
CTI Logistics Limited

ACN 008 778 925

# Annual Report 2007

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# Directory

## DIRECTORS

David Robert Watson
(Executive Chairman)

David Anderson Mellor
(Executive)

Bruce Edmond Saxild
(Executive)

Peter James Leonhardt
(Non-Executive)

Jonathan David Elbery
(Non-Executive)

## SECRETARY

David Anderson Mellor

## AUDITORS

PricewaterhouseCoopers
QV1, Level 19
250 St. George's Terrace
Perth
Western Australia 6000
Telephone (08) 9238 3000

## SHARE REGISTRY

Computershare Investor Services Pty Ltd
Level 2, 45 St. George's Terrace
Perth
Western Australia 6000
Telephone (08) 9323 2000

## REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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The financial report covers both CTI Logistics Limited as an individual entity and the group consisting of CTI Logistics Limited and its subsidiaries.

The financial report was authorised for issue by the directors on 27 September 2007. The Company has the power to amend and reissue the financial report.

CTI Logistics Limited is a company limited by shares incorporated and domiciled in Australia.

# Chairman's Statement

In our twentieth year as a listed public company, we are pleased to report a profit after tax for the year of $4,599,079, up 48.5% on the previous year. This translates to earnings per share of 13.44 cents on the 34,182,421 shares now on issue following the 3-for-1 share split in December 2006.

The Company listed by compliance on the Second Board of the ASX in December 1987, two months after the October 1987 stock market crash. Shareholders who have stayed for the ride have enjoyed a compound growth rate in the price of the shares exceeding 10% per annum after adjusting for 2-for-1 and 3-for-1 share splits. They have also enjoyed a total dividend adjusted for splits of $1.81 .

We would also draw your attention to Notes 15 and 16 in the accounts, relating to the values of the group's real estate. Long term shareholders will know that, as a small group of business service companies, we sought to give stability and asset backing to the group by owning the properties from which those businesses operated. At the last independent valuation undertaken in May 2006, group real estate was valued at $20,705,000, against a book value of $10,220,833 at June 2006. The buoyant conditions in the West Australian economy have had a dramatic effect on land values in all sectors, including industrial land. This has impacted significantly on the group's properties, which are well-located in West Perth, Malaga, Bibra Lake, Welshpool and Bassendean. The directors' current valuation of all group properties at June 2007 has been assessed as $38,505,200, against a book value of $12,042,585.

The post balance date sale of Advance Press was effective 30 September 2007, following approximately twenty years of ownership within the group. Diversified groups like ours usually sell a business when it is non-performing, non-core, or something else along those lines. None of those reasons applied in this instance. Advance Press is an excellent business, with excellent management and staff. We were approached by GEON Group with a deal that is good for Advance Press and its 62 employees, and good for CTI Logistics and its shareholders. So we adopted the often-quoted philosophy of that other Western Australian diversified industrial, viz. that anything is for sale if someone wants to pay us more than it may be worth. The interesting thing in this case is that the purchaser is 70% owned by Gresham, which in turn is 50% owned by Wesfarmers who also have a direct shareholding in GEON. What makes it even more interesting is that we purchased Advance Press from Wesfarmers twenty years ago.

The contract price of $11.2 million represented four times EBITDA. Including stock, work in progress, leave entitlements and debtors minus creditors, the cashflow effect approximates $12. 4 million , before equipment finance payouts of $4.5 million. The excess of the sale proceeds over book values is estimated to contribute a profit after tax in excess of $4.5 million in the current financial year. In addition, CTI Logistics retains the Bassendean property, now under lease to GEON.

The sale of Advance Press will enable us to focus more on our transport, security and plastics businesses . Current trading in each business remains buoyant. However it is becoming increasingly difficult to attract and retain staff and contractors, with unemployment continuing at record lows in Western Australia. This situation certainly inhibits growth for businesses such as ours, and if it gets worse it could impact on profitability.

Jon Elbery retired as an executive director on 30 April 2007, to become a non-executive director. He intends to retire from the board following the 2007 Annual General Meeting. Jon has been with the group for 15 years, and we would like to record our appreciation and thanks for his contribution over that time.

Finally, and as always, on behalf of the board I would like to thank all members of staff and contractors for their efforts and commitment over the past year. We also wish the staff of Advance Press well as part of the GEON group.

DAVID WATSON
Executive Chairman

# Directors' Report

**YOUR DIRECTORS PRESENT THEIR REPORT ON THE GROUP CONSISTING OF CTI LOGISTICS LIMITED AND THE ENTITIES IT CONTROLLED AT THE END OF, OR DURING, THE YEAR ENDED 30 JUNE 2007.**

### Directors

Directors of the Company in office during the whole of the financial year and up to the date of this report are:

#### David Robert Watson

Mr Watson is the founder and executive chairman of the group. Mr Watson is a member of the remuneration committee. Mr Watson has not held any other directorships in listed companies over the past 4 years.

#### Jonathan David Elbery

Mr Elbery was responsible for the group's security operations from 1 July 2006 to 30 April 2007. Mr Elbery was a member of the audit committee from 1 July 2006 to 30 April 2007. He retired from the executive director position on 30 April 2007 to become a non-executive director. Mr Elbery has not held any other directorships in listed companies over the past 4 years.

#### Peter James Leonhardt

Mr Leonhardt is a non-executive director of CTI Logistics Limited and has been with the group since 1999. During the past 4 years Mr Leonhardt has also served as a director of Centrepoint Alliance Limited (May 2002 and continuing), Carnarvon Petroleum Limited (March 2005 and continuing), Titan Resources Limited (June 2005 to June 2006) and Voyager Energy Limited (2001 to September 2005). Mr Leonhardt is a former managing partner of Coopers & Lybrand (now PricewaterhouseCoopers). Mr Leonhardt is the chairman of the audit committee and the remuneration committee.

#### David Anderson Mellor

Mr Mellor is a Chartered Accountant who has been with the group since 1978. He is responsible for the group's finances and accounts. Mr Mellor has not held any other directorships in listed companies over the past 4 years.

#### Bruce Edmond Saxild

Mr Saxild has been with the group since 1977. He is responsible for the group's logistics and transport operations. Mr Saxild has not held any other directorships in listed companies over the past 4 years. He was appointed to the audit committee from 1 May 2007.

### Principal activities of the group

The principal activities of the group during the year were the provision of logistics, transport and security services, printing, manufacturing of plastic products and investment.

### Dividends

The directors have declared a fully franked final dividend of 3 cents (2006 – 3 cents) per ordinary share, ($1,025,472, 2006 –$342,374) subsequent to the end of the financial year. This dividend is not recognised as a liability at year end. During the financial year a 3 cents (2005 – 1.5 cents) fully franked dividend, ($310,873, 2006 – $193,775) for the year ended 30 June 2006 and a 3 cents (2006 – 2 cents) fully franked interim dividend ($930,973, 2006 – $228,717) for the year ended 30 June 2007 were paid to members.

### Review of operations and results

Profit after tax for the year was $4,599,079 compared to $3,095,769 in the previous corresponding period. Revenue from operations was $59,673,866, compared to $55,337,492. Net cash inflows from operating activities was $5,695,971 down from $8,000,893 in the prior year mainly due to an increase in tax payment of $1,935,007.

### Share split

A shareholder meeting on 18 December 2006 approved that ordinary shares be split on a 3 for 1 basis. This split was effective from the date of the meeting.

### Share buy-back

The shareholder meeting on 18 December 2006 also approved that a further buy-back of up to 12.38% of the issued fully paid ordinary shares be made during the four months ending 18 April 2007. During the year, the Company bought back in total 54,959 shares for a cumulative outlay of $52,283. The effect of these buy-backs is detailed in Note 24.

### Changes in the state of affairs

No other significant changes in the state of affairs of the group have occurred other than those matters referred to elsewhere in this report.

### Events subsequent to balance date

The directors are not aware of any other matters or circumstances not otherwise dealt with in this annual report or the financial statements that has significantly or may significantly affect the operations of the group, the results of those operations, or the affairs of the group in subsequent financial years.

### Likely developments

The major objectives encompassed in the Business Plan of the group are:

(i) expansion of existing operations by aggressive marketing and by acquisition;

(ii) establishment or acquisition of businesses in fields related to or compatible with the group's existing core operations; and

(iii) to maximise the profits and returns to shareholders by constant review of existing operations.

# Directors' Report

### Company secretary
The company secretary is Mr D A Mellor, who was appointed to the position in 1987. He is a Chartered Accountant.

### Directors' meetings
The number of directors' meetings held in the period each director held office during the financial year and the number of meetings attended by each director were:

| Board of Directors | Number Held | Number Attended |
|---|---|---|
| J D Elbery | 6 | 6 |
| P J Leonhardt | 6 | 6 |
| D A Mellor | 6 | 6 |
| B E Saxild | 6 | 6 |
| D R Watson | 6 | 6 |

### Audit committee

| | Number Held | Number Attended |
|---|---|---|
| J D Elbery (retired 30.4.07) | 2 | 2 |
| P J Leonhardt | 2 | 2 |
| B E Saxild (appointed 1.5.07) | - | - |

### Remuneration committee

| | Number Held | Number Attended |
|---|---|---|
| P J Leonhardt | 2 | 2 |
| D R Watson | 2 | 2 |

### Particulars of directors' interests in shares of CTI Logistics Limited at the date of this report

| | DIRECT HOLDING | INDIRECT HOLDING |
|---|---|---|
| J D Elbery | 497,577 | 983,382 |
| P J Leonhardt | - | 159,258 |
| D A Mellor | 244,389 | 2,969,130 |
| B E Saxild | 200,880 | 2,418,879 |
| D R Watson | 10,452,945 | 5,918,583 |

### Directors' and officers' indemnity insurance
The Company's directors' and officers' indemnity insurance policy indemnifies the directors named in this report in respect of their potential liability to third parties for wrongful acts committed by them in their capacity as directors (as defined in the policy).

### Environmental regulation
The operations of CTI Logistics Limited and its controlled entities are not subject to any particular or significant environmental regulation. However, the board believes that CTI Logistics Limited and its controlled entities have adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to CTI Logistics Limited and its controlled entities.

### Non-audit services
The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the group are important.

Details of the amounts paid or payable to the auditor, PricewaterhouseCoopers, for audit services provided during the year are set out in Note 28 of the financial statements. There were no non-audit services provided during the year. The directors are satisfied the auditor did not therefore compromise the auditor independence requirements of the *Corporations Act 2001*.

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 8.

# Directors' Report

## Remuneration report

The remuneration report is set out under the following main headings:

*A. Principles used to determine the nature and amount of remuneration*
*B. Details of remuneration*
*C. Service agreements*

The information provided under headings A-C includes remuneration disclosures that are required under Accounting Standard AASB 124 *Related Party Disclosures.* These disclosures have been transferred from the financial report and have been audited.

### A. Principles used to determine the nature and amount of remuneration (audited)

The remuneration committee makes specific recommendations on remuneration packages and other terms of employment for executive directors. Remuneration is set to competitively reflect market conditions for comparable roles. There are no guaranteed base pay increases each year, no element of the remuneration is based upon the Company's performance and no bonus schemes operated during the financial year other than some managers of certain business units received bonuses at the discretion of the board depending on performance. Remuneration of non-executive directors is determined by the board within the maximum amount, approved by shareholders, from time to time.

