

# SNL ANNUAL REPORT 2016



SUPPLY NETWORK LIMITED ABN 12 003 135 680

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# CORPORATE INFORMATION

## Directors

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

## Company Secretary

P W Gill

## Registered Office

1 Turnbull Close  
Pemulwuy NSW 2145

Telephone 02 8624 8077

## E-mail

admin@supplynetwork.com.au

## Corporate Governance Statement

The Corporate Governance Statement can be found at:  
[www.supplynetwork.com.au/governance.htm](http://www.supplynetwork.com.au/governance.htm)

## Internet Address

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

## Auditors

HLB Mann Judd (NSW Partnership)

## Bankers

ANZ Banking Group Limited

## Solicitors

Bartier Perry

## Share Registry

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

## Enquiries (within Australia)

1300 850 505

## Enquiries (outside Australia)

61 3 9415 4000

## Facsimile

61 3 9473 2500

## Stock Exchange Listing

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



# CHAIRMAN'S AND MANAGING DIRECTOR'S REPORT

**“At the end of another busy year, sales revenue increased to \$87.2m.”**

At the end of another busy year for Supply Network, Directors are pleased to report sales revenue of \$87.2m, an increase of \$1.9m on the prior year, and EBIT of \$7.1m, a decrease of \$1.3m on the prior year. The fall in EBIT is attributable to costs associated with the relocation of our Australian Distribution Centre and ongoing higher facility costs following relocations of the Australian DC, Sydney Branch and Perth Branch. Other operating costs have tracked below forecasts as a result of the slowdown in sales growth.

This has been a challenging year impacted by additional work setting up a new Australian DC, increased competition in many segments and weaker trading conditions, particularly in Western Australia. Intensifying competition has been inevitable for some time given our increased market share in an open market with significant global influences. Our response has been to refocus and re-energise activities that build our sustainable competitive strengths, particularly the breadth of our product range and penetration across the truck and bus customer base. While we should always expect to be challenged in this inherently competitive industry, we have confidently begun another year stronger and better placed than ever before to deliver the products and value our customers need.

## Review of Operations

Relocation of the Australian DC, including the separation of Sydney Branch to an adjacent site, was easily the largest single investment and most challenging task ever undertaken by this Group. The project was managed well by operations and administration staff and supported with initiative by our sales teams. It is a great credit to everyone that we completed the process on budget and with minimal disruption to customers. Notwithstanding this, there is no doubt the process of planning and managing the relocation was a distraction from sales initiatives and a contributing factor in lower growth over the past 12 months.

We have been very pleased with the operating performance of the new DC since it settled into a normal routine of receiving incoming goods, picking and packing stock orders and urgent order dispatch. We have seen a substantial reduction in the time between receiving new stock and making this stock available for orders, and stock pick error rates have fallen to historically low levels with further improvements targeted over the next 6-12 months. Both these KPIs are critical to operating efficiency and customer service levels and had been progressively deteriorating in congested conditions at the old Guildford site.

Over the year our sales performance was characterised by steady growth across New Zealand and southeast Australia, continued market weakness in Queensland and deteriorating conditions in South and Western Australia. In the highly competitive urban bus market there was further price deflation, which resulted in some margin contraction and revenue decline. Offsetting this was continued expansion in our truck customer base and solid growth in truck product revenue. It is noteworthy that despite the challenges thrown up by our DC relocation, most of the truck related sales development targets we set at the beginning of the year were met or exceeded. This is a credit to our Sales Leaders and the broad skill set of our Sales Team.

We are pleased to report continuing solid growth and improved profitability in Toowoomba and Dunedin where we have now been operating for two years. Both these new branches are well established with local customers and have become an essential part of our service structure in their regions.

**Sales Revenue  
increased by**

**\$1.9m**

**Net Profit After  
Tax was**

**\$4.8m**

**Earnings  
Per Share**

**11.88  
cents**

We are also pleased to report the successful opening of a new Branch in Somerton on the northern fringes of Melbourne, close to the new Melbourne Markets and just north of the old transport service hub at Campbellfield. This new Branch is well positioned on a key transport corridor with easy truck access and will significantly improve service levels to local customers. The opening of Somerton also frees up capacity at our well established Sunshine Branch, which had become congested following years of strong growth.

The significant investment we have been making in our distribution capacity and branch network has to be backed by product and supply chain development to broaden our range and underpin a better product offer for customers. Relationships with established suppliers remain strong and over the past year we have opened a number of promising, high quality supply lines for late technology and products targeted for range expansion.

# CHAIRMAN'S AND MANAGING DIRECTOR'S REPORT

## CONTINUED

**“Directors are confident your business is well placed to continue growth in revenue.”**

### Capital Management

Directors have long maintained their position on conservative financing and low net debt to ensure financial strength and flexibility in a dynamic market. Over time, this has allowed a consistent, trusted approach to supplier payments and given management the confidence to make stocking decisions across lead times of three to five months, which is particularly challenging in areas of product and customer development.

Over this past year, a conservative balance sheet also allowed Directors to increase the dividend payout ratio to 76%, with the final dividend maintained at 5 cents per share and interim dividend maintained at 4 cents per share despite increased shares on issue.

### The Future

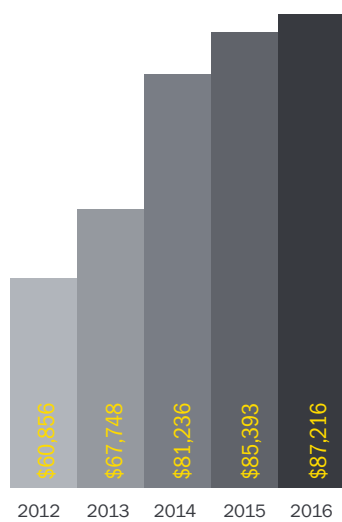
After a challenging slowdown in revenue growth, management is focused on ensuring we regain momentum, particularly in Australia. We expect sales growth to pick up this year and have forecast full year revenue above \$92m and EBIT above \$7.5m. Although short of the \$100m revenue target we set three years ago, all other business development targets in our current 3-Year Plan will be completed this year and Directors are confident your business is well placed to continue growth in revenue, profitability and dividends over the next decade.

We have plans to open a fifth branch in New Zealand and management is working on a proposal to combine this new branch with a new Distribution Centre that would commence operations early next financial year. This proposal would free up capacity needed to support continued growth of Auckland Branch, which is located inside the current Auckland DC, it would set up the distribution capacity needed to support projected growth in New Zealand over the next decade and would immediately strengthen our business in an expanding New Zealand logistics hub. Directors have included this proposed New Zealand DC in broader discussions with management on a new 3-Year Plan for the Group covering the period FY2018 to FY2020.

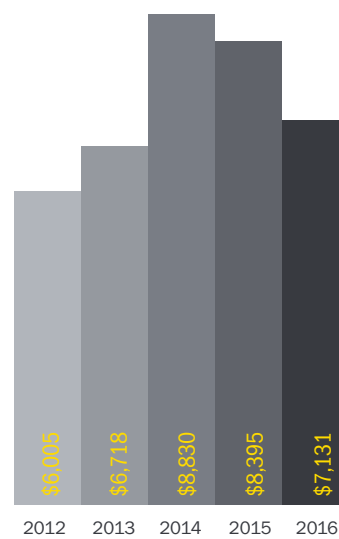
We thank all staff for their efforts over the past year and look forward to continuing our work with management as we build our position in the Australian and New Zealand markets.

