Mrs J E Davies	1,673,748
Dixson Trust Pty Ltd	1,266,523
Mr D J Woodcock	1,200,000
Birubi Super Fund	514,000
Mr M Nakayama	482,875
Sherkane Pty Ltd	450,000
Trilon Nominees Pty Ltd	433,957
Kailva Pty Ltd	420,000
Mr GDH Stewart	414,000
Trazrail Pty Ltd	360,062
Odalisque Pty Ltd	300,000
Mr R J Almond	260,127
Meadgate Pty Ltd	236,700
Mr G F and M J Pauley	231,200
Forest Coach Lines Pty. Ltd. (Retirement Fund)	223,000
Mr R L Denison	220,000
Mrs D G Stewart	214,000
G T Lingard Holdings Pty Ltd	207,842

The twenty largest shareholders held 17,202,100 ordinary shares equal to 77.8% of issued ordinary shares.

The company's register of substantial shareholders at 24 August 2007 is:

Hergfor Enterprises Pty Ltd	6,097,314
Mr D J Woodcock	2,873,748
PW & LJ McKenzie Superannuation Fund	1,996,752
Dixon Trust Pty Ltd	1,266,523

# Five Years Consolidated Financial Summary

	2007	2006	2005	2004	2003
	\$000	\$000	\$000	\$000	\$000
<b>Financial data: (a)</b>					
Sales revenue	34,519	34,663	35,051	33,434	30,291
Total revenue	34,572	34,686	35,070	33,518	30,444
EBITDA	1,289	1,434	2,341	2,359	1,889
EBIT	835	985	1,973	2,072	1,598
Profit (loss) before tax	560	696	1,698	1,905	1,402
Profit (loss) after tax	366	473	1,155	1,344	917
Earnings per share (cents)	1.65	2.14	5.25	6.22	4.47
Dividends (cents per share)	1.00	1.75	2.75	2.50	1.75
Total assets	19,076	18,959	19,074	17,705	15,343
Total interest bearing debt	3,278	3,327	3,585	2,228	1,893
Total equity	9,494	9,162	9,396	8,761	7,764
Cash flow from (used in) operating activities	375	1,711	(649)	852	682
Cash flow from (used in) investing activities	(134)	(340)	(515)	(736)	(463)
Cash flow from (used in) financing activities	(332)	(604)	890	(231)	(73)
Net movement in cash	(91)	767	(274)	(115)	146

## Financial ratios:

Inventory turnover (b)	2.0	2.0	2.0	2.2	2.5
Interest cover (c)	4.7	5.0	8.5	13.3	9.6
Gearing (d)	34.5%	36.3%	38.2%	25.4%	24.4%
Net tangible asset backing (cents per share) (e)	42.9	41.4	42.5	40.5	36.1
Return on average total assets	1.9%	2.5%	6.3%	8.1%	6.1%
Return on average total equity	3.9%	5.1%	12.7%	16.3%	12.8%

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

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

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

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

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

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