### B. Details of remuneration (audited)

Details of the nature and amount of each element of the emoluments of each director of the Company and the group is set out in the following table.

| 2007 | SHORT TERM | | | POST-EMPLOYMENT | | SHARE BASED PAYMENT | |
|---|---|---|---|---|---|---|---|
| | CASH SALARY AND FEES $ | CASH BONUS $ | NON-MONETARY BENEFITS $ | SUPER-ANNUATION $ | RETIREMENT BENEFITS $ | OPTIONS $ | TOTAL $ |
| J D Elbery (became non-executive – 1.5.07) | 205,999 | - | 11,316 | 150,000 | 87,960 | - | 455,275 |
| P J Leonhardt | 38,000 | - | - | - | - | - | 38,000 |
| D A Mellor | 241,329 | - | 11,615 | 45,200 | - | - | 298,144 |
| B E Saxild | 252,769 | - | 16,608 | 58,065 | - | - | 327,442 |
| D R Watson | 330,365 | - | 13,333 | 90,920 | - | - | 434,618 |
| Total | 1,068,462 | - | 52,872 | 344,185 | 87,960 | - | 1,553,479 |

| 2006 | SHORT TERM | | | POST-EMPLOYMENT | | SHARE BASED PAYMENT | |
|---|---|---|---|---|---|---|---|
| | CASH SALARY AND FEES $ | CASH BONUS $ | NON-MONETARY BENEFITS $ | SUPER-ANNUATION $ | RETIREMENT BENEFITS $ | OPTIONS $ | TOTAL $ |
| J D Elbery | 224,688 | - | 10,352 | 16,386 | - | - | 251,426 |
| P J Leonhardt | 35,000 | - | - | - | - | - | 35,000 |
| D A Mellor | 223,522 | - | 12,324 | 16,752 | - | - | 252,598 |
| B E Saxild | 225,696 | - | 15,730 | 50,000 | - | - | 291,426 |
| D R Watson | 334,031 | - | 13,893 | 55,099 | - | - | 403,023 |
| Total | 1,042,937 | - | 52,299 | 138,237 | - | - | 1,233,473 |

# Directors' Report

## Remuneration report (continued)

### C. Service agreements (audited)

There are no service agreements in existence and entitlements on termination would be subject to assessment by the remuneration committee within legislative framework at the time.

Having regard to the size and structure of the group, the nature of its operations, and the close involvement of the three executive directors, it is the opinion of the directors that there are no other key management personnel apart from the three executive directors.

### Loans to directors

Information on loans to directors is set out in Note 27 of the financial statements.

This report is made in accordance with a resolution of the directors on 27 September 2007.

DAVID MELLOR
Director

Perth
27 September 2007

# Auditor's Independence Declaration

PRICEWATERHOUSECOOPERS

**PricewaterhouseCoopers**
**ABN 52 780 433 757**

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## Auditor's Independence Declaration

As lead auditor for the audit of CTI Logistics Limited for the year ended 30 June 2007, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of CTI Logistics Limited and the entities it controlled during the period.

Pierre Dreyer
Partner
PricewaterhouseCoopers

Perth
27 September 2007

# Income Statements for the Year Ended 30 June 2007

| | Notes | CONSOLIDATED 2007 $ | CONSOLIDATED 2006 $ | PARENT ENTITY 2007 $ | PARENT ENTITY 2006 $ |
|---|---|---|---|---|---|
| Revenue | 5 | 59,673,866 | 55,337,492 | 7,118,577 | 3,863,755 |
| Other income | 6 | 527,425 | 667,383 | 10,216 | 41,063 |
| Changes in inventories of finished goods and work in progress | | (60,728) | 162,739 | - | - |
| Raw materials and consumables used | | (10,401,124) | (9,711,278) | - | - |
| Employee benefits expense | | (16,663,122) | (16,117,375) | (4,703,721) | (4,367,452) |
| Subcontractor expense | | (15,706,898) | (14,204,606) | - | - |
| Depreciation, write-down and amortisation expense | 7 | (3,222,508) | (3,848,442) | (330,822) | (321,487) |
| Motor vehicle and transport costs | | (3,051,740) | (3,010,487) | (94,011) | (94,551) |
| Property costs | | (211,965) | (920,584) | (152,464) | (84,502) |
| Finance costs | 7 | (1,027,845) | (928,567) | (193,393) | (244,512) |
| Other expenses | | (3,292,484) | (3,188,037) | (467,229) | (511,535) |
| Shares of net profit of joint venture partnership | | 161,666 | 209,313 | - | - |
| Profit (loss) before income tax | | 6,724,543 | 4,447,551 | 1,187,153 | (1,719,221) |
| Income tax (expense) benefit | 8 | (2,125,464) | (1,351,782) | 343,328 | 509,517 |
| Profit (loss) for the year | 25 | 4,599,079 | 3,095,769 | 1,530,481 | (1,209,704) |

| | | Cents | Cents |
|---|---|---|---|
| Earnings per share for profit attributable to the ordinary equity holders of the Company as adjusted for the 3 for 1 share split on 18 December 2006 | | | |
| Basic earnings per share | 36 | 13.44 | 6.72 |
| Diluted earnings per share | 36 | 13.44 | 6.72 |

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

# Balance Sheets as at 30 June 2007

| | Notes | CONSOLIDATED 2007 $ | CONSOLIDATED 2006 $ | PARENT ENTITY 2007 $ | PARENT ENTITY 2006 $ |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | 9 | 2,884 | 520,418 | 2,884 | 520,418 |
| Trade and other receivables | 10 | 11,691,621 | 9,682,076 | 4,057,400 | 2,976,048 |
| Inventories | 11 | 2,302,237 | 1,848,548 | - | - |
| TOTAL CURRENT ASSETS | | 13,996,742 | 12,051,042 | 4,060,284 | 3,496,466 |
| Non-current assets | | | | | |
| Investments accounted for using the equity method | 12 | 191,254 | 229,589 | - | - |
| Available-for-sale financial assets | 13 | 78,966 | 65,168 | 63,606 | 54,234 |
| Other financial assets | 14 | - | - | 8,334,141 | 8,334,141 |
| Property, plant and equipment | 15 | 20,251,402 | 18,834,481 | 2,757,645 | 2,881,456 |
| Investment properties | 16 | 4,201,972 | 2,281,755 | - | - |
| Deferred tax assets | 17 | 977,684 | 864,546 | 341,136 | 310,943 |
| Intangible assets | 18 | 712,089 | 881,314 | - | - |
| TOTAL NON-CURRENT ASSETS | | 26,413,367 | 23,156,853 | 11,496,528 | 11,580,774 |
| TOTAL ASSETS | | 40,410,109 | 35,207,895 | 15,556,812 | 15,077,240 |
| LIABILITIES | | | | | |
| Current liabilities | | | | | |
| Trade and other payables | 19 | 7,726,647 | 6,892,609 | 2,069,234 | 1,672,608 |
| Borrowings | 20 | 3,965,238 | 2,172,149 | 1,883,580 | 389,862 |
| Current tax liabilities | | 1,304,672 | 1,391,090 | 1,304,672 | 1,391,090 |
| TOTAL CURRENT LIABILITIES | | 12,996,557 | 10,455,848 | 5,257,486 | 3,453,560 |
| Non-current liabilities | | | | | |
| Borrowings | 21 | 9,516,992 | 9,922,404 | 1,408,393 | 2,966,511 |
| Provisions | 23 | 244,822 | 497,472 | 93,374 | 108,522 |
| TOTAL NON-CURRENT LIABILITIES | | 9,761,814 | 10,419,876 | 1,501,767 | 3,075,033 |
| TOTAL LIABILITIES | | 22,758,371 | 20,875,724 | 6,759,253 | 6,528,593 |
| NET ASSETS | | 17,651,738 | 14,332,171 | 8,797,559 | 8,548,647 |
| EQUITY | | | | | |
| Contributed equity | 24 | 6,785,807 | 6,838,090 | 6,785,807 | 6,838,090 |
| Reserves | 25a | (42,467) | (51,084) | (29,564) | (36,124) |
| Retained profits | 25b | 10,908,398 | 7,545,165 | 2,041,316 | 1,746,681 |
| TOTAL EQUITY | | 17,651,738 | 14,332,171 | 8,797,559 | 8,548,647 |

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

# Statements of Changes in Equity for the Year Ended 30 June 2007

| | Notes | CONSOLIDATED 2007 $ | CONSOLIDATED 2006 $ | PARENT ENTITY 2007 $ | PARENT ENTITY 2006 $ |
|---|---|---|---|---|---|
| Total equity at the beginning of the financial year | | 14,332,171 | 21,771,028 | 8,548,647 | 20,278,017 |
| Change in fair value of available-for-sale financial assets, net of tax | | 8,617 | (51,084) | 6,560 | (36,124) |
| Recognised directly in equity | 25 | 8,617 | (51,084) | 6,560 | (36,124) |
| Profit (loss) for the year | 25 | 4,599,079 | 3,095,769 | 1,530,481 | (1,209,704) |
| Total recognised income and expense for the year | | 4,607,696 | 3,044,685 | 1,537,041 | (1,245,828) |
| Transactions with equity holders in their capacity as equity holders: | | | | | |
| Shares bought back | 24 | (52,283) | (10,091,800) | (52,283) | (10,091,800) |
| Dividends provided for or paid | 26 | (1,235,846) | (391,742) | (1,235,846) | (391,742) |
| Total equity at the end of the financial year | | 17,651,738 | 14,332,171 | 8,797,559 | 8,548,647 |

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

# Cash Flow Statements for the Year Ended 30 June 2007

| | Notes | CONSOLIDATED 2007 $ | CONSOLIDATED 2006 $ | PARENT ENTITY 2007 $ | PARENT ENTITY 2006 $ |
|---|---|---|---|---|---|
| **Cash flows from operating activities** | | | | | |
| Receipts from customers (inclusive of goods and services tax) | | 63,885,174 | 62,745,691 | 4,529,233 | 4,479,512 |
| Payments to suppliers and employees (inclusive of goods and services tax) | | (55,256,517) | (53,993,623) | (5,528,745) | (5,890,928) |
| Dividends received | | 3,864 | 5,520 | 3,864 | 5,520 |
| Interest received | | 24,066 | 180,038 | 23,163 | 96,265 |
| Joint venture partnership distribution received | | 200,000 | 156,000 | - | - |
| Interest paid | | (831,901) | (741,322) | (98,625) | (129,096) |
| Income tax refund received | | 33,371 | 75,668 | 33,371 | 75,668 |
| Income taxes paid | | (2,362,086) | (427,079) | (2,362,086) | (427,079) |
| Reimbursements received from tax consolidated entities | | - | - | 2,226,172 | 297,884 |
| NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES | 34 | 5,695,971 | 8,000,893 | (1,173,653) | (1,492,254) |
| **Cash flows from investing activities** | | | | | |
| Loan repayments received | | - | - | 2,239,342 | 7,992,477 |
| Payments for property, plant and equipment | | (1,075,796) | (1,255,632) | (273,864) | (307,162) |
| Payment for investment property | | (2,210,245) | - | - | - |
| Payments for intangibles | | (2,912) | (42,641) | - | - |
| Payments for available-for-sale financial assets | | (14,485) | - | (12,000) | - |
| Deferred payment for purchase of business | | - | (83,333) | - | - |
| Proceeds from sale of property, plant and equipment | | 745,091 | 261,908 | 42,273 | 35,455 |
| Proceeds from sale of available-for-sale financial assets | | 12,900 | - | 12,900 | - |
| Deferred proceeds from sale of business | | - | 1,196,070 | - | - |
| NET CASH (OUTFLOW) INFLOW FROM INVESTING ACTIVITIES | | (2,545,447) | 76,372 | 2,008,651 | 7,720,770 |
| **Cash flows from financing activities** | | | | | |
| Proceeds from borrowings | | - | 3,025,000 | - | 3,025,000 |
| Repayment of borrowings | | (2,923,985) | (1,986,201) | (608,459) | (137,452) |
| Payments for shares bought back | | (52,283) | (10,091,800) | (52,283) | (10,091,800) |
| Dividend paid to Company's shareholders | | (1,235,846) | (391,742) | (1,235,846) | (391,742) |
| NET CASH (OUTFLOW) FROM FINANCING ACTIVITIES | | (4,212,114) | (9,444,743) | (1,896,588) | (7,595,994) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | (1,061,590) | (1,367,478) | (1,061,590) | (1,367,478) |
| Cash and cash equivalents at the beginning of the financial year | | 520,418 | 1,887,896 | 520,418 | 1,887,896 |
| CASH (DEFICIT) AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR | 9 | (541,172) | 520,418 | (541,172) | 520,418 |

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

# Notes to the Financial Statements

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for CTI Logistics Limited as an individual entity and the consolidated entity consisting of CTI Logistics Limited and its subsidiaries.

### (a) BASIS OF PREPARATION OF FINANCIAL REPORT

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

*Compliance with IFRS*

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of CTI Logistics Limited comply with International Financial Reporting Standards (IFRS). The parent entity financial statements and notes also comply with IFRS except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 *Financial Instruments: Presentation and Disclosure*.