## Performance Highlights

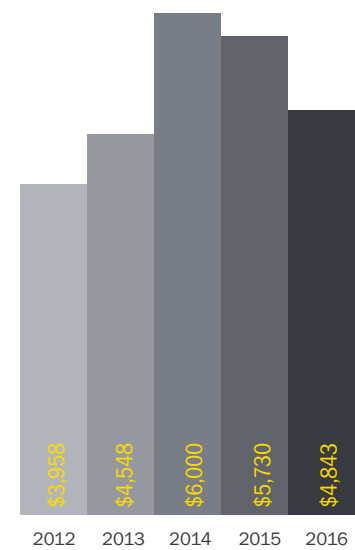
2016  
Total revenue  
**\$87.22m**  
(,000)



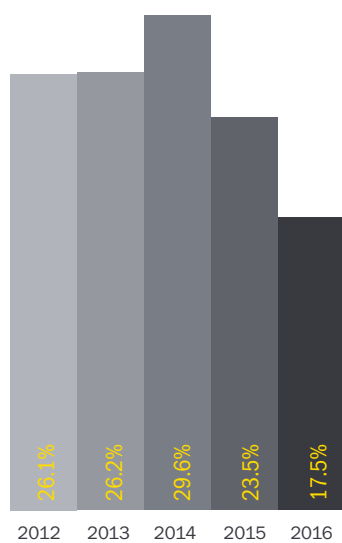
2016  
Earnings before interest and tax  
**\$7.13m**  
(,000)



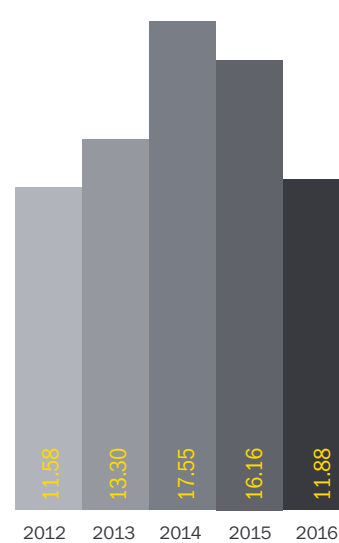
2016  
Profit after income tax  
**\$4.84m**  
(,000)



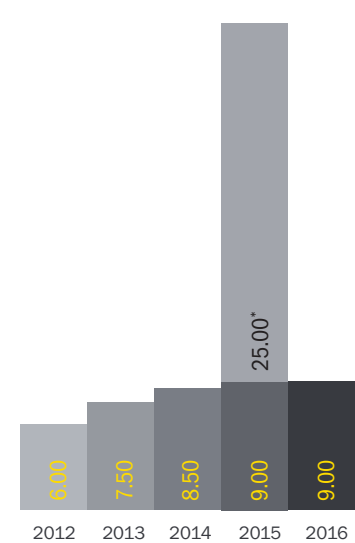
2016  
Return on average total equity  
**17.5%**



2016  
Earnings per share  
**11.88 cents**



2016  
Dividends paid per share  
**9.00 cents**



\*Special dividend

# OUR BUSINESS

Return on  
average total  
equity

17.5%

Dividends  
paid per  
share

9.00  
cents

## Who we are:

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

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

## Our business principles:

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

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

The diversity of vehicle makes and models and the concentration of certain vehicles for particular tasks sets up considerable difference in the demand for replacement parts from one region to another. In order to deal with the complexities of regional market demand we have developed a decentralised management structure with a strong regional focus. We actively build depth in our branch network to improve local decision-making and strengthen support for local requirements.

The breadth of our product range, significant regional differences and a strong regional structure does add to our operating cost. However we are an organisation with substantial scale, which allows us to buy products well and many of our operational and administrative activities are highly efficient. This keeps us competitive while our branch network keeps service levels strong.

## Organisational culture:

### Our Management Charter states:

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

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

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

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

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

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



# DIRECTORS' REPORT

The Directors of Supply Network Limited (the company) submit their report on the consolidated entity (the Group) consisting of Supply Network Limited and the entities it controlled at the end of, or during, the financial year ended 30 June 2016.

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

## Principal Activities

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

## Results

The net profit of the Group after providing for income tax for the financial year was \$4.84m (2015: \$5.73m).

## Earnings per Share

Basic and diluted earnings per share for the financial year are 11.88 cents per share (2015: 16.16 cents).

## Dividends

Dividends paid or declared for payment are as follows:

## Review of Operations

Group sales revenue for the year was \$87.2m, which is an increase of 2.2% when compared to last year.

Sales revenue in the Australian operation increased by 1.8% and in the New Zealand operation increased by 4.9% in NZ\$ terms.

Earnings before interest and tax for the year were \$7.1m, a decrease of 15.1% on last year.

Profit after income tax for the year was \$4.8m, a decrease of 15.5% on last year.

During the year difficult economic conditions together with challenging and competitive market conditions impacted on prices, sales growth, margins and overall group performance.

Operating costs have also increased due to the enhancement and expansion of our branch network. We relocated our Perth branch based in Kewdale to larger premises late June 2015, moved our Sydney Branch to its own separate facility (completed November 2015) and relocated our Sydney based National Distribution Centre to new larger premises (completed March 2016). We also established a new branch in Somerton Vic, which opened in July 2016.

Earnings per share were 11.88 cents (on a significantly higher share base) when compared to 16.16 cents last year (see note 18).

We also experienced major movements in exchange rates which resulted in increased product costs, higher inventory levels and impacted on group cash flows. Group cash flows from operating activities were \$3.7m compared to \$7.7m last year.

	\$000
Final dividend for 2015 of 5.00 cents per share paid 30 September 2015	2,038
Interim dividend for 2016 of 4.00 cents per share paid 31 March 2016	1,631
Final dividend for 2016 of 5.00 cents per share declared 28 July 2016 and payable 30 September 2016	2,038

# DIRECTORS' REPORT

## CONTINUED

**“The Directors forecast sales revenue growth for the Group of at least 5% in 2016/17.”**

There were no additional long term borrowings during the year. Gearing, at balance date, is 12.5% compared to 14.7% at June 2015.

Net assets of the group are \$28.6m (June 2015: \$26.8m) and net tangible asset backing is 70.3 cents per share (June 2015: 65.7 cents).

The Directors have declared a fully franked final dividend of 5.0 cents per share payable on 30 September 2016 to shareholders registered on 15 September 2016.

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

Total dividends paid and or payable in respect of the year have been maintained at the same level as last year, 9 cents per share (excluding special dividend), on an overall higher share base. The dividend payout ratio for the year is 75.7% compared to last year's rate of 55.7%.

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

### Significant Changes in the State of Affairs

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

### Significant Events after Balance Date

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

### Likely Developments and Expected Results

The Directors forecast sales revenue growth for the Group of at least 5% in 2016/17. Management plans for the year focus on organic growth opportunities in the existing

business units. Continued expansion of the product range and branch network are the primary considerations in our three year outlook.

### Share Options - Unissued shares

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

### Information on Directors

#### Gregory James Forsyth - Chairman

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

#### Peter William McKenzie

Appointed to the Board on 1 July 2006 as Non-executive Director. Chairman of the Remuneration Committee and a member of the Audit Committee. He holds a Masters Degree in Business Administration, has over 20 years experience in the transport industry, is the Chief Executive of a family owned bus business and operates a consultancy practice providing advice to clients primarily in the transport industry.

#### Geoffrey David Huston Stewart - Managing Director

Appointed Chief Executive Officer in November 1999 and Managing Director in November 2000. He has a Bachelor of Engineering (Mechanical) from the University of Sydney, an MBA from Macquarie University and over 27 years experience in the road transport industry.

#### Peter William Gill

Appointed to the Board on 1 May 2008 as Finance Director. He has been the Senior Finance Executive and Company Secretary since April 1995. He is a Chartered Accountant with a Bachelor of Business degree and has over 40 years experience in accounting and finance in both commercial and professional fields.

## Directors' Meetings

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

	Directors Meetings		Audit Committee		Remuneration Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
G J Forsyth	12	12	2	2	4	4
P W McKenzie	12	12	2	2	4	4
G D H Stewart	12	12	-	-	-	-
P W Gill	12	12	-	-	-	-

## Directors' Interests

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

- (a) G J Forsyth holds 41,200 ordinary shares of the company and is deemed to have a relevant interest in shares held by Odalisque Pty Ltd (626,635 shares).
- (b) P W McKenzie is deemed to have a relevant interest in shares held by PW & LJ McKenzie Superannuation Fund, a substantial shareholder (4,473,359 shares).
- (c) G D H Stewart is deemed to have a relevant interest in shares held by Boboco Pty Limited (955,947) and D G Stewart (440,886 shares).
- (d) P W Gill holds 178,460 ordinary shares of the company and is deemed to have a relevant interest in shares held by Viewbar Pty Limited (420,025 shares).

## Indemnification of Directors

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

## Company Secretary

Peter William Gill has been the Company Secretary and Senior Finance Executive of Supply Network Limited for over 21 years and is a Chartered Accountant.

## Environmental Regulation and Performance

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

## Remuneration Report

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

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

### Remuneration Committee

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

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.

# DIRECTORS' REPORT

## CONTINUED

“Earnings before interest and tax for the year were \$7.1m.”

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

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

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

The compensation of non-executive directors for the period ending 30 June 2016 is detailed in Table 1 on page 11

### **Executive director and senior executives compensation**

The company aims to reward its executives (Managing Director and Finance Director) 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.

### **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 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 and superannuation.

### **Variable Compensation - Short Term Incentive**

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

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

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

On an annual basis after completion of the audit of the group results the short-term incentives are approved by the Remuneration Committee.

### **Relationship between Remuneration Policies and Group Performance**

The tables below set out summary information about the Group's earnings and movements in shareholder wealth for the five years to 30 June 2016. The Board is of the opinion that these results can be attributed, in part, to the remuneration policies and is satisfied with the overall trend in shareholder wealth over the past five years.

	2016	2015	2014	2013	2012
<b>Total Revenue</b>	87.2m	85.3m	81.2m	67.7m	60.8m
<b>Net Profit after tax</b>	4.8m	5.7m	6.0m	4.5m	3.9m
<b>Share price year-end</b>	\$2.10	\$2.05	\$2.30	\$1.30	\$0.995
<b>Dividends paid cents per share</b>	9.00	34.0*	8.50	7.50	6.00

\*2015 include 25 cents per share special dividend.

### Employment contracts

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

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

Individual contracts for key management personnel include:

- G D H Stewart – fixed compensation package of \$385,113 from 1 July 2016 plus a short-term incentive of up to 33% of the package.
- P W Gill – fixed compensation package of \$341,069 from 1 July 2016 plus a short-term incentive of up to 25% of the package.

### Key Management Personnel

Details of key management personnel are as follows:

#### Directors

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

### Compensation of Key Management Personnel

**Table 1: Compensation of Key Management Personnel for the year ended 30 June 2016**

	Short Term			Other Long Term Benefits	Post Employment		Share Based Payment	Total	Total Performance Related
	Salary, Fees & Leave	Bonus Payable	Non Monetary	Long Service Leave	Super-annuation	Retirement Benefits	Options Granted		
	\$	\$	\$	\$	\$	\$	\$	\$	%
<b>Directors</b>									
G J Forsyth	81,958	-	-	-	7,786	-	-	89,744	-
P W McKenzie	57,013	-	-	-	5,416	-	-	62,429	-
G D H Stewart	359,189	99,676	-	12,201	35,000	-	-	506,066	19.7
P W Gill	276,353	66,876	21,600	12,302	35,000	-	-	412,131	16.2
Total	774,513	166,552	21,600	24,503	83,202	-	-	1,070,370	15.6
<b>Total</b>		962,665		24,503	83,202		-	1,070,370	15.6

# DIRECTORS' REPORT

## CONTINUED

**Table 2: Compensation of Key Management Personnel for the year ended 30 June 2015**

	Short Term			Other Long Term Benefits	Post Employment		Share Based Payment	Total	Total Performance Related
	Salary, Fees & Leave	Bonus Payable	Non Monetary	Long Service Leave	Super-annuation	Retirement Benefits	Options Granted		
	\$	\$	\$	\$	\$	\$	\$	\$	%
<b>Directors</b>									
G J Forsyth	78,805	-	-	-	7,487	-	-	86,292	-
P W McKenzie	54,820	-	-	-	5,208	-	-	60,028	-
G D H Stewart	339,705	95,843	-	11,064	35,000	-	-	481,612	19.9
P W Gill	272,783	64,304	24,000	11,203	35,000	-	-	407,290	15.8
Total	746,113	160,147	24,000	22,267	82,695	-	-	1,035,222	15.5
<b>Total</b>		930,260		22,267	82,695		-	1,035,222	15.5

### Rounding

The amounts contained in the directors' report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The company is an entity to which the Instrument applies.

### Auditors' Independence Declaration

A copy of the Auditors' Independence declaration for the year ended 30 June 2016 is set out on page 13.

### Non-Audit Services

There were no non-audit services provided during the year to the entity by its auditors, HLB Mann Judd (NSW Partnership).

Signed in accordance with a resolution of directors.



**G J Forsyth**  
Director  
Sydney  
24 August 2016



## Auditor's Independence Declaration

### To the Directors of Supply Network Limited

As lead auditor for the audit of the consolidated financial report of Supply Network Limited for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

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

Sydney, NSW  
24 August 2016

S Grivas  
Partner

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

Level 19, 207 Kent Street Sydney NSW 2000 Australia | Telephone +61 (0)2 9020 4000 | Fax +61 (0)2 9020 4190

Email: [mailbox@hlbnsw.com.au](mailto:mailbox@hlbnsw.com.au) | Website: [www.hlb.com.au](http://www.hlb.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.

HLB Mann Judd (NSW Partnership) is a member of HLB International. A world-wide network of independent accounting firms and business advisers.

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2016

	Note	Consolidated	
		2016 \$000	2015 \$000
<b>Revenue</b>	3	<b>87,176</b>	85,332
Finance revenue	3	<b>31</b>	45
Other income		<b>9</b>	16
Changes in inventories of finished goods		<b>(49,988)</b>	(48,376)
Employee benefits expense		<b>(16,799)</b>	(16,239)
Depreciation and amortisation		<b>(946)</b>	(821)
Other expenses	3	<b>(12,321)</b>	(11,517)
Finance costs	3	<b>(267)</b>	(295)
<b>Profit before income tax</b>		<b>6,895</b>	8,145
Income tax expense	4	<b>(2,052)</b>	(2,415)
<b>Profit after income tax</b>		<b>4,843</b>	5,730
<b>Profit attributable to members of the parent</b>		<b>4,843</b>	5,730
<b>Other comprehensive Income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Adjustment on translation of foreign controlled entity net of tax	16	<b>695</b>	(415)
<b>Total other comprehensive income/(loss) after income tax</b>		<b>695</b>	(415)
<b>Total comprehensive income for the year attributable to members of the parent</b>		<b>5,538</b>	5,315
Basic and diluted earnings per share (cents per share)	18	<b>11.88</b>	16.16
Dividends per share (cents per share)	17	<b>9.00</b>	34.00