*Historical cost convention*

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

### (b) PRINCIPLES OF CONSOLIDATION

*(i) Subsidiaries*

The financial statements incorporate the assets and liabilities of all entities controlled by CTI Logistics Limited ("Company") as at 30 June 2007 and the results of all subsidiaries for the year then ended. CTI Logistics Limited and its subsidiaries together are referred to in these financial statements as the group.

Subsidiaries are all those entities (including special purpose entities) over which the group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group (refer to note 1(h)).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Investments in subsidiaries are accounted for at cost in the Company's financial statements.

# Notes to the Financial Statements

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*(ii) Joint ventures*

*Joint venture entities*
The interest in a joint venture partnership is accounted for in the consolidated financial statements using the equity method. Under the equity method, the share of the profits or losses of the partnership is recognised in the income statement, and the share of movements in reserves is recognised in the balance sheet.

Profits or losses on transactions establishing the joint venture partnership and transactions with the joint venture are eliminated to the extent of the group's ownership interest until such time as they are realised by the joint venture partnership on consumption or sale, unless they relate to an unrealised loss that provides evidence of the impairment of an asset transferred.

### (c) SEGMENT REPORTING

Segment reporting details are set out in Note 4. A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. There is no geographical segmentation as all operations are within Australia.

### (d) FOREIGN CURRENCY TRANSLATION

*(i) Functional and presentation currency*
All group entities are based in Australia. The consolidated financial statements are presented in Australian dollars, which is the group's functional and presentation currency.

*(ii) Transactions and balances*
Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

### (e) REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised for the major business activities as follows:

*(i) Logistics and transport*
A sale is recorded when the goods or services have been delivered to or collected by a customer in accordance with the arrangements made with the group.

*(ii) Security, manufacturing and other*
A sale is recorded when goods have been despatched to a customer pursuant to a sales order and the associated risks of ownership have passed to the customer. A sale is recorded for services when the service has been performed.

*(iii) Interest income*
Interest income is recognised on a time proportion basis using the effective interest method.

*(iv) Dividends*
Dividends are recognised as revenue when the right to receive payment is established.

*(v) Other revenue*
Revenue from outside the operating activities includes rent. This revenue is recognised when the right to receive payment is established.

### (f) INCOME TAX

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

# Notes to the Financial Statements

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

### Tax consolidation legislation

CTI Logistics Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2003.

The head entity, CTI Logistics Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, CTI Logistics Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

## (g) LEASES

Leases of property, plant and equipment where the group has substantially all the risk and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges are included in other long term payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

# Notes to the Financial Statements

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Lease income from operating leases is recognised in income on a straight-line basis over the lease term.

### (h) ACQUISITION OF ASSETS

The purchase method of accounting is used to account for all acquisition of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1(q)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

### (i) IMPAIRMENT OF ASSETS

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets, other than goodwill, are reviewed for possible reversal of the impairment at each reporting period.

### (j) CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

### (k) TRADE RECEIVABLES

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. Trade receivables are due for settlement not more than 30 days from the date of recognition.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rates. The amount of the provision is recognised in the income statement.

# Notes to the Financial Statements

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (l) INVENTORIES

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriated proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### (m) INVESTMENTS AND OTHER FINANCIAL ASSETS

Classification

The group classifies its investments in the following categories: loans and receivables, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

*(i) Loans and receivables*

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

*(ii) Available-for-sale financial assets*

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Recognition and derecognition

Purchases and sales of financial assets are recognised on trade-date – the date on which the group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership. When available-for-sale financial assets are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Subsequent measurement

Loans and receivables are carried at amortised cost using the effective rate method.

Available-for-sale financial assets are subsequently carried at fair value. Changes in the fair value of other monetary and non-monetary securities classified as available-for-sale are recognised in equity.

Fair value

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the group establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and the option pricing models refined to reflect the issuer's specific circumstances.

Impairment

The group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss) is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

# Notes to the Financial Statements

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (n) FAIR VALUE ESTIMATION

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

### (o) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment other than freehold land is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost net of their residual values, over their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 25 - 40 years |
| Plant & equipment | 5 - 15 years |
| Motor vehicles | 5 - 10 years |
| Furniture and fittings | 3 - 8 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

### (p) INVESTMENT PROPERTY

Investment property, principally comprising freehold land and buildings, is held for long-term rental yields and is not occupied by the group. Investment property other than freehold land is held at historical cost less depreciation. Investment buildings are depreciated using the straight line method over their estimated useful lives of 25 to 40 years.

### (q) INTANGIBLE ASSETS

*(i) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets acquired. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash generating units for the purpose of impairment testing.

# Notes to the Financial Statements

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Purchased Security Lines

Security lines have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight line method to allocate the cost of security lines over their estimated useful lives, which vary from 5 to 7 years.

### (r) TRADE AND OTHER PAYABLES

These amounts represent liabilities for goods and services provided to the group prior to the end of the financial year and which are unpaid. The amounts are unsecured and are paid based on the terms of trade which are usually 30 to 60 days from the date of recognition.

### (s) BORROWINGS

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings 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.

### (t) BORROWING COSTS

Borrowing costs are recognised as expenses in the period in which they are incurred. Borrowing costs include interest on bank overdrafts, short-term and long-term borrowings and finance lease charges.

### (u) PROVISIONS

Provisions for legal claims and service warranties are recognised when the group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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

### (v) EMPLOYEE BENEFITS

*(i) Wages, salaries and annual leave*

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

*(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 national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

*(iii) Retirement benefit obligations*

Contributions to the defined contribution fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

*(iv) Bonus plans*

The group recognises a liability and an expense for bonuses where contractually obliged or when past events have created a constructive obligation.

# Notes to the Financial Statements

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (w) CONTRIBUTED EQUITY

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are not included in the cost of the acquisition as part of the purchase consideration.

If the Company re-acquires its own ordinary shares, for example as a result of a share buy-back, those shares are deducted from equity and cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

### (x) DIVIDENDS

Provision is made for the amount of any dividend declared, determined or publicly recommended by the directors on or before the end of the year but not distributed at balance date.

### (y) EARNINGS PER SHARE

*(i) Basic earnings per share*

Basic earnings per share is determined by dividing profit for the year by the weighted average number of ordinary shares outstanding during the year.

*(ii) Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

### (z) GOODS AND SERVICES TAX (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amounts of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

### (aa) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The group's and the parent entity's assessment of the impact of these new standards and interpretations is set out below.

*(i) AASB 7 Financial Instruments: Disclosures and AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]*

AASB 7 and ASSB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the group's and the parent entity's financial instruments.

*(ii) AASB1- 10 Interim Financial Reporting and Impairment*

AASB-1 10 is applicable to reporting periods commencing on or after 1 November 2006. The group has not recognised an impairment loss in relation to goodwill, investments in equity instruments or financial assets carried at cost in an interim reporting period but subsequently reversed the impairment loss in the annual report. Application of the interpretation will therefore have no impact on the group's or the parent entity's financial statements.

# Notes to the Financial Statements

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*(iii) AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8*

AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a management approach to reporting on the financial performance. The information being reported will be based on what the key decision-makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The group has not yet decided when to adopt AASB 8. Application of AASB 8 may result in different segments, segment results and different type of information being reported in the segment note of the financial report. However, it will not affect any of the amounts recognised in the financial statements.

## 2. FINANCIAL RISK MANAGEMENT

The group's activities expose it to a variety of financial risks; market risk (fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the group.

Risk management is carried out by the director responsible for finance under policies approved by the board of directors. The board considers principles for overall risk management, as well as determining policies covering specific areas, such as mitigating foreign exchange, interest rate and credit risks and investing excess liquidity.

### (a) Credit risk

The group has no significant concentrations of credit risk. The group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. Cash transactions are limited to high credit quality financial institutions. The group has policies that limit the amount of credit exposure to any one financial institution.

### (b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the board of directors aims at maintaining flexibility in funding by keeping committed credit lines available.

### (c) Cash flow and fair value interest rate risk

As the group has no significant interest bearing assets, the group's income and operating cash flows are substantially independent of changes in market interest rates.

The group's interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the group to fair value interest rate risk. Group policy is to maintain approximately 60% of its borrowings in short term reviewable or fixed rate instruments. At the year end, 77% (2006 – 75%) of borrowings were at short term reviewable or fixed rates.

## 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates, assumptions and judgements may be used to assess the measurement of certain items of income and expense, and assets and liabilities. Such estimates, assumptions and judgements are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Where estimates and assumptions are made concerning the future, the resulting accounting estimates may not equal the related actual outcome. The estimates and assumptions which give rise to a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*(i) Estimated impairment of goodwill*

The group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1(i). The recoverable amounts of cash-generating units have been determined based on value in use calculations. These calculations require the use of assumptions. Note 18 sets out the basis of these assumptions.

# Notes to the Financial Statements

## 4. SEGMENT INFORMATION

### (a) Description of segments

The group operates solely in Australia and is involved in the production and sale of the following products and services:

Logistics and transport services - includes the provision of courier, taxi truck, parcel distribution, fleet management, warehousing and distribution and document storage services.

Manufacturing, security and other services - includes the provision of printing, manufacturing of plastic products and security services.

### (b) Notes to and forming part of the segment information

*(i) Accounting policies*

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in note 1 and accounting standard AASB 114 *Segment Reporting*.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, inventories, property, plant and equipment and goodwill and other intangible assets, net of related provisions. While most of these assets can be directly attributable to individual segments, the carrying amounts of certain assets used jointly by segments are allocated based on reasonable estimates of usage. Segment liabilities consist primarily of trade and other creditors, employee benefits and provision for service warranties. Segment assets and liabilities do not include income taxes.

*(ii) Inter-segment transfers*

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an "arm's length" basis and are eliminated on consolidation.

# Notes to the Financial Statements

## 4. SEGMENT INFORMATION (continued)

Primary reporting format – business segments

| 2007 | LOGISTICS AND TRANSPORT $ | MANUFACTURING, SECURITY AND OTHER $ | INTERSEGMENT ELIMINATIONS $ | CONSOLIDATED $ |
|---|---|---|---|---|
| Sales to external customers | 31,979,543 | 26,842,028 | - | 58,821,571 |
| Intersegment sales | 356,827 | 39,766 | (396,593) | - |
| Total sales revenue | 32,336,370 | 26,881,794 | (396,593) | 58,821,571 |
| Share of net profit of joint venture partnership | | | | 161,666 |
| Other revenue/income | | | | 1,379,720 |
| Total segment revenue/income | | | | 60,362,957 |
| Segment result | 5,282,016 | 3,559,817 | (50,245) | 8,791,588 |
| Unallocated revenue less expenses | | | | (2,067,045) |
| Profit before income tax expense | | | | 6,724,543 |
| Income tax expense | | | | (2,125,464) |
| Profit for the year | | | | 4,599,079 |
| Segment assets | 12,617,442 | 23,574,481 | (4,304,337) | 31,887,586 |
| Unallocated assets | | | | 8,522,523 |
| Total assets | | | | 40,410,109 |
| Segment liabilities | 2,025,646 | 3,888,004 | (122,592) | 5,791,058 |
| Unallocated liabilities | | | | 16,967,313 |
| Total liabilities | | | | 22,758,371 |
| Investment in joint venture partnership | 191,254 | - | - | 191,254 |
| Acquisition of property, plant and equipment, intangibles and other non-current segment assets | 628,238 | 6,154,457 | - | 6,782,695 |
| Unallocated acquisitions | | | | 273,864 |
| Total acquisitions | | | | 7,056,559 |
| Depreciation, write-down and amortisation expense | 989,999 | 1,901,687 | - | 2,891,686 |
| Unallocated | | | | 330,822 |
| Total depreciation, write-down and amortisation expense | | | | 3,222,508 |
| Other non-cash activities | 144,284 | 3,623,322 | - | 3,767,606 |