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



# BALANCE SHEET

AT 30 JUNE 2016

		Consolidated	
		2016	2015
		\$000	\$000
	Note		
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	2,304	5,519
Trade and other receivables	6	9,930	9,827
Inventories	7	28,967	25,806
Other current assets	8	60	56
<b>Total current assets</b>		<b>41,261</b>	41,208
<b>Non-current assets</b>			
Plant and equipment	9	5,805	3,528
Deferred tax assets	4	1,958	1,727
<b>Total non-current assets</b>		<b>7,763</b>	5,255
<b>TOTAL ASSETS</b>		<b>49,024</b>	46,463
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	10	14,577	13,161
Interest bearing loans and borrowings	11	356	384
Income tax payable	12	462	706
Provisions	13	727	1,307
Derivatives	14	30	3
<b>Total current liabilities</b>		<b>16,152</b>	15,561
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	11	3,238	3,540
Provisions	13	993	590
<b>Total non-current liabilities</b>		<b>4,231</b>	4,130
<b>TOTAL LIABILITIES</b>		<b>20,383</b>	19,691
<b>NET ASSETS</b>		<b>28,641</b>	26,772
<b>EQUITY</b>			
Contributed equity	15	21,075	21,075
Reserves	16	867	172
Retained earnings		6,699	5,525
<b>TOTAL EQUITY</b>		<b>28,641</b>	26,772

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

# STATEMENT OF CHANGES IN EQUITY

## FOR THE YEAR ENDED 30 JUNE 2016

		Contributed Equity	Exchange Translation Reserve	Retained Earnings	Total
	Note	\$000	\$000	\$000	\$000
<b>Consolidated</b>					
<b>Balance at 1 July 2014</b>		9,698	587	11,784	22,069
Total comprehensive income for the year		-	(415)	5,730	5,315
<b>Transactions with owners in their capacity as owners</b>					
Dividends provided for or paid	17	-	-	(11,989)	(11,989)
Contribution of equity net of transaction costs and tax	15	11,377	-	-	11,377
<b>Balance at 30 June 2015</b>		<b>21,075</b>	<b>172</b>	<b>5,525</b>	<b>26,772</b>
Total comprehensive income for the year		-	695	4,843	5,538
<b>Transactions with owners in their capacity as owners</b>					
Dividends provided for or paid	17	-	-	(3,669)	(3,669)
<b>Balance at 30 June 2016</b>		<b>21,075</b>	<b>867</b>	<b>6,699</b>	<b>28,641</b>

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

# STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2016

		Consolidated	
		2016	2015
		\$000	\$000
Note		Inflows / (Outflows)	
<b>Cash flows from operating activities</b>			
Receipts from customers		96,839	93,659
Payments to suppliers and employees		(90,345)	(82,815)
Interest received		37	38
Interest paid		(237)	(299)
Income tax paid		(2,564)	(2,887)
Net cash flows from (used in) operating activities	23(a)	<u>3,730</u>	<u>7,696</u>
<b>Cash flows from investing activities</b>			
Purchase of plant and equipment		(2,967)	(1,476)
Proceeds from sale of plant and equipment		31	-
Net cash flows from (used in) investing activities		<u>(2,936)</u>	<u>(1,476)</u>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		-	176
Repayment of borrowings		(390)	(384)
Proceeds from share issue		-	11,342
Dividends paid		(3,669)	(11,989)
Net cash flows from (used in) financing activities		<u>(4,059)</u>	<u>(855)</u>
Net increase (decrease) in cash and cash equivalents		<b>(3,265)</b>	5,365
Cash and cash equivalents at beginning of year		<b>5,519</b>	159
Exchange rate adjustment to balances held in foreign currencies		<u>50</u>	<u>(5)</u>
<b>Cash and cash equivalents at end of year</b>	5	<u><b>2,304</b></u>	<u>5,519</u>

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

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2016

### 1. Corporate information

The consolidated financial statements of Supply Network Limited (the company) for the year ended 30 June 2016 were authorised for issue in accordance with a resolution of the directors on 24 August 2016.

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

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

### 2. Summary of significant accounting policies

#### (a) Basis of accounting

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

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

#### (b) Statement of compliance

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

#### (c) Basis of consolidation

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

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

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

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

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

##### (i) Significant accounting judgements

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

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

The carrying amounts of certain assets and liabilities are often

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

##### *Impairment of assets*

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

##### *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.

##### *Obsolete inventory provision*

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

##### *Make good provision*

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

#### (e) Foreign currency transactions

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

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

##### *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 profit or loss is translated at the weighted average exchange rate for the year.

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

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

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

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

**(f) Cash and cash equivalents**

Cash and 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.

**(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 is accounted for as follows:

Finished Goods – weighted average cost into store.

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

Obsolete and redundant inventories are provided for as appropriate.

**(i) 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 or 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 profit or loss on a straight-line basis over the lease term. Lease incentives are recognised in profit or loss as an integral part of the total lease expense.

**(j) 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:

Plant and equipment	3-15 years
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The assets' residual values, useful lives and amortisation methods are reviewed and if appropriate revised at each financial year-end.

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

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

Capital works in progress are stated at cost and not depreciated until assets are in use.

**(k) Derivative financial instruments**

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

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

**(l) Trade and other payables**

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

**(m) Provisions**

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

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

#### (m) Provisions (continued)

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

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

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

#### (n) 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. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on Australian corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

##### (o) Post-employment benefits

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

##### (p) Contributed equity

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

##### (q) 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.

##### (r) 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.

#### (s) 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.



#### **(t) Borrowing costs**

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

#### **(u) Income tax**

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

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

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

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

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

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

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

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

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

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

entity and the same taxation authority.

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

#### **(v) Other taxes**

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

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

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

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

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

#### **(w) Earnings per share**

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

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

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

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

#### **(x) New Accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2016 reporting period. The Group's assessment of the impact of these new standards and interpretations is they will result in no significant changes to the amounts recognised or matters disclosed in the Group's financial statements. AASB 15 Revenue from Contracts with Customers is not operative until 1st January 2018, and the potential impacts have not yet been determined.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

	Consolidated	
	2016	2015
	\$000	\$000
<b>3. Revenues and expenses</b>		
<b>Revenue and expenses from continuing operations</b>		
<b>(a) Revenue</b>		
Sale of goods	87,176	85,332
<b>(b) Finance revenue</b>		
Bank interest	31	45
<b>(c) Other expenses</b>		
Bad and doubtful debts – trade receivables	(105)	(182)
Freight and cartage expenses	(1,283)	(1,241)
Operating lease expense	(4,455)	(3,290)
Other	(6,478)	(6,804)
	<b>(12,321)</b>	<b>(11,517)</b>
<b>(d) Finance costs</b>		
Bank loans and overdrafts	(236)	(267)
Other finance costs	(31)	(28)
	<b>(267)</b>	<b>(295)</b>
<b>4. Income tax</b>		
<b>(a) Income tax expense</b>		
The major components of income tax expense are:		
<b>Current income tax</b>		
Current income tax charge	2,283	2,769
<b>Deferred income tax</b>		
Relating to origination and reversal of temporary differences	(231)	(354)
Income tax expense	<b>2,052</b>	<b>2,415</b>



	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
<b>4. Income tax (continued)</b>		
<b>(b) Reconciliation of prima facie tax payable to income tax expense</b>		
Profit before income tax	<b>6,895</b>	8,145
At the Group's income tax rate of 30% (2015: 30%)	<b>2,069</b>	2,444
Effect of different tax rates of subsidiary	<b>(43)</b>	(44)
Other amounts which are not deductible (assessable) for income tax purposes	<b>26</b>	15
Income tax expense	<b>2,052</b>	2,415
<b>(c) Deferred tax assets</b>		
Depreciation differences	<b>217</b>	333
Doubtful debts	<b>62</b>	63
Employee benefits	<b>680</b>	661
Stock obsolescence	<b>534</b>	444
Operating lease incentives	<b>315</b>	8
Other	<b>150</b>	218
	<b>1,958</b>	1,727

**(d) Tax consolidation**

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

	Consolidated	
	2016	2015
	\$000	\$000
<b>5. Cash and cash equivalents</b>		
Cash at bank and in hand	2,304	5,519
	<b>2,304</b>	<b>5,519</b>

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

	Consolidated	
	2016	2015
	\$000	\$000
<b>6. Trade and other receivables</b>		
<b>Current</b>		
Trade receivables (i)	10,075	9,984
Allowance for impairment loss	(205)	(213)
	<b>9,870</b>	<b>9,771</b>
Other receivables	60	56
	<b>9,930</b>	<b>9,827</b>
<b>Ageing of trade receivables not impaired</b>		
Not overdue	9,511	9,430
61-90 days past due	310	308
91 days and above past due	49	33
	<b>9,870</b>	<b>9,771</b>
<b>Ageing of trade receivables impaired</b>		
Not overdue	54	56
61-90 days past due impaired	41	51
91 days and above past due	110	106
	<b>205</b>	<b>213</b>
<b>Total trade receivables</b>	<b>10,075</b>	<b>9,984</b>
<b>Movements in allowance for impairment loss</b>		
Opening balance	213	169
Additions during the year	84	154
Amounts written off during the year	(95)	(109)
Exchange difference	3	(1)
Closing balance	<b>205</b>	<b>213</b>

(i) Trade receivables are non-interest bearing and generally on 30 day terms. As at 30 June 2016 trade receivables of \$359,000 (2015: \$341,000) were past due and not impaired. These relate to independent customers for whom there is no recent history of default. An allowance for impairment loss is made when there is objective evidence that a trade receivable is impaired. The Group has retention of title clause over goods sold until payment is received. Refer note 11(ii) regarding security pledged.

(ii) Information regarding the effective interest rate and the credit risk of current receivables is disclosed in note 27.

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
<b>7. Inventories</b>		
Finished goods at lower of cost or net realisable value	<b>25,032</b>	21,883
Stock in transit - finished goods at cost	<b>3,935</b>	3,923
Total inventories at lower of cost and net realisable value	<b>28,967</b>	25,806
<b>8. Other current assets</b>		
Prepayments	<b>60</b>	56
<b>9. Plant and equipment</b>		
<b>Plant and equipment at cost</b>		
Opening balance	<b>8,753</b>	7,553
Purchases plant and equipment	<b>2,967</b>	755
Capital works in progress	-	721
Additions lease make good	<b>319</b>	64
Disposals	<b>(1,561)</b>	(266)
Exchange difference	<b>130</b>	(74)
Closing balance	<b>10,608</b>	8,753
<b>Accumulated depreciation</b>		
Opening balance	<b>5,225</b>	4,690
Depreciation for the year	<b>946</b>	821
Disposals	<b>(1,440)</b>	(250)
Exchange difference	<b>72</b>	(36)
Closing balance	<b>4,803</b>	5,225
<b>Total plant and equipment</b>	<b>5,805</b>	3,528
<b>10. Trade and other payables</b>		
Trade payables and accruals	<b>14,577</b>	13,161

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

	Consolidated	
	2016	2015
	\$000	\$000
<b>11. Interest bearing loans and borrowings</b>		
<b>Current</b>		
Bank loans - instalments due within 12 months (i)	356	384
	<b>356</b>	<b>384</b>
<b>Non-current</b>		
Bank loans (i)	3,238	3,540
	<b>3,238</b>	<b>3,540</b>
Total interest bearing loans and borrowings	<b>3,594</b>	<b>3,924</b>

(i) Bank loans comprises:

Fixed rate interest only loans of \$2,862,000 (2015: \$2,871,000), with interest rates of 4.1% to 7.7% (2015: 5.5% to 7.7%) maturing August 2016, January 2017 and October 2017 (2015: August 2016, January 2017 and October 2017).

Variable rate principal and interest loans of \$732,000 (2015: \$1,053,000), with an interest rate of 3.9% (2015: 4.1%) maturing in June 2018 and March 2019 (2015: June 2018 and March 2019), repayable by quarterly instalments.

(ii) Bank loans and overdrafts 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. Interest rates on overdrafts are variable and during the year the average interest rate was 8.4% (2015: 8.7%).

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

Australian loan agreement requires:

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

Consolidated debt to EBITDA does not exceed 2.5 to 1.

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

The Group complied with these ratios during the year.

	Consolidated	
	2016	2015
	\$000	\$000
<b>12. Income tax payable</b>		
Current year income tax payable	462	706

	Consolidated		
	Long Service Leave	Lease make good	Total
	\$000	\$000	\$000
<b>13. Provisions</b>			
At 1 July 2015	998	899	1,897
Arising during the year	42	319	361
Utilised	-	(531)	(531)
Exchange difference	-	2	2
Discount rate adjustment	(9)	-	(9)
At 30 June 2016	1,031	689	1,720
Current 2016	727	-	727
Non-current 2016	304	689	993
	1,031	689	1,720
Current 2015	745	562	1,307
Non-current 2015	253	337	590
	998	899	1,897

#### 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 *Provisions, Contingent Liabilities and Contingent Assets*. Lease make good due within 12 months are shown as current.

	Consolidated	
	2016	2015
	\$000	\$000
<b>14. Derivatives</b>		
<b>Current liabilities</b>		
Net forward currency contracts	30	3

#### Instrument used by the Group

Derivative financial instruments are used by the Group in the normal course of business in order to hedge exposure to fluctuations in foreign exchange rates for certain inventory purchases, undertaken in foreign currencies. The Group's policy is and has been throughout the period that no trading in financial instruments is undertaken (refer note 27(b)).

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

	Consolidated			
	2016		2015	
	\$000		\$000	
<b>15. Contributed equity</b>				
<b>(a) Issued and paid up capital</b>				
40,761,484 ordinary shares fully paid (2015: 40,761,484)	<b>21,075</b>		21,075	
<b>(b) Movements in ordinary shares on issue</b>				
	2016		2015	
	Number of Shares	\$000	Number of Shares	\$000
Balance at beginning of the year	40,761,484	21,075	34,187,229	9,698
Dividend reinvestment plan issue of ordinary shares	-	-	6,574,255	11,459
Transaction costs arising on share issues	-	-	-	(82)
Balance at end of the year	<b>40,761,484</b>	<b>21,075</b>	40,761,484	21,075

### (c) Share options

There were no outstanding options over ordinary shares on issue at 30 June 2016 and 30 June 2015.

### (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.

### 16. Exchange translation reserve

The Exchange translation reserve is 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 (refer to Statement of Changes in Equity).

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
<b>17. Dividends paid and proposed on ordinary shares</b>		
<b>(a) Dividends declared and paid during the year</b>		
Current year interim fully franked dividend (2016: 4.00 cents per share) (2015: 4.00 cents)	<b>1,631</b>	1,396
Previous year final fully franked dividend (2015: 5.00 cents per share) (2014: 5.00 cents)	<b>2,038</b>	1,709
Previous year special fully franked dividend (2016: 0.00 cents per share) (2015: 25.00 cents)	-	8,884
Total dividends paid	<b>3,669</b>	11,989
<b>(b) Dividends proposed subsequent to 30 June and not recognised as a liability</b>		
Current year final fully franked dividend (2016: 5.00 cents per share) (2015: 5.00 cents)	<b>2,038</b>	2,038
<b>(c) Franking credit balance</b>		
The amount of franking credits available for the subsequent financial year are:		
Franking account balance as at the end of the financial year at 30% (2015: 30%)	<b>2,594</b>	2,378
Franking credits that will arise from the payment of income tax payable as at the end of the financial year	<b>289</b>	448
	<b>2,883</b>	2,826
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>(874)</b>	(874)
	<b>2,009</b>	1,952

The tax rate at which paid dividends have been franked is 30% (2015: 30%).