# Notes to the Financial Statements

4. SEGMENT INFORMATION (continued)

| 2006 | LOGISTICS AND TRANSPORT $ | MANUFACTURING, SECURITY AND OTHER $ | INTERSEGMENT ELIMINATIONS $ | CONSOLIDATED $ |
|---|---|---|---|---|
| Sales to external customers | 29,633,265 | 25,431,315 | - | 55,064,580 |
| Intersegment sales | 299,065 | 35,150 | (334,215) | - |
| Total sales revenue | 29,932,330 | 25,466,465 | (334,215) | 55,064,580 |
| Share of net profit of joint venture partnership | | | | 209,313 |
| Other revenue/income | | | | 940,295 |
| Total segment revenue/income | | | | 56,214,188 |
| Segment result | 4,692,246 | 2,238,992 | (150,011) | 6,781,227 |
| Unallocated revenue less expenses | | | | (2,333,676) |
| Profit before income tax expense | | | | 4,447,551 |
| Income tax expense | | | | (1,351,782) |
| Profit for the year | | | | 3,095,769 |
| Segment assets | 12,482,475 | 18,389,024 | (815,306) | 30,056,193 |
| Unallocated assets | | | | 5,151,702 |
| Total assets | | | | 35,207,895 |
| Segment liabilities | 2,124,100 | 3,989,912 | (146,457) | 5,967,555 |
| Unallocated liabilities | | | | 14,908,169 |
| Total liabilities | | | | 20,875,724 |
| Investment in joint venture partnership | 229,589 | - | - | 229,589 |
| Acquisition of property, plant and equipment, intangibles and other non-current segment assets | 1,068,219 | 1,219,845 | - | 2,288,064 |
| Unallocated acquisitions | | | | 410,378 |
| Total acquisitions | | | | 2,698,442 |
| Depreciation and amortisation expense | 866,425 | 2,660,530 | - | 3,526,955 |
| Unallocated | | | | 321,487 |
| Total depreciation and amortisation expense | | | | 3,848,442 |
| Other non-cash activities | 657,733 | 742,443 | - | 1,400,176 |

# Notes to the Financial Statements

## 5. REVENUE

| | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|
| | 2007 $ | 2006 $ | 2007 $ | 2006 $ |
| Revenue | | | | |
| *Sales revenue* | | | | |
| Sale of goods | 22,761,124 | 20,904,315 | - | - |
| Services | 36,547,529 | 33,848,817 | 599,100 | 561,074 |
| Services to related companies | - | - | 3,167,680 | 2,917,096 |
| *Other revenue* | | | | |
| Interest | 24,066 | 180,038 | 23,163 | 96,265 |
| Dividends | 3,864 | 5,520 | 3,864 | 5,520 |
| Dividends from related companies | - | - | 3,000,000 | - |
| Rent | 337,283 | 398,802 | - | - |
| Rent charged to related companies | - | - | 324,770 | 283,800 |
| | 59,673,866 | 55,337,492 | 7,118,577 | 3,863,755 |

## 6. OTHER INCOME

| | | | | |
|---|---|---|---|---|
| Net gain on disposal of: | | | | |
| -Plant and equipment | 78,953 | 91,810 | - | - |
| -Equity securities | 900 | - | 900 | - |
| Other | 447,572 | 575,573 | 9,316 | 41,063 |
| | 527,425 | 667,383 | 10,216 | 41,063 |

## 7. EXPENSES

Profit (loss) before income tax includes the following specific expenses:

| | | | | |
|---|---|---|---|---|
| Defined contribution superannuation expense | 1,531,458 | 1,361,451 | 494,073 | 347,819 |
| Write-down investment property | 141,600 | - | - | - |
| *Depreciation* | | | | |
| Buildings | 471,207 | 397,225 | 59,752 | 59,752 |
| Plant and equipment | 2,437,562 | 3,280,189 | 271,070 | 261,735 |
| Total depreciation | 2,908,769 | 3,677,414 | 330,822 | 321,487 |
| *Amortisation* | | | | |
| Purchased lines | 172,139 | 171,028 | - | - |
| *Finance costs* | | | | |
| Interest and finance charges paid/payable | 1,027,845 | 928,567 | 193,393 | 244,512 |
| *Net loss on disposal of:* | | | | |
| - Plant and equipment | - | - | 24,580 | 705 |
| *Rental expense relating to operating leases* | | | | |
| Minimum lease payments | 24,291 | 656,031 | - | - |

# Notes to the Financial Statements

## 8. INCOME TAX EXPENSE

| | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | $ | $ | $ | $ |
| **(a) Income tax expense (benefit)** | | | | |
| Current tax | 2,169,294 | 1,653,215 | (485,125) | (555,142) |
| Deferred tax | (116,831) | (303,663) | (33,005) | 54,210 |
| Under (over) provided in prior years | 73,001 | 2,230 | 174,802 | (8,585) |
| Income tax expense (benefit) | 2,125,464 | 1,351,782 | (343,328) | (509,517) |
| Deferred income tax (revenue) expense included in income tax expense comprises: | | | | |
| (Increase) decrease in deferred tax assets (note 17) | (79,112) | (92,414) | (33,005) | 54,210 |
| Decrease in deferred tax liabilities (note 22) | (37,719) | (211,249) | - | - |
| | (116,831) | (303,663) | (33,005) | 54,210 |
| **(b) Numeric reconciliation of income tax expense to prima facie tax payable** | | | | |
| Profit (loss) before income tax expense | 6,724,543 | 4,447,551 | 1,187,153 | (1,719,221) |
| Tax at the Australian rate of tax of 30% (2006 - 30%) | 2,017,363 | 1,334,265 | 356,146 | (515,766) |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | | | |
| Depreciation and amortisation | 11,248 | 12,276 | 9,241 | 12,276 |
| Sundry items | 22,693 | 1,355 | 17,642 | 902 |
| Rebatable dividends | 1,159 | 1,656 | (901,159) | 1,656 |
| | 2,052,463 | 1,349,552 | (518,130) | (500,932) |
| Under (over) provision in prior years | 73,001 | 2,230 | 174,802 | (8,585) |
| Income tax expense (benefit) | 2,125,464 | 1,351,782 | (343,328) | (509,517) |
| **(c) Amounts recognised direct in equity** | | | | |
| Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity | | | | |
| Net deferred tax – credited directly to equity (note 17) | 3,693 | (21,893) | 2,812 | (15,482) |

### Tax consolidation legislation

CTI Logistics Limited and the controlled entities implemented the tax consolidation legislation as of 1 July 2003. The accounting policy relating to this legislation is set out in Note 1(f).

The entities have also entered into tax sharing and funding agreements. Under the terms of these agreements, the controlled entities will reimburse the Company for any current tax payable by the Company arising in respect of their activities and the Company will reimburse the controlled entities for any tax refund due to the Company arising in respect of their activities. The reimbursements are payable by the Company and will limit the joint and several liability of the controlled entities in the case of default by the Company.

# Notes to the Financial Statements

## 9. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

| | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | $ | $ | $ | $ |
| Cash at bank and in hand | 2,884 | 520,418 | 2,884 | 520,418 |

### (a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

| | | | | |
|---|---|---|---|---|
| Balances as above | 2,884 | 520,418 | 2,884 | 520,418 |
| Bank overdraft (note 20) | (544,056) | - | (544,056) | - |
| Balances per statement of cash flows | (541,172) | 520,418 | (541,172) | 520,418 |

### (b) Cash at bank and on hand

Cash at bank earns interest at varying rates between nil and 6.25% per annum (2006 – nil and 5.29% per annum).

## 10. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

| | | | | |
|---|---|---|---|---|
| Trade receivables | 10,703,900 | 9,264,034 | 24,955 | 35,988 |
| Provision for doubtful receivables | (322,893) | (442,910) | - | - |
| | 10,381,007 | 8,821,124 | 24,955 | 35,988 |
| Loans to controlled entities | - | - | 3,642,294 | 2,560,773 |
| Other receivables | 553,336 | 96,038 | - | - |
| Prepayments | 757,278 | 764,914 | 390,151 | 379,287 |
| | 1,310,614 | 860,952 | 4,032,445 | 2,940,060 |
| | 11,691,621 | 9,682,076 | 4,057,400 | 2,976,048 |

### (a) Bad and doubtful trade receivables

The group has recognised a loss of $57,734 (2006 - $45,048) in respect of bad and doubtful trade receivables during the year ended 30 June 2007. The loss has been included in 'other expenses' in the income statement.

### (b) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the group. Interest is not normally charged and collateral is not normally obtained.

### (c) Effective interest rates and credit risk

Information concerning the credit risk of receivables is set out in note 2. Loans to controlled entities or trade receivables are interest free, unsecured and have no fixed terms of repayment.

# Notes to the Financial Statements

## 11. CURRENT ASSETS – INVENTORIES

| | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | $ | $ | $ | $ |
| Raw materials – at cost | 878,865 | 364,448 | - | - |
| Work in progress – at cost | 246,314 | 264,583 | - | - |
| Finished goods – at cost | 1,177,058 | 1,219,517 | - | - |
| | 2,302,237 | 1,848,548 | - | - |

## 12. NON-CURRENT ASSETS – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

| | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | $ | $ | $ | $ |
| Interest in joint venture partnership (note 33) | 191,254 | 229,589 | - | - |

## 13. NON-CURRENT ASSETS – AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | | | | |
|---|---|---|---|---|
| Other listed securities | | | | |
| Equity securities | 78,966 | 65,168 | 63,606 | 54,234 |

## 14. NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS

| | | | | |
|---|---|---|---|---|
| Shares in subsidiaries (note 31) | - | - | 8,334,141 | 8,334,141 |

These financial assets are carried at cost.

## 15. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

| Consolidated | FREEHOLD LAND | FREEHOLD BUILDINGS | PLANT AND EQUIPMENT | MOTOR VEHICLES | TOTAL |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| 1 July 2005 | | | | | |
| Cost | 2,488,982 | 7,521,382 | 23,871,096 | 6,042,304 | 39,923,764 |
| Accumulated depreciation | - | (1,910,666) | (15,700,430) | (2,508,496) | (20,119,592) |
| Net book amount | 2,488,982 | 5,610,716 | 8,170,666 | 3,533,808 | 19,804,172 |
| Year ended 30 June 2006 | | | | | |
| Opening net book amount | 2,488,982 | 5,610,716 | 8,170,666 | 3,533,808 | 19,804,172 |
| Additions | - | 14,585 | 1,637,386 | 1,003,830 | 2,655,801 |
| Disposals | - | - | (3,294) | (166,804) | (170,098) |
| Depreciation charge | - | (175,205) | (2,579,457) | (700,732) | (3,455,394) |
| Closing net book amount | 2,488,982 | 5,450,096 | 7,225,301 | 3,670,102 | 18,834,481 |

# Notes to the Financial Statements

15. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT (continued)

| Consolidated | FREEHOLD LAND $ | FREEHOLD BUILDINGS $ | PLANT AND EQUIPMENT $ | MOTOR VEHICLES $ | TOTAL $ |
|---|---|---|---|---|---|
| At 30 June 2006 | | | | | |
| Cost | 2,488,982 | 7,535,967 | 25,338,265 | 6,534,981 | 41,898,195 |
| Accumulated depreciation | - | (2,085,871) | (18,112,964) | (2,864,879) | (23,063,714) |
| Net book amount | 2,488,982 | 5,450,096 | 7,225,301 | 3,670,102 | 18,834,481 |
| Year ended 30 June 2007 | | | | | |
| Opening net book amount | 2,488,982 | 5,450,096 | 7,225,301 | 3,670,102 | 18,834,481 |
| Additions | - | 82,714 | 4,417,341 | 343,347 | 4,843,402 |
| Disposals | - | - | (511,294) | (154,844) | (666,138) |
| Depreciation charge | - | (181,179) | (1,857,345) | (721,819) | (2,760,343) |
| Closing net book amount | 2,488,982 | 5,351,631 | 9,274,003 | 3,136,786 | 20,251,402 |
| At 30 June 2007 | | | | | |
| Cost | 2,488,982 | 7,618,681 | 26,245,037 | 6,386,068 | 42,738,768 |
| Accumulated depreciation | - | (2,267,050) | (16,971,034) | (3,249,282) | (22,487,366) |
| Net book amount | 2,488,982 | 5,351,631 | 9,274,003 | 3,136,786 | 20,251,402 |

| Parent Entity | FREEHOLD LAND $ | FREEHOLD BUILDINGS $ | PLANT AND EQUIPMENT $ | MOTOR VEHICLES $ | TOTAL $ |
|---|---|---|---|---|---|
| 1 July 2005 | | | | | |
| Cost | 560,973 | 1,945,838 | 2,175,754 | 751,296 | 5,433,861 |
| Accumulated depreciation | - | (555,357) | (1,847,645) | (148,641) | (2,551,643) |
| Net book amount | 560,973 | 1,390,481 | 328,109 | 602,655 | 2,882,218 |
| Year ended 30 June 2006 | | | | | |
| Opening net book amount | 560,973 | 1,390,481 | 328,109 | 602,655 | 2,882,218 |
| Additions | - | - | 278,477 | 78,409 | 356,886 |
| Disposals | - | - | - | (36,161) | (36,161) |
| Depreciation charge | - | (59,752) | (158,450) | (103,285) | (321,487) |
| Closing net book amount | 560,973 | 1,330,729 | 448,136 | 541,618 | 2,881,456 |
| At 30 June 2006 | | | | | |
| Cost | 560,973 | 1,945,838 | 2,454,231 | 781,491 | 5,742,533 |
| Accumulated depreciation | - | (615,109) | (2,006,095) | (239,873) | (2,861,077) |
| Net book amount | 560,973 | 1,330,729 | 448,136 | 541,618 | 2,881,456 |