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

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

### 18. Earnings per share

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

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. There are no dilutive potential ordinary shares.

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

	Consolidated	
	2016	2015
	\$000	\$000
Net profit attributable to ordinary equity holders of the parent	4,843	5,730
	No.	No.
Weighted average number of ordinary shares for basic earnings per share	40,761,484	35,448,573
Basic and diluted earnings per share (cents per share)	11.88	16.16

	Consolidated	
	2016	2015
	\$000	\$000
<b>19. Commitments</b>		
<b>(a) Operating lease commitments:</b>		
not later than one year	3,764	3,748
later than one year and not later than five years	11,133	9,691
later than five years	8,926	8,286
	<b>23,823</b>	<b>21,725</b>

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

	Consolidated	
	2016	2015
	\$000	\$000
<b>(b) Capital commitments:</b>		
Significant capital expenditure contracted for but not recognised as liabilities as follows:		
Capital works in progress	-	1,863



	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>20. Auditor's compensation</b>		
Amounts received or due and receivable by HLB Mann Judd (NSW Partnership) for: An audit and review of a financial report of the consolidated group	<b>67,500</b>	66,200
Amounts received or due and receivable by HLB Mann Judd Limited Auckland for: An audit of the financial report of a subsidiary	<b>16,650</b>	16,550
	<b>84,150</b>	82,750

## 21. Key management personnel

### (a) Compensation of key management personnel

Details of key management personnel are as follows:

#### Directors

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

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

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Short-term	<b>962,665</b>	930,260
Post-employment	<b>83,202</b>	82,695
Other long term benefits	<b>24,503</b>	22,267
	<b>1,070,370</b>	1,035,222

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

There were no shares issued as compensation or on exercise of compensation options during the years ended 30 June 2016 and 30 June 2015.

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

There were no options held by key management personnel at 30 June 2016 or 30 June 2015.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

### 21. Key management personnel (continued)

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

	Balance 1 July 2015	Options Exercised	Net Change Other	Balance 30 June 2016
	No.	No.	No.	No.
<b>Directors</b>				
G J Forsyth	667,835	-	-	667,835
P W McKenzie	4,473,359	-	-	4,473,359
G D H Stewart	1,396,833	-	-	1,396,833
P W Gill	598,485	-	-	598,485
	<b>7,136,512</b>	-	-	<b>7,136,512</b>

	Balance 1 July 2014	Options Exercised	Net Change Other	Balance 30 June 2015
	No.	No.	No.	No.
<b>Directors</b>				
G J Forsyth	555,736	-	112,099	667,835
P W McKenzie	3,722,470	-	750,889	4,473,359
G D H Stewart	1,162,365	-	234,468	1,396,833
P W Gill	498,027	-	100,458	598,485
	<b>5,938,598</b>	-	<b>1,197,914</b>	<b>7,136,512</b>

### 22. Employee entitlements

#### Superannuation commitments

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

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

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

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
<b>23. Cash flow information</b>		
<b>(a) Reconciliation of net profit after tax to the net cash flows from operations</b>		
Profit after income tax	4,843	5,730
<b>Adjustments for non-cash income and expense items</b>		
Loss on disposal of plant and equipment	90	16
Depreciation of plant and equipment	946	821
Transfers to provisions:		
Inventory obsolescence	283	367
Employee entitlements	33	207
Doubtful debts	(8)	43
Lease make good	(529)	8
Net exchange differences	647	(399)
Increase (decrease) in provision for:		
Income tax payable	(244)	(183)
Deferred taxes	(231)	(319)
<b>Changes in assets and liabilities</b>		
(Increase) decrease in:		
Trade and other receivables	(95)	(820)
Inventories	(3,444)	1,644
Other assets	(4)	(961)
(Decrease) increase in:		
Trade and other payables	1,443	1,542
<b>Net cash flow from (used in) operating activities</b>	<b>3,730</b>	<b>7,696</b>
<b>(b) Financing facilities available:</b>		
At reporting date the following facilities had been negotiated and were available:		
Total credit facilities	6,636	5,819
Facilities used at reporting date	(3,594)	(3,924)
Facilities unused at reporting date	3,042	1,895
The major facilities are summarised as follows:		
Bank overdrafts	1,742	1,720
Facilities used	-	-
Facilities unused at reporting date	1,742	1,720
Bank loans	4,894	4,099
Facilities used	(3,594)	(3,924)
Facilities unused at reporting date	1,300	175

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

	2016	2015
	\$000	\$000
<b>24. Parent entity information</b>		
Current assets	1,403	4,692
Total assets	26,560	26,066
Current liabilities	320	474
Total liabilities	320	474
Shareholders equity:		
Issued capital	21,075	21,075
Retained earnings	5,165	4,517
	<b>26,240</b>	<b>25,592</b>
Profit for the year	4,317	9,488
Other comprehensive income	-	-
Total comprehensive income	<b>4,317</b>	<b>9,488</b>

### 25. Deed of Cross Guarantee

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

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

	Closed Group	
	2016	2015
	\$000	\$000
<b>Statement of Profit or Loss and Other Comprehensive Income</b>		
Profit before income tax	5,433	11,503
Income tax expense	(1,463)	(1,801)
Profit after income tax	3,970	9,702
Net profit attributable to members of the parent	3,970	9,702
Other comprehensive income	-	-
Total comprehensive income	<b>3,970</b>	<b>9,702</b>
<b>Retained Earnings</b>		
Retained earnings at beginning of the year	4,880	7,167
Profit after income tax	3,970	9,702
Dividends provided for or paid	(3,669)	(11,989)
Retained earnings at end of the year	<b>5,181</b>	<b>4,880</b>

	Closed Group	
	2016	2015
	\$000	\$000
<b>25. Deed of Cross Guarantee (continued)</b>		
<b>Balance Sheet</b>		
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	1,569	5,000
Trade and other receivables	7,820	7,896
Inventories	21,033	19,203
Other current assets	60	56
Intercompany	55	40
<b>Total current assets</b>	<b>30,537</b>	<b>32,195</b>
<b>Non-current assets</b>		
Other financial assets	6,031	6,031
Plant and equipment	4,995	2,805
Deferred tax assets	1,616	1,450
<b>Total non-current assets</b>	<b>12,642</b>	<b>10,286</b>
<b>TOTAL ASSETS</b>	<b>43,179</b>	<b>42,481</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	11,927	10,891
Interest bearing loans and borrowings	322	322
Income tax payable	289	448
Provisions	727	1,307
Derivatives	33	8
<b>Total current liabilities</b>	<b>13,298</b>	<b>12,976</b>
<b>Non-current liabilities</b>		
Interest bearing loans and borrowings	2,659	2,981
Provisions	966	569
<b>Total non-current liabilities</b>	<b>3,625</b>	<b>3,550</b>
<b>TOTAL LIABILITIES</b>	<b>16,923</b>	<b>16,526</b>
<b>NET ASSETS</b>	<b>26,256</b>	<b>25,955</b>
<b>EQUITY</b>		
Contributed equity	21,075	21,075
Retained earnings	5,181	4,880
<b>TOTAL EQUITY</b>	<b>26,256</b>	<b>25,955</b>

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

### 26. Segment information

The Group 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	
	2016	2015	2016	2015	2016	2015	2016	2015
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Revenue</b>								
Sales to customers outside the Group	<b>69,995</b>	68,743	<b>17,181</b>	16,589	-	-	<b>87,176</b>	85,332
Other income from outside the Group	<b>34</b>	57	<b>6</b>	4	-	-	<b>40</b>	61
Inter-segment revenues	<b>1,764</b>	6,548	<b>60</b>	54	<b>(1,824)</b>	(6,602)	-	-
Total segment revenues	<b>71,793</b>	75,348	<b>17,247</b>	16,647	<b>(1,824)</b>	(6,602)	<b>87,216</b>	85,393
<b>Results</b>								
Segment results	<b>5,432</b>	11,503	<b>2,111</b>	2,190	<b>(648)</b>	(5,548)	<b>6,895</b>	8,145
Profit before income tax and finance costs							<b>7,131</b>	8,395
Finance revenue							<b>31</b>	45
Finance costs							<b>(267)</b>	(295)
Profit before income tax							<b>6,895</b>	8,145
Income tax expense							<b>(2,052)</b>	(2,415)
Profit after income tax expense							<b>4,843</b>	5,730
<b>Assets</b>								
Segment assets	<b>43,179</b>	42,481	<b>12,116</b>	10,160	<b>(6,271)</b>	(6,178)	<b>49,024</b>	46,463
<b>Liabilities</b>								
Segment liabilities	<b>16,924</b>	16,526	<b>3,629</b>	3,256	<b>(170)</b>	(91)	<b>20,383</b>	19,691
<b>Other segment information</b>								
Additions to plant and equipment, intangible assets and other non-current assets	<b>3,041</b>	1,485	<b>245</b>	55	-	-	<b>3,286</b>	1,540
Depreciation	<b>736</b>	626	<b>210</b>	195	-	-	<b>946</b>	821
Other non-cash expenses	<b>452</b>	630	<b>114</b>	199	-	-	<b>566</b>	829

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

During the year, there were no changes in segment accounting policies that had a material effect on the segment information.

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

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

## 27. Key economic risks

### Financial risk management

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

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

#### (a) Interest rate risk

The Group is exposed to interest rate risk through financial assets and liabilities. The Group's main interest rate risk arises from long-term borrowings (refer note 11).

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

Financial instruments - Contractual Maturities	Floating interest rate (I) \$000	Fixed interest rate maturing			Non- interest bearing \$000	Total \$000	Weighted average interest rate	
		1 year or less \$000	1 to 5 years \$000	Over 5 years \$000			Floating %	Fixed %
<b>Consolidated</b>								
<b>30 June 2016</b>								
<b>Financial assets</b>								
Cash	2,304	-	-	-	-	2,304	1.5	-
Trade receivables	-	-	-	-	10,075	10,075	-	-
Forward currency contracts	-	-	-	-	1,413	1,413	-	-
Other receivables	-	-	-	-	60	60	-	-
	<b>2,304</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,548</b>	<b>13,852</b>		
<b>Financial liabilities</b>								
Trade and other payables	-	-	-	-	14,577	14,577	-	-
Bank loans and overdrafts	732	356	2,506	-	-	3,594	3.9	5.4
Forward currency contracts	-	-	-	-	1,443	1,443	-	-
	<b>732</b>	<b>356</b>	<b>2,506</b>	<b>-</b>	<b>16,020</b>	<b>19,614</b>		
<b>Consolidated</b>								
<b>30 June 2015</b>								
<b>Financial assets</b>								
Cash	5,519	-	-	-	-	5,519	2.3	-
Trade receivables	-	-	-	-	9,984	9,984	-	-
Forward currency contracts	-	-	-	-	1,698	1,698	-	-
Other receivables	-	-	-	-	56	56	-	-
	<b>5,519</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,738</b>	<b>17,257</b>		
<b>Financial liabilities</b>								
Trade and other payables	-	-	-	-	13,161	13,161	-	-
Bank loans and overdrafts	1,053	384	2,487	-	-	3,924	5.3	6.5
Forward currency contracts	-	-	-	-	1,701	1,701	-	-
	<b>1,053</b>	<b>384</b>	<b>2,487</b>	<b>-</b>	<b>14,862</b>	<b>18,786</b>		

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

### 27. Key economic risks (continued)

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

- (i) Floating interest rates are the most recently determined rate applicable to the instrument at balance date. Floating rate liabilities and non-interest bearing liabilities have contractual maturities of between 1-3 years.

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

Fixed interest rate debts are used for long term funding. Amounts and maturity dates of long term funding for interest rate repricing vary depending on the interest rates offered at date of maturity. At balance date maturity dates range from 1-3 years.

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

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

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

#### (b) Foreign exchange risk

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

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

Currency		Average exchange rate		Buy	Buy
		2016	2015	2016	2015
				\$000	\$000
Euro currency	3 months or less	0.64	0.69	1,145	1,042
US dollar	3 months or less	0.73	0.77	17	450
Japanese yen	3 months or less	76.51	95.68	262	173
GB pounds	3 months or less	-	0.50	-	25
Swedish krona	3 months or less	5.96	6.35	19	11
<b>Total</b>				<b>1,443</b>	<b>1,701</b>

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

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

#### (c) Credit risk

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

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

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

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

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

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



## 27. Key economic risks (continued)

### (d) Liquidity risk

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

The Group manages liquidity risk by maintaining adequate banking facilities and borrowing facilities by continuously monitoring forecasts and actual cash flows and matching maturity profiles of financial assets and liabilities. See note 23(b) for additional undrawn facilities to the Group has available to further reduce liquidity risk.

### (e) Capital risk management

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

The capital structure of the Group consists of debt, which comprises borrowings detailed in note 11, cash and cash equivalents (note 5) and equity attributable to equity holders of the parent, comprising issued capital (note 15), reserves (note 16) and retained earnings.

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

	Consolidated	
	2016	2015
	\$000	\$000

## 28. Related party transactions

- (a) Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transactions with related parties:

Key management personnel of the group

Sales to related parties

Amounts owed by related parties

266	301
47	73

- (b) Mr P W McKenzie is Chief Executive officer of a family owned bus business that the group sells goods to on normal commercial terms and conditions.
- (c) The names of each person holding the position of Director of Supply Network Limited during the last two financial years were; G J Forsyth, P W McKenzie, G D H Stewart and P W Gill.
- (d) Investments in controlled entities

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

The controlled entities were 100% owned for the years ended 30 June 2016 and 30 June 2015.

# DIRECTORS' DECLARATION

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

1. In the directors' opinion:
  - (a) the financial statements and notes set out on pages 14 to 39 are in accordance with the *Corporations Act 2001*, including:
    - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and
    - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
  - (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
  - (c) at the date of this declaration, there are reasonable grounds to believe that the members of the closed group identified in note 25 will be able to meet any obligation or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 25.
2. The directors have been given the declarations by the chief executive officer and chief financial officer for the year ended 30 June 2016 required by section 295A of the *Corporations Act 2001*.
3. The notes to the financial statements include a statement of compliance with International Financial Reporting Standards.

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

On behalf of the Board



**G J Forsyth**  
Director  
Sydney  
24 August 2016

# INDEPENDENT AUDITOR'S REPORT



To the members of Supply Network Limited

## Report on the Financial Report

We have audited the accompanying financial report of Supply Network Limited (“the company”), which comprises the consolidated balance sheet as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors’ declaration, for the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year’s end or from time to time during the financial year.

## Directors’ Responsibility for the Financial Report

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

In Note 2(b), the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

## 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company’s preparation of the financial report that gives a true and fair view 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 company’s and its controlled entities’ internal control. 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.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.


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

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

Level 19 207 Kent Street Sydney NSW 2000 Australia | Telephone +61 (0)2 9020 4000 | Fax +61 (0)2 9020 4190

Email: [mailbox@hlbnsw.com.au](mailto:mailbox@hlbnsw.com.au) | Website: [www.hlb.com.au](http://www.hlb.com.au)

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# INDEPENDENT AUDITOR'S REPORT

(CONTINUED)



## Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

## Opinion

In our opinion:

- (a) the financial report of Supply Network Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 2(b).