# Notes to the Financial Statements

## 15. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT (continued)

| Parent Entity | FREEHOLD LAND $ | FREEHOLD BUILDINGS $ | PLANT AND EQUIPMENT $ | MOTOR VEHICLES $ | TOTAL $ |
|---|---|---|---|---|---|
| Year ended 30 June 2007 | | | | | |
| Opening net book amount | 560,973 | 1,330,729 | 448,136 | 541,618 | 2,881,456 |
| Additions | - | - | 167,617 | 106,247 | 273,864 |
| Disposals | - | - | - | (66,853) | (66,853) |
| Depreciation charge | - | (59,752) | (164,187) | (106,883) | (330,822) |
| Closing net book amount | 560,973 | 1,270,977 | 451,566 | 474,129 | 2,757,645 |
| At 30 June 2007 | | | | | - |
| Cost | 560,973 | 1,945,838 | 2,621,848 | 712,174 | 5,840,833 |
| Accumulated depreciation | - | (674,861) | (2,170,282) | (238,045) | (3,083,188) |
| Net book amount | 560,973 | 1,270,977 | 451,566 | 474,129 | 2,757,645 |

### (a) Recent valuations of land and buildings

| | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|
| | 2007 $ | 2006 $ | 2007 $ | 2006 $ |
| Aggregate recent valuations of freehold land and buildings based on: | | | | |
| Directors' valuation – 2007 (Independent valuation – 2006) | 32,155,200 | 17,200,000 | 4,080,000 | 3,400,000 |

The valuation basis of land and buildings is fair value being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition. The 2007 valuations were made by the directors as at 30 June 2007. The 2006 valuations were based on independent assessments by an Associate of the Australian Property Institute as at 23 May 2006.

### (b) Non-current assets pledged as security

Refer to note 21 for information on non-current assets pledged as security by the parent entity and its controlled entities.

# Notes to the Financial Statements

## 16. NON-CURRENT ASSETS – INVESTMENT PROPERTIES

| Consolidated | FREEHOLD LAND $ | FREEHOLD BUILDINGS $ | TOTAL $ |
|---|---|---|---|
| 1 July 2005 | | | |
| Cost | 511,414 | 2,989,663 | 3,501,077 |
| Accumulated depreciation | - | (997,302) | (997,302) |
| Net book amount | 511,414 | 1,992,361 | 2,503,755 |
| Year ended 30 June 2006 | | | |
| Opening net book amount | 511,414 | 1,992,361 | 2,503,775 |
| Depreciation charge | - | (222,020) | (222,020) |
| Closing net book amount | 511,414 | 1,770,341 | 2,281,755 |
| At 30 June 2006 | | | |
| Cost | 511,414 | 2,989,663 | 3,501,077 |
| Accumulated depreciation | - | (1,219,322) | (1,219,322) |
| Net book amount | 511,414 | 1,770,341 | 2,281,755 |
| Year ended 30 June 2007 | | | |
| Opening net book amount | 511,414 | 1,770,341 | 2,281,755 |
| Additions | 1,930,245 | 280,000 | 2,210,245 |
| Depreciation charge | - | (148,428) | (148,428) |
| Write-down | - | (141,600) | (141,600) |
| Closing net book amount | 2,441,659 | 1,760,313 | 4,201,972 |
| At 30 June 2007 | | | |
| Cost | 2,441,659 | 3,269,663 | 5,711,322 |
| Accumulated depreciation | - | (1,509,350) | (1,509,350) |
| Net book amount | 2,441,659 | 1,760,313 | 4,201,972 |

Parent Entity

The parent entity does not hold any investment property.

(a) Amounts recognised in profit and loss for investment properties

| | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|
| | 2007 $ | 2006 $ | 2007 $ | 2006 $ |
| Rental income | 301,924 | 221,170 | - | - |
| Direct operating expenses from property that generated rental income | (187,811) | (97,054) | - | - |
| | 114,113 | 124,116 | - | - |

# Notes to the Financial Statements

## 16. NON-CURRENT ASSETS – INVESTMENT PROPERTIES (continued)

| | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | $ | $ | $ | $ |
| **(b) Valuation** | | | | |
| Aggregate recent valuations of freehold land and buildings based on: | | | | |
| Directors' valuation – 2007 (Independent valuation – 2006) | 6,350,000 | 3,505,000 | - | - |

The basis of the valuation of investment properties is fair value being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. The 2007 valuations were made by the directors as at 30 June 2007. The 2006 valuations were based on independent assessments by an Associate of the Australian Property Institute as at 23 May 2006.

### (c) Non-current assets pledged as security

Refer to note 21 for information on non-current assets pledged as security by the parent entity or its controlled entities.

### (d) Contractual obligations

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

### (e) Leasing arrangements

The investment properties are leased to tenants on monthly operating leases or fixed 12 months term.

## 17. NON-CURRENT ASSETS – DEFERRED TAX ASSETS

| | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | $ | $ | $ | $ |
| The balance comprises temporary differences attributable to: | | | | |
| *Amounts recognised in profit or loss* | | | | |
| Doubtful debts | 110,146 | 132,874 | - | - |
| Employee benefits | 561,412 | 544,696 | 254,520 | 225,423 |
| Depreciation | 297,501 | 210,920 | 20,996 | 15,633 |
| Other | 59,549 | 61,006 | 52,950 | 54,405 |
| | 1,028,608 | 949,496 | 328,466 | 295,461 |
| *Amounts recognised directly in equity* | | | | |
| Available-for-sale financial assets | 18,200 | 21,893 | 12,670 | 15,482 |
| | 1,046,808 | 971,389 | 341,136 | 310,943 |
| Set-off of deferred tax liabilities (note 22) | (69,124) | (106,843) | - | - |
| Net deferred tax assets | 977,684 | 864,546 | 341,136 | 310,943 |
| Deferred tax assets to be recovered within 12 months | 731,107 | 738,576 | 307,470 | 279,828 |
| Deferred tax assets to be recovered after more than 12 months | 315,701 | 232,813 | 33,666 | 31,115 |
| | 1,046,808 | 971,389 | 341,136 | 310,943 |
| Opening balance at 1 July | 971,389 | 857,082 | 310,943 | 349,671 |
| Credited (debited) to the income statement (note 8) | 79,112 | 92,414 | 33,005 | (54,210) |
| (Debited) credited to equity | (3,693) | 21,893 | (2,812) | 15,482 |
| Closing balance at 30 June | 1,046,808 | 971,389 | 341,136 | 310,943 |

# Notes to the Financial Statements

## 18. NON-CURRENT ASSETS – INTANGIBLE ASSETS

| Consolidated | GOODWILL $ | SECURITY LINES $ | TOTAL $ |
|---|---|---|---|
| **At 1 July 2005** | | | |
| Cost | 324,348 | 1,339,862 | 1,664,210 |
| Accumulated amortisation and impairment | - | (654,509) | (654,509) |
| Net book amount | 324,348 | 685,353 | 1,009,701 |
| **Year ended 30 June 2006** | | | |
| Opening net book amount | 324,348 | 685,353 | 1,009,701 |
| Additions | - | 42,641 | 42,641 |
| Amortisation charge | - | (171,028) | (171,028) |
| Closing net book amount | 324,348 | 556,966 | 881,314 |
| **At 30 June 2006** | | | |
| Cost | 324,348 | 1,382,503 | 1,706,851 |
| Accumulated amortisation and impairment | - | (825,537) | (825,537) |
| Net book amount | 324,348 | 556,966 | 881,314 |
| **Year ended 30 June 2007** | | | |
| Opening net book amount | 324,348 | 556,966 | 881,314 |
| Additions | - | 2,914 | 2,914 |
| Amortisation charge | - | (172,139) | (172,139) |
| Closing net book amount | 324,348 | 387,741 | 712,089 |
| **At 30 June 2007** | | | |
| Cost | 324,348 | 1,385,417 | 1,709,765 |
| Accumulated amortisation and impairment | - | (997,676) | (997,676) |
| Net book amount | 324,348 | 387,741 | 712,089 |

Security lines are amortised in accordance with Note 1(q). Amortisation of $172,139 (2006 - $171,028) is included in depreciation and amortisation expense in the income statement.

### Parent Entity

The parent entity does not carry any goodwill.

### (a) Impairment tests for goodwill

Goodwill is allocated to the group's cash-generating units (CGUs) identified according to business segment.
The segment-level summary of goodwill allocation is presented below.

| | LOGISTICS AND TRANSPORT $ | MANUFACTURING, SECURITY AND OTHER $ | TOTAL $ |
|---|---|---|---|
| 2007 | 144,082 | 180,266 | 324,348 |
| 2006 | 144,082 | 180,266 | 324,348 |

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on current sustainable earnings and financial budgets approved by management. Cash flows have not been discounted as they show that the carrying amounts are substantially recovered within a twelve month period.

# Notes to the Financial Statements

## 19. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

| | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | $ | $ | $ | $ |
| Trade payables | 6,065,609 | 5,574,427 | 1,314,207 | 1,029,720 |
| Other payables | 1,661,038 | 1,318,182 | 755,027 | 642,888 |
| | 7,726,647 | 6,892,609 | 2,069,234 | 1,672,608 |

## 20. CURRENT LIABILITIES – BORROWINGS

| | | | | |
|---|---|---|---|---|
| Secured | | | | |
| Bills payable | 1,225,000 | 225,000 | 1,225,000 | 225,000 |
| Hire purchase liabilities (note 29) | 2,196,182 | 1,947,149 | 114,524 | 164,862 |
| Bank overdraft | 544,056 | - | 544,056 | - |
| Total current interest-bearing liabilities | 3,965,238 | 2,172,149 | 1,883,580 | 389,862 |

### (a) Interest rate risk exposures

Details of the group's exposure to interest rate changes on interest-bearing liabilities are set out in note 21.

### (b) Fair value disclosures

Details of the fair value of interest-bearing liabilities for the group are set out in note 21.

### (c) Security

Details of the security relating to each of the secured liabilities and further information on the bank overdrafts and bank loans are set out in note 21.

## 21. NON-CURRENT LIABILITIES – BORROWINGS

| | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | $ | $ | $ | $ |
| Secured | | | | |
| Bills payable | 1,300,000 | 2,800,000 | 1,300,000 | 2,800,000 |
| Hire purchase liabilities (note 29) | 3,960,992 | 2,866,404 | 108,393 | 166,511 |
| Other loans | 4,256,000 | 4,256,000 | - | - |
| Total secured non-current interest-bearing borrowings | 9,516,992 | 9,922,404 | 1,408,393 | 2,966,511 |

### (a) Total secured liabilities

The total secured liabilities (current and non-current) are as follows:

| | | | | |
|---|---|---|---|---|
| Secured | | | | |
| Bank overdraft and bank loans | 3,069,056 | 3,025,000 | 3,069,056 | 3,025,000 |
| Hire purchase liabilities | 6,157,174 | 4,813,553 | 222,917 | 331,373 |
| Other loans | 4,256,000 | 4,256,000 | - | - |
| Total secured liabilities | 13,482,230 | 12,094,553 | 3,291,973 | 3,356,373 |

### (b) Assets pledged as security

Bank overdraft and bank loans are secured by mortgages over the group's freehold land and buildings, and investment properties, and fixed and floating charges over the remaining group assets.