## Report on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 12 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## Opinion

In our opinion, the Remuneration Report of Supply Network Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

## Matters relating to the electronic presentation of the audited financial report and remuneration report

This auditor's report relates to the financial report and remuneration report of Supply Network Limited for the financial year ended 30 June 2016 published in the annual report and included on the company's website. The company's directors are responsible for the integrity of the company's website. We have not been engaged to report on the integrity of this website. The auditor's report refers only to the financial report and remuneration report identified above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report and remuneration report. If users of the financial report and remuneration report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information contained in this website version of the financial and remuneration reports.

HLB Mann Judd

**HLB MANN JUDD**  
Chartered Accountants

Sydney, NSW  
24 August 2016

A handwritten signature in black ink, appearing to read 'S. Grivas'.

**S Grivas**  
Partner

# ASX ADDITIONAL INFORMATION

## a) Shareholdings

The number of shareholders by size of their holdings as at 24 August 2016 are:

			Shareholdings
1	to	1,000	143
1,001	to	5,000	248
5,001	to	10,000	92
10,001	to	100,000	141
100,001	to	and over	32
Total shareholders			656

- b) The number of shareholders who hold less than a marketable parcel is 25.
- c) All ordinary shares carry one vote per share.
- d) The address of the Principal Registered Office in Australia is 1 Turnbull Close Pemulwuy NSW 2145.
- e) The share registry is at Computershare Investor Services Pty Ltd Level 3, 60 Carrington Street, Sydney NSW 2000.
- f) The company's auditors are HLB Mann Judd (NSW Partnership) 207 Kent Street Sydney NSW 2000.
- g) The company's securities are listed on the Australian Securities Exchange.
- h) The name of the Company Secretary is P W Gill.
- i) Twenty largest shareholders

At 24 August 2016 the twenty largest shareholders were:

Name	Ordinary Shares Held	% of issued Ordinary Shares
Hergfor Enterprises Pty Ltd	12,561,895	30.8%
PW & LJ McKenzie Super Fund	4,473,359	11.0%
Dixon Trust Pty Ltd	2,609,328	6.4%
Mr D J Woodcock	2,536,692	6.2%
Mrs J E Davies	2,211,638	5.4%
J P Morgan Nominees Australia Ltd	1,197,869	2.9%
Kailva Pty Ltd	1,069,529	2.6%
Boboco Pty Ltd	955,947	2.3%
Keiser Investments Pty Ltd	937,722	2.3%
Odalisque Pty Ltd	626,635	1.5%
D & RJ McKenzie	573,347	1.4%
Mr Masashi Nakayama	482,875	1.2%
Sherkane Pty Ltd	450,000	1.1%
Mrs D G Stewart	440,886	1.1%
Trilon Nominees Pty Ltd	433,957	1.1%
Viewbar Pty Ltd	420,025	1.0%
Lingard Super Fund	380,618	0.9%
Irrawang Holdings Pty Ltd	310,000	0.8%
Indcorp Consulting Group Pty Ltd	300,000	0.7%
Forest Coach Lines Retirement Pty Ltd	268,000	0.7%
	<b>33,240,322</b>	<b>81.4%</b>

The company's register of substantial shareholders at 24 August 2016 is:

Hergfor Enterprises Pty Ltd	12,561,895	30.8%
Mr D J Woodcock	4,748,330	11.6%
PW & LJ McKenzie Super Fund	4,473,359	11.0%
Dixon Trust Pty Ltd	2,609,328	6.4%

# FIVE YEARS CONSOLIDATED FINANCIAL SUMMARY

	2016	2015	2014	2013	2012
	\$000	\$000	\$000	\$000	\$000
<b>Financial data:</b>					
Sales revenue	87,176	85,332	81,216	67,679	60,767
Total revenue	87,216	85,393	81,236	67,748	60,856
EBITDA	8,077	9,336	9,617	7,331	6,539
EBIT	7,131	8,395	8,830	6,718	6,005
Profit (loss) before tax	6,895	8,145	8,536	6,480	5,681
Profit (loss) after tax	4,843	5,730	6,000	4,548	3,958
Earnings per share (cents)	11.88	16.16	17.55	13.30	11.58
Dividends (cents per share)	9.00	34.00	8.50	7.50	6.00
Total assets	49,024	46,463	41,366	35,347	30,952
Total interest bearing debt	3,594	3,924	4,160	3,311	2,881
Total equity	28,641	26,772	22,069	18,495	16,177
Cash flow from (used in) operating activities	3,730	7,696	1,010	3,381	2,133
Cash flow from (used in) investing activities	(2,936)	(1,476)	(718)	(1,622)	(615)
Cash flow from (used in) financing activities	(4,059)	(855)	(2,112)	(2,184)	(2,122)
Net movement in cash	(3,265)	5,365	(1,820)	(425)	(604)
<b>Financial ratios:</b>					
Inventory turnover (a)	2.1	2.1	2.2	2.4	2.6
Interest cover (b)	34.2	37.3	32.6	30.8	20.2
Gearing (c)	12.5%	14.7%	18.8%	17.9%	17.8%
Net tangible asset backing (cents per share)	70.3	65.7	64.6	54.1	47.3
Return on average total assets	10.1%	13.0%	15.6%	13.7%	13.4%
Return on average total equity	17.5%	23.5%	29.6%	26.2%	26.1%

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

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

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

# NETWORKING THE SUPPLY OF COMPONENTS TO THE ROAD TRANSPORT INDUSTRY

## MULTISPARES LOCATIONS

### AUSTRALIA

**Parts Hotline** 13 16 15

#### Mackay Branch

Unit 4/70 Connors Road  
Paget QLD 4740

#### Brisbane Branch

Unit 1/2642 Ipswich Road  
Darra QLD 4076

#### Toowoomba Branch

Tenancy 2/20 Carrington Road  
Toowoomba QLD 4076

#### Newcastle Branch

Unit 2/11 Kinta Drive  
Beresfield NSW 2322

#### Sydney Branch

1 Turnbull Close  
Pemulwuy NSW 2145

#### Smeaton Grange Branch

85 Hartley Road  
Smeaton Grange NSW 2567

#### Illawarra Branch

Unit B/38 Industrial Road  
Unanderra NSW 2526

#### Canberra Branch

Unit 1/68 Sheppard Street  
Hume ACT 2620

#### Melbourne Branch

Cnr Fairbairn & Somerville Roads  
Sunshine VIC 3020

#### Dandenong Branch

302 South Gippsland Highway  
Dandenong VIC 3175

#### Somerton Branch

Unit 1/802 Cooper Street  
Somerton VIC 3062

#### Adelaide Branch

193 Cormack Road  
Wingfield SA 5013

#### Perth Branch

Unit 10/511 Abernethy Road  
Kewdale WA 6105

#### Kwinana Branch

31 Beach Street  
Kwinana Beach WA 6167

### NEW ZEALAND

**Parts Hotline** 0800 404 100

#### Auckland Branch

9 Vesty Drive  
Mount Wellington

#### Wellington Branch

48-56 Seaview Road  
Lower Hutt

#### Christchurch Branch

Unit 2/1 Edmonton Road  
Hornby

#### Dunedin Branch

Unit 3/14 Teviot Street  
Andersons Bay

# TRUCK & BUS PARTS

**SUPPLY NETWORK LIMITED**

1 Turnbull Close Pemulwuy NSW 2145  
PO Box 3405 Wetherill Park NSW 2164  
Telephone 02 8624 8077  
[www.supplynetwork.com.au](http://www.supplynetwork.com.au)