# Notes to the Financial Statements

## 21. NON-CURRENT LIABILITIES – BORROWINGS (continued)

Hire purchase liabilities are effectively secured as the rights to the assets recognised in the financial statements revert to the financier in the event of default.

The other loans are secured by mortgages over certain group freehold land and buildings.
The carrying amounts of assets pledged as security for current and non-current interest-bearing liabilities are:

| | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | $ | $ | $ | $ |
| Current | | | | |
| *Floating charge* | | | | |
| Cash and cash equivalents | 2,884 | 520,418 | 2,884 | 520,418 |
| Receivables | 11,691,621 | 9,682,076 | 4,057,400 | 2,976,048 |
| Inventories | 2,302,237 | 1,848,548 | - | - |
| Total current-assets pledged as security | 13,996,742 | 12,051,042 | 4,060,284 | 3,496,466 |
| Non-current | | | | |
| *First mortgage* | | | | |
| Freehold land and buildings | 7,840,613 | 7,939,078 | 1,831,950 | 1,891,702 |
| Investment properties | 4,201,972 | 2,281,755 | - | - |
| | 12,042,585 | 10,220,833 | 1,831,950 | 1,891,702 |
| *Floating charge* | | | | |
| Available-for-sale financial assets | 78,966 | 65,168 | 63,606 | 54,234 |
| Other financial assets | - | - | 8,334,141 | 8,334,141 |
| Plant and equipment | 12,410,789 | 10,895,403 | 925,695 | 989,754 |
| | 12,489,755 | 10,960,571 | 9,323,442 | 9,378,129 |
| Total non-current assets pledged as security | 24,532,340 | 21,181,404 | 11,155,392 | 11,269,831 |
| Total assets pledged as security | 38,529,082 | 33,232,446 | 15,215,676 | 14,766,297 |

### (c) Financing arrangements

Unrestricted access was available at balance date to the following lines of credit:

| | | | | |
|---|---|---|---|---|
| Credit standby arrangements | | | | |
| Total facilities | | | | |
| Bank overdrafts | 1,600,000 | 1,600,000 | 1,600,000 | 1,600,000 |
| Secured bill acceptance facility | 3,025,000 | 3,025,000 | 3,025,000 | 3,025,000 |
| | 4,625,000 | 4,625,000 | 4,625,000 | 4,625,000 |
| Used at balance date | | | | |
| Bank overdrafts | 544,056 | - | 544,056 | - |
| Secured bill acceptance facility | 2,525,000 | 3,025,000 | 2,525,000 | 3,025,000 |
| | 3,069,056 | 3,025,000 | 3,069,056 | 3,025,000 |
| Bank loan facility | | | | |
| Total facility | 4,625,000 | 4,625,000 | 4,625,000 | 4,265,000 |
| Used at balance date | (3,069,056) | (3,025,000) | (3,069,056) | (3,025,000) |
| Unused at balance date | 1,555,944 | 1,600,000 | 1,555,944 | 1,600,000 |

# Notes to the Financial Statements

## 21. NON-CURRENT LIABILITIES – BORROWINGS (continued)

The bank overdraft facilities may be drawn at any time and are subject to annual review. The bill acceptance facilities have defined maturity dates. Subject to the continuance of satisfactory credit ratings, the bank loan facilities may be drawn at any time.

The current interest rates are 6.64% - 6.67 % on the bill facilities, 10.1% on the overdraft and 7.75% on the other loans (2006 – 6.08% - 6.15%, 9.35% and 7.25% respectively).

### (d) Interest rate risk exposure

| 2007 | FLOATING INTEREST RATE | FIXED INTEREST RATE | | | | |
|---|---|---|---|---|---|---|
| | | 1 YEAR OR LESS $ | OVER 1 TO 2 YEARS $ | OVER 2 TO 3 YEARS $ | OVER 3 TO 4 YEARS $ | TOTAL $ |
| Bank overdraft | 544,056 | - | - | - | - | 544,056 |
| Bank loans | 2,525,000 | - | - | - | - | 2,525,000 |
| Other loans | - | 4,256,000 | - | - | - | 4,256,000 |
| Hire purchase liabilities | - | 2,196,182 | 1,927,365 | 934,407 | 1,099,220 | 6,157,174 |
| | 3,069,056 | 6,452,182 | 1,927,365 | 934,407 | 1,099,220 | 13,482,230 |
| Weighted average interest rate | | 7.57% | 7.13% | 7.25% | 7.29% | |

| 2006 | FLOATING INTEREST RATE | FIXED INTEREST RATE | | | | |
|---|---|---|---|---|---|---|
| | | 1 YEAR OR LESS $ | OVER 1 TO 2 YEARS $ | OVER 2 TO 3 YEARS $ | OVER 3 TO 4 YEARS $ | TOTAL $ |
| Bank loans | 3,025,000 | - | - | - | - | 3,025,000 |
| Other loans | - | 4,256,000 | - | - | - | 4,256,000 |
| Hire purchase liabilities | - | 1,947,149 | 1,488,119 | 1,161,676 | 216,609 | 4,813,553 |
| | 3,025,000 | 6,203,149 | 1,488,119 | 1,161,676 | 216,609 | 12,094,553 |
| Weighted average interest rate | | 7.13% | 6.93% | 6.76% | 6.95% | |

### (e) Fair value

The carrying amounts and fair values of interest-bearing liabilities at balance date are:

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | CARRYING AMOUNT $ | FAIR VALUE $ | CARRYING AMOUNT $ | FAIR VALUE $ |
| On-balance sheet | | | | |
| *Non-traded financial liabilities* | | | | |
| Bank overdraft | 544,056 | 544,056 | - | - |
| Bank loans | 2,525,000 | 2,525,000 | 3,025,000 | 3,025,000 |
| Other loans | 4,256,000 | 4,256,000 | 4,256,000 | 4,256,000 |
| Hire purchase liabilities | 6,157,174 | 6,157,174 | 4,813,553 | 4,813,553 |
| Total secured liabilities | 13,482,230 | 13,482,230 | 12,094,553 | 12,094,553 |

The fair value of interest-bearing liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for liabilities with similar risk profiles.

# Notes to the Financial Statements

## 22. NON-CURRENT LIABILITIES – DEFERRED TAX LIABILITIES

| | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | $ | $ | $ | $ |
| The balance comprises temporary differences attributable to: | | | | |
| *Amounts recognised in profit or loss* | | | | |
| Prepayments | - | 3,340 | - | - |
| Depreciation | 69,124 | 103,503 | - | - |
| | 69,124 | 106,843 | - | - |
| Set-off of deferred tax assets (note 17) | (69,124) | (106,843) | - | - |
| Net deferred tax liabilities | - | - | - | - |
| Deferred tax liabilities to be settled within 12 months | - | 3,340 | - | - |
| Deferred tax liabilities to be settled after more than 12 months | 69,124 | 103,503 | - | - |
| | 69,124 | 106,843 | - | - |
| Movements | | | | |
| Opening balance at 1 July | 106,843 | 318,092 | - | - |
| (Charged) to the income statement (note 8) | (37,719) | (211,249) | - | - |
| Closing balance at 30 June | 69,124 | 106,843 | - | - |

## 23. NON-CURRENT LIABILITIES – PROVISIONS

| | | | | |
|---|---|---|---|---|
| Employee benefits | 244,822 | 497,472 | 93,374 | 108,522 |

## 24. CONTRIBUTED EQUITY

| | PARENT ENTITY | | PARENT ENTITY | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | SHARES | SHARES | $ | $ |
| (a) Share capital | | | | |
| Ordinary shares (fully paid) | 34,182,421 | 11,412,460 | 6,785,807 | 6,838,090 |
| Total contributed equity | 34,182,421 | 11,412,460 | 6,785,807 | 6,838,090 |

### (b) Movements in ordinary share capital:

| DATE | DETAILS | NUMBER OF SHARES | $ |
|---|---|---|---|
| 1 July 2005 | Opening balance | 22,041,583 | 16,929,890 |
| | Shares bought back on-market and cancelled | (10,629,123) | (10,091,800) |
| 30 June 2006 | Balance | 11,412,460 | 6,838,090 |
| | Ordinary shares split – 3 for 1 | 22,824,920 | - |
| | Shares bought back on-market and cancelled | (54,959) | (52,283) |
| 30 June 2007 | Balance | 34,182,421 | 6,785,807 |

### (c) Ordinary shares

All ordinary shares are fully paid and entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

# Notes to the Financial Statements

## 24. CONTRIBUTED EQUITY (continued)

### (d) Share split

A shareholder meeting on 18 December 2006 approved that ordinary shares be split on a 3 for 1 basis. This split was effective from the date of the meeting.

### (e) Share buy-backs

The shareholder meeting on 18 December 2006 also approved that a further buy-back of up to 12.38% of the issued fully paid ordinary shares be made during the four months ending 18 April 2007. In total the Company bought back 54,959 shares during the year for a cumulative outlay of $52,283. There is no current on-market buy-back.

## 25. RESERVES AND RETAINED PROFITS

| | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | $ | $ | $ | $ |
| **(a) Reserves** | | | | |
| Available-for-sale investments revaluation reserve | (42,467) | (51,084) | (29,564) | (36,124) |
| Movements: | | | | |
| *Available-for-sale investments revaluation reserve* | | | | |
| Balance 1 July | (51,084) | - | (36,124) | - |
| Revaluation, net of tax | 8,617 | (51,084) | 6,560 | (36,124) |
| Balance 30 June | (42,467) | (51,084) | (29,564) | (36,124) |
| **(b) Retained profits** | | | | |
| Movement in retained profits were as follows: | | | | |
| Balance 1 July | 7,545,165 | 4,841,138 | 1,746,681 | 3,348,127 |
| Net profit (loss) for the year | 4,599,079 | 3,095,769 | 1,530,481 | (1,209,704) |
| Dividends | (1,235,846) | (391,742) | (1,235,846) | (391,742) |
| Balance 30 June | 10,908,398 | 7,545,165 | 2,041,316 | 1,746,681 |

### (c) Nature and purpose of reserves

*Available-for-sale investments revaluation reserve*

Changes in the fair value of investments, such as equities, classified as available-for-sale financial assets, are taken to the available-for-sale investments revaluation reserve, as described in note 1(m). Amounts are recognised in profit and loss when the associated assets are sold or impaired.

# Notes to the Financial Statements

## 26. DIVIDENDS

| | PARENT ENTITY | |
|---|---|---|
| | 2007 | 2006 |
| | $ | $ |
| **(a) Ordinary shares** | | |
| **Final dividend** for the year ended 30 June 2006 of 3 cents (2005 – 1.5 cents) per fully paid share, paid on 1 December 2006 (2005 – 22 December 2005) 30% franked dividend (2005 – 30% franked) based on tax paid @ 30% - 3 cents (2005 – 1.5 cents) per share | 310,873 | 193,775 |
| **Interim dividend** for the year ended 30 June 2007 of 3 cents (2006 – 2 cents) per fully paid share, paid on 4 May 2007 (2006 – 26 May 2006) 30% franked dividend (2006 – 30% franked) based on tax paid @ 30% - 3 cents (2006 – 2 cents) per share | 930,973 | 228,717 |

### (b) Dividends not recognised at year end

In addition to the above dividends, since year end the directors have recommended the payment of a final dividend of 3 cents per fully paid ordinary share, (2006 – 3 cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 15 November 2007 out of retained profits at 30 June 2007, but not recognised as a liability at year end, is $1,025,472.

### (c) Franked dividends

The franked portion of the final dividend recommended after 30 June 2007 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 June 2007.

| | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | $ | $ | $ | $ |
| Franking credits available for subsequent financial years based on a tax rate of 30% (2006 – 30%) | 4,393,019 | 2,735,284 | 4,393,019 | 2,735,284 |

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

(a) franking credits that will arise from the payment of the amount of the provision for income tax
(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and
(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

The impact on the franking account of the dividend recommended by the directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of $439,488 (2006 – $146,732).

# Notes to the Financial Statements

## 27. KEY MANAGEMENT PERSONNEL DISCLOSURES

### (a) Directors

The following directors were considered to be the key management personnel of CTI Logistics Limited during the financial year ended 30 June 2007:

*(i) Chairman – executive*
D R Watson
*(ii) Executive directors*
J D Elbery (from 1 July 2006 – 30 April 2007)
D A Mellor
B E Saxild
*(iii) Non-executive directors*
P J Leonhardt
J D Elbery (from 1 May 2007 – 30 June 2007)

Having regard to the size and structure of the group, the nature of its operations, and the close involvement of the three executive directors, it is the opinion of the directors that there are no other key management personnel apart from the three executive directors.

The Company has taken advantage of the relief provided by *Corporations Regulation* 2M.6.04 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections A-C of the remuneration report on pages 6 to 7.

### (b) Key management personnel compensation

| | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | $ | $ | $ | $ |
| Short-term | 1,121,334 | 1,095,236 | 1,121,334 | 1,095,236 |
| Post-employment | 432,145 | 138,237 | 432,145 | 138,237 |
| Share based payment | - | - | - | - |
| | 1,553,479 | 1,233,473 | 1,553,479 | 1,233,473 |

### (c) Equity instrument disclosures relating to key management personnel

The numbers' of ordinary shares in the Company held during the financial year by each director of CTI Logistics Limited, including their personally related entities, are set out below. There were no shares granted during the reporting period as remuneration.

| 2007 | BALANCE AT THE START OF THE YEAR | RECEIVED DURING THE YEAR ON THE EXERCISE OF OPTIONS | OTHER CHANGES DURING THE YEAR | BALANCE AT THE END OF THE YEAR |
|---|---|---|---|---|
| J D Elbery | 1,470,207 | - | 10,752 | 1,480,959 |
| P J Leonhardt | 159,258 | - | - | 159,258 |
| D A Mellor | 3,025,902 | - | 187,617 | 3,213,519 |
| B E Saxild | 2,455,467 | - | 164,292 | 2,619,759 |
| D R Watson | 16,371,528 | - | - | 16,371,528 |

# Notes to the Financial Statements

## 27. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

| | BALANCE AT THE START OF THE YEAR | RECEIVED DURING THE YEAR ON THE EXERCISE OF OPTIONS | OTHER CHANGES DURING THE YEAR | BALANCE AT THE END OF THE YEAR |
|---|---|---|---|---|
| 2006 (adjusted for the 3 for 1 share split on 18 December 2006) | | | | |
| J D Elbery | 1,415,208 | - | 54,999 | 1,470,207 |
| P J Leonhardt | 159,258 | - | - | 159,258 |
| D A Mellor | 2,952,903 | - | 72,999 | 3,025,902 |
| B E Saxild | 2,321,541 | - | 133,926 | 2,455,467 |
| D R Watson | 16,347,528 | - | 24,000 | 16,371,528 |

### (d) Loans to key management personnel

Details of loans made to directors of the Company, including their personally related parties, are set out below.

*(i) Aggregates for key management personnel*

| | BALANCE AT THE START OF THE YEAR $ | INTEREST PAID OR PAYABLE FOR THE YEAR $ | LOAN REPAYMENTS RECEIVED $ | BALANCE AT THE END OF THE YEAR $ | NUMBER IN THE GROUP AT THE END OF THE YEAR |
|---|---|---|---|---|---|
| 2007 | 784,155 | - | 126,000 | 658,155 | 4 |
| 2006 | 820,905 | - | 36,750 | 784,155 | 4 |

*(ii) Individuals with loans above $100,000 during the year*

| | BALANCE AT THE START OF THE YEAR $ | INTEREST PAID OR PAYABLE FOR THE YEAR $ | LOAN REPAYMENTS RECEIVED $ | BALANCE AT THE END OF THE YEAR $ | HIGHEST INDEBTEDNESS DURING THE YEAR $ |
|---|---|---|---|---|---|
| 2007 | | | | | |
| J D Elbery | 208,635 | - | 36,000 | 172,635 | 208,635 |
| D A Mellor | 208,635 | - | 36,000 | 172,635 | 208,635 |
| B E Saxild | 208,635 | - | 36,000 | 172,635 | 208,635 |
| D R Watson | 158,250 | - | 18,000 | 140,250 | 158,250 |
| | 784,155 | - | 126,000 | 658,155 | 784,155 |
| 2006 | | | | | |
| J D Elbery | 219,135 | - | 10,500 | 208,635 | 219,135 |
| D A Mellor | 219,135 | - | 10,500 | 208,635 | 219,135 |
| B E Saxild | 219,135 | - | 10,500 | 208,635 | 219,135 |
| D R Watson | 163,500 | - | 5,250 | 158,250 | 163,500 |
| | 820,905 | - | 36,750 | 784,155 | 820,905 |

The loans were extended for an original term of 10 years. The first tranche of loans has a remaining life of 6 months, while the second tranche has a remaining term of 5 years. All loans to directors are repayable from dividends and are secured by a lien over the shares. These loans are not on the balance sheet in accordance with AIFRS.

In accordance with shareholder approval, these loans are interest-free and have not been included in the calculation of non-monetary benefits.

# Notes to the Financial Statements

## 27. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

### (e) Other transactions with key management personnel

A director, P J Leonhardt, is a director of Centrepoint Alliance Limited. During the year Centrepoint Alliance Limited provided the group with an insurance premium-funding loan on normal commercial terms and conditions.

## 28. REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

| | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | $ | $ | $ | $ |
| (a) Assurance services | | | | |
| *Audit services* | | | | |
| PricewaterhouseCoopers Australian firm | | | | |
| Audit and review of financial reports and other audit work under the *Corporations Act 2001* | 93,520 | 118,220 | 73,280 | 109,220 |
| *Other assurance services* | - | - | - | - |

## 29. COMMITMENTS

### (a) Capital commitments

| | | | | |
|---|---|---|---|---|
| Capital expenditure contracted for at the reporting date but not recognised as liabilities: | | | | |
| Plant and equipment | | | | |
| Payable within one year | 176,620 | 3,279,322 | - | - |

### (b) Lease commitments: group company as lessee

| | | | | |
|---|---|---|---|---|
| Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities: | | | | |
| Payable : | | | | |
| Within one year | 401,482 | 301,039 | 12,479 | 17,640 |
| Later than one year but not later than five years | 465,773 | 325,217 | - | 10,222 |
| Later than five years | - | 24,292 | 6,634 | - |
| | 867,255 | 650,548 | 19,113 | 27,862 |
| Representing: | | | | |
| Non-cancellable operating leases | 130,292 | 156,792 | - | - |
| Future finance charges on hire purchases | 736,963 | 493,756 | 19,113 | 27,862 |
| Commitments not recognised in the financial statements | 867,255 | 650,548 | 19,113 | 27,862 |

# Notes to the Financial Statements

## 29. COMMITMENTS (continued)

*(i) Operating leases*

The group leases an office and warehouse under a non-cancellable operating lease expiring within five years. The lease has varying terms, escalation clauses and renewal rights.

| | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | $ | $ | $ | $ |
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | | | |
| Within one year | 26,500 | 26,500 | - | - |
| Later than one year but not later than five years | 103,792 | 106,000 | - | - |
| Later than five years | - | 24,292 | - | - |
| | 130,292 | 156,792 | - | - |
| *(ii) Hire purchase commitments* | | | | |
| Commitments in relation to hire purchase are payable as follows: | | | | |
| Within one year | 2,571,164 | 2,221,314 | 127,003 | 182,503 |
| Later than one year but not later than five years | 4,322,973 | 3,085,995 | 115,027 | 176,732 |
| Minimum payments | 6,894,137 | 5,307,309 | 242,030 | 359,235 |
| Future finance charges | (736,963) | (493,756) | (19,113) | (27,862) |
| Recognised as a liability | 6,157,174 | 4,813,553 | 222,917 | 331,373 |
| Representing: | | | | |
| Current | 2,196,182 | 1,947,149 | 114,524 | 164,862 |
| Non-current | 3,960,992 | 2,866,404 | 108,393 | 166,511 |
| Total hire purchase liabilities | 6,157,174 | 4,813,553 | 222,917 | 331,373 |

# Notes to the Financial Statements

## 30. RELATED PARTY TRANSACTIONS

### (a) Parent entity

CTI Logistics Limited is the ultimate Australian parent entity of the group and head entity of the tax consolidated group.

### (b) Subsidiaries

Interests in subsidiaries are set out in note 31.

### (c) Key management personnel

Disclosures relating to key management personnel are set out in note 27.

### (d) Transactions with related parties

The following transactions occurred with related parties:

| | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | $ | $ | $ | $ |
| Sales of goods and services | - | - | 3,167,680 | 2,917,096 |
| Loans from related parties | - | - | 2,239,342 | 7,992,477 |
| Dividend revenue | - | - | 3,000,000 | - |
| Rent charged | - | - | 324,770 | 283,800 |

Sales and rent between related parties are on normal commercial terms and conditions.

### (e) Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with related parties:

| | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | $ | $ | $ | $ |
| Current receivables (loans) | - | - | 3,642,294 | 2,560,773 |

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties. These loans are interest free, unsecured and have no fixed terms of repayment.

# Notes to the Financial Statements

## 31. SUBSIDIARIES

All subsidiaries are incorporated in Australia.
The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

| Name of Entity | EQUITY HOLDING (Ordinary Shares) 2007 % | 2006 % |
|---|---|---|
| CTI Logistics Limited | | |
| **Directly controlled by CTI Logistics Limited** | | |
| **Controlled entities** | | |
| Bring Transport Industries Pty Ltd | 100 | 100 |
| Mercury Messengers Pty Ltd | 100 | 100 |
| CTI Security Services Pty Ltd | 100 | 100 |
| CTI Transport Systems Pty Ltd | 100 | 100 |
| CTI Taxi Trucks Pty Ltd | 100 | 100 |
| CTI Security Systems Pty Ltd | 100 | 100 |
| CTI Fleet Management Pty | 100 | 100 |
| CTI Freight Management Pty Ltd | 100 | 100 |
| CTI Business Investment Company Pty Ltd | 100 | 100 |
| CTI Freight Systems Pty Ltd | 100 | 100 |
| CTI Couriers Pty Ltd | 100 | 100 |
| CTI Swinglift Services Pty Ltd | 100 | 100 |
| CTI Xpress Systems Pty Ltd | 100 | 100 |
| CTI Investments Pty Ltd | 100 | 100 |
| Consolidated Transport Industries Pty Ltd | 100 | 100 |
| **Other controlled entities** | | |
| **Directly controlled by CTI Investments Pty Ltd** | | |
| Advance Press Pty Ltd | 100 | 100 |
| LCL Cargo Services Pty Ltd | 100 | 100 |
| Blackwood Industries Pty Ltd | 100 | 100 |
| CTI Fulfilment Services Pty Ltd | 100 | 100 |
| **Directly controlled by Blackwood Industries Pty Ltd** | | |
| Efal Pty Ltd | 100 | 100 |
| Ausplastics Pty Ltd | 100 | 100 |
| CTI Records Management Pty Ltd | 100 | 100 |
| CTI Waste Management Pty Ltd | 100 | 100 |
| **Directly controlled by Consolidated Transport Industries Pty Ltd** | | |
| CTI Distribution Group Pty Ltd | 100 | 100 |

These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. For further information refer to note 32.

# Notes to the Financial Statements

## 32. DEED OF CROSS GUARANTEE

CTI Logistics Limited and its wholly-owned entities are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission. The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee, they also represent the Extended Closed Group.

## 33. INTERESTS IN JOINT VENTURES

A controlled entity has a 50% (2006 – 50%) interest in the CTI Foxline Joint Venture, which is resident in Australia and the principal activity of which is the provision of parcel delivery services. The interest in the CTI Foxline Joint Venture is accounted for in the consolidated financial statements using the equity method of accounting and is carried at cost by the controlled entity. Information relating to the joint venture partnership is set out below:

| | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|
| | 2007 $ | 2006 $ | 2007 $ | 2006 $ |
| Carrying amount of investment in joint venture partnership | 191,254 | 229,589 | - | - |
| Share of partnership's assets and liabilities | | | | |
| Current assets | 416,368 | 441,884 | - | - |
| Non-current assets | 16,607 | 2,230 | - | - |
| Total assets | 432,975 | 444,114 | - | - |
| Current liabilities | 228,991 | 211,974 | - | - |
| Non-current liabilities | 12,730 | 2,551 | - | - |
| Total liabilities | 241,721 | 214,525 | - | - |
| Net assets | 191,254 | 229,589 | - | - |
| Share of partnership's revenue, expenses and results | | | | |
| Revenues | 2,682,295 | 2,450,986 | - | - |
| Expenses | (2,520,629) | (2,241,673) | - | - |
| Profit before income tax | 161,666 | 209,313 | - | - |

Share of partnership's commitments

The CTI Foxline Joint Venture does not have any capital or lease commitments at balance date.

# Notes to the Financial Statements

## 34. RECONCILIATION OF PROFIT (LOSS) AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | $ | $ | $ | $ |
| Profit (loss) for the year | 4,599,079 | 3,095,769 | 1,530,481 | (1,209,704) |
| Depreciation and amortisation | 3,080,908 | 3,848,442 | 330,822 | 321,487 |
| Provision for doubtful debts | (120,017) | (80,961) | - | - |
| Net (gain) loss on sale of non-current assets | (78,953) | (91,810) | 24,580 | 705 |
| Gain on disposal of available-for-sale financial assets | (900) | - | (900) | - |
| Write-down of equity securities | 1,000 | - | - | - |
| Write-down of investment property | 141,600 | - | - | - |
| Share of profits of joint venture partnership not received as dividends or distributions | (161,666) | (209,313) | - | - |
| Change in operating assets and liabilities | | | | |
| (Increase) in trade and other debtors | (1,689,528) | (12,007) | (3,320,691) | (2,188,247) |
| (Increase) in inventories | (453,689) | (144,646) | - | - |
| (Decrease) Increase in provision for income taxes payable | (86,418) | 1,304,031 | (86,418) | 1,304,031 |
| (Decrease) increase in provision for deferred tax assets | (116,831) | (303,662) | (33,004) | 54,209 |
| Increase in trade creditors, employee benefits and other provisions | 581,386 | 595,050 | 381,477 | 225,265 |
| Net cash inflow (outflow) from operating activities | 5,695,971 | 8,000,893 | (1,173,653) | (1,492,254) |

## 35. NON-CASH INVESTING AND FINANCING ACTIVITIES

| | CONSOLIDATED | | PARENT ENTITY | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | $ | $ | $ | $ |
| Acquisition of plant and equipment by means of hire purchase | 3,767,606 | 1,400,176 | - | 49,724 |

## 36. EARNINGS PER SHARE

| | CONSOLIDATED | |
|---|---|---|
| | 2007 | 2006 |
| | CENTS PER SHARE | |
| (a) Basic earnings per share | | |
| Profit attributable to ordinary equity holders of the Company | 13.44 | 6.72 |
| (b) Diluted earnings per share | | |
| Profit attributable to ordinary equity holders of the Company | 13.44 | 6.72 |

# Notes to the Financial Statements

## 36. EARNINGS PER SHARE (Continued)

| | CONSOLIDATED | |
|---|---|---|
| | 2007 NUMBER | 2006 NUMBER |
| **(c) Weighted average number of shares used as the denominator** | | |
| Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share (2006 – adjusted for the 3 for 1 share split on 18 December 2006) | 34,212,649 | 46,160,169 |

## 37. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Since the end of the financial year a subsidiary has purchased an investment property for $2,700,000 plus costs. The financial effect of this transaction has not been brought to account at 30 June 2007.

On 20 September 2007 the Company accepted an offer to sell its printing business, Advance Press. The sale is expected to realise a profit in excess of $4.5 million.

# Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 9 to 48 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the Company's and group's financial position as at 30 June 2007 and of their performance for the financial year ended on that date;

(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) the audited remuneration disclosures set out on pages 6 to 7 of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*; and

(d) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in Note 31 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 32.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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

DAVID MELLOR
Director

Perth
27 September 2007

# Independent Audit Report

PRICEWATERHOUSECOOPERS

**PricewaterhouseCoopers**
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**Independent auditor's report**
**to the members of CTI Logistics Limited**

**Report on the financial report and the AASB 124 remuneration disclosures contained in the directors' report**

We have audited the accompanying financial report of CTI Logistics Limited (the company), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both CTI Logistics Limited and the CTI Logistics Group (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.

We have also audited the remuneration disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "remuneration report" in pages 6 to 7 of the directors' report and not in the financial report.

*Directors' responsibility for the financial report and the AASB 124 remuneration disclosures contained in the directors' report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the consolidated financial statements and notes comply with International Financial Reporting Standards.

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

# Independent Audit Report

PRICEWATERHOUSECOOPERS

*Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is to also express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report and the remuneration disclosures contained in the directors' report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report and the remuneration disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report and the remuneration disclosures contained in the directors' report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal 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 and the remuneration disclosures contained in the directors' report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

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 opinions.

*Independence*

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

# Independent Audit Report

PRICEWATERHOUSECOOPERS

*Auditor's opinion on the financial report*

In our opinion:

(a) the financial report of CTI Logistics Limited is in accordance with the *Corporations Act 2001*, including:
   (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements and notes comply with International Financial Reporting Standards as disclosed in Note 1(a).

*Auditor's opinion on the AASB 124 remuneration disclosures contained in the directors' report*

In our opinion, the remuneration disclosures that are contained in pages 6 to 7 of the directors' report comply with Accounting Standard AASB 124.

PricewaterhouseCoopers

Pierre Dreyer
Partner

Perth
27 September 2007

# Corporate Governance Statement

The Australian Stock Exchange Corporate Governance Council has published 10 principles and best practice recommendations relating to the direction and management of companies. These guidelines form a corporate governance framework intended to provide a practical guide for listed companies and their investors.
Adoption of the principles and associated best practice recommendations is not mandatory and the Australian Stock Exchange recognises that they may not be applicable to all companies. Under the Australian Stock Exchange Listing Rules companies are required to provide a statement disclosing the extent to which they have followed all the recommendations and identify the recommendations that have not been followed and give reasons for not following them.

## Board of directors

*Role of the board*
As mentioned in the Directors' Report, due to the size and structure of the group and the nature of its operations, the three executive directors have a close involvement with the management of the businesses. Consequently, a Board Charter has not been formally adopted. The formal adoption of a Board Charter will be considered again in the current year.

The board's primary objective is to oversee the group's business activities and management for the benefit of all stakeholders by:
- setting objectives, goals and strategic direction with management with a view to maximising shareholder value;
- overseeing the financial position and monitoring the business and financial affairs of the Company;
- establishing corporate governance, ethical, environmental and health and safety standards;
- ensuring significant business risks are identified and appropriately managed;
- monitoring management's performance and implementation of strategy;
- ensuring appropriate resources are available; and
- ensuring the composition of the board is appropriate, selecting directors for appointment to the board and reviewing the performance of the board and the contribution of individual directors.

The board has delegated responsibilities and authorities to management to enable management to conduct the Company's day to day businesses. Matters which are not within these delegations, such as expenditure and activity approvals which exceed certain parameters, require separate board approval.

For the reasons set out below, the board is mainly composed of management personnel who have been employed by the Company for many years. Formal director's letters of appointment were not issued on commencement and are not considered necessary at this stage.

*Board composition*
The board comprises five directors including three executive directors. Due to the small size of the Company and its operations, and to avoid additional layers of management, the directors are necessarily involved in the day to day operations of the group businesses. The Company's ability to appoint appropriate non-executive directors who can add value is limited and the costs involved are considered prohibitive in relation to the potential benefits obtainable. The board has, and will continue to consider the appointment of additional non-executive directors. A nomination committee is not considered necessary due to the small number of directors on the board and the relative infrequency of board changes.

Due to the executive directors' individual separate operational functions, the board is able to effectively review the performance of management and exercise independent judgement.

The directors have a broad range of qualifications, experience and expertise and details of individual directors are set out in the Directors' Report. The role of chairman and chief executive officer is filled by the founder of the business who is also a substantial shareholder. His knowledge, experience and understanding of the businesses comprising the group are considered essential to perform these roles. The board considers that no value could be added by separating the roles.

Due to the difficulty in finding appropriate independent directors the provision of a specific term for independent directors is not considered appropriate.

# Corporate Governance Statement

The board has adopted a formal policy on access to independent professional advice which provides that directors are entitled to seek such advice for the purposes of the proper performance of their duties. The advice is at the Company's expense and is made available to all directors.

## Ethical and responsible decision making

The Company has clarified the ethical behaviour expected of directors and staff, as well as its attitude towards trading in the Company's securities.

The Company's business conduct and ethics policy along with the policy on trading in Company securities are published on the Company's web site, www.ctilogistics.com.

## Integrity in financial reporting

The Company has formed an audit committee consisting of independent director Peter Leonhardt (chair) and executive director Bruce Saxild. Meetings are also attended by David Mellor (finance director) and the chief group accountant. The audit committee has a formal charter which has been approved by the board of directors. The charter is published on the Company's website, www.ctilogistics.com. The size and composition of the audit committee is considered to be appropriate for the size and complexity of the Company.

The committee reports directly to the board of directors and has unlimited access to the Company's external auditors and Company employees. The committee meets regularly with the external auditors and reviews all comments and findings therefrom.

The external auditors meet with the board of directors at least twice a year to review their audit procedures and findings. It is the policy of the external auditors to rotate the audit partner and staff at regular intervals. The board is satisfied with the external auditor's competence and independence.

In accordance with the Australian Stock Exchange Corporate Governance Council best practices guidelines, the chief executive officer and the chief financial officer have written to the board giving assurances as to the accuracy and integrity of the Company's financial statements.

The Company's external auditors are always invited to attend the Company's Annual General Meeting and are available to answer shareholders' queries at that time.

## Timely and balanced disclosure

The board is committed to ensuring that all matters which should be disclosed to the market are disclosed in a timely and balanced manner. All matters for disclosure are vetted and authorised by the board prior to disclosure.

Apart from matters arising at board meetings and audit committee meetings, the executive directors meet regularly as a sub-committee of the board of directors and consider any matters that may require disclosure.

## Rights of shareholders

The board of directors encourages direct communication with shareholders.

Shareholders are encouraged to attend general meetings where formal and informal discussions can take place with board members, senior employees and the external auditors.

Shareholders may also communicate freely with board members at any time.

The Company's website will continue to be developed as a medium to facilitate communication with shareholders.

# Corporate Governance Statement

## Risk recognition and management

The board has established policies and procedures to recognise, minimise and manage all aspects of risk affecting the Company. Although in many cases these policies are not formally documented, they are appropriate for a company of this size.

Industry risk is assessed at local management as well as board level.

The audit committee also has the ability to review internal financial control procedures.

A risk and disaster management plan covering the Company's electronic data facilities is in place and is reviewed periodically.

Whilst there is no formal internal audit function, the Company's finance director performs and delegates certain internal audit procedures on a rotational basis throughout the year.

The chairman and chief executive as well as the finance director sign a letter of representation to the external auditors in relation to the matters contained in the annual accounts.

The Australian Stock Exchange Corporate Governance Council best practices guidelines recommend that the chief executive officer and the chief financial officer write to the board giving assurances regarding risk recognition and management, so that the board is assured of considering all relevant factors. This was not considered necessary as the chief executive officer is also the chairman of the Company's board of directors and the chief financial officer is also a member of the Company's board of directors.

## Enhanced performance

The board evaluates the performance of key executives against a range of performance criteria.

The current composition of the board obviates a measurable review of the board's performance and the size of the Company does not warrant an independent assessment.

Board members have access to continuing education within their spheres of operation and the board encourages directors and staff to embark on continuing professional development.

Directors have access to all information required to efficiently discharge responsibility and may request additional information from management at any time. Board meetings are rotated around the Company's various locations and operational management are invited to attend board meetings to facilitate directors' understanding of operational matters.

## Remuneration

The Company has established a remuneration committee comprising Peter Leonhardt (chair) and David Watson. This committee reviews and makes recommendations on remuneration policies for the Company including, in particular, those governing the directors. Directors' emoluments are set out in Note 27 of the financial statements.

## Interests of stakeholders

The board acknowledges the legitimate interests of all stakeholders and its legal and other obligations to employees, clients and the community as a whole.

There is not a published code of conduct but the board has recognised these obligations through its policies on such matters as ethical standards, and occupational health and safety.

The board encourages all employees to conduct business in a fair and ethical manner and to report any instances where standards may be at risk.

# Shareholder Information

## THE TWENTY LARGEST SHAREHOLDERS AS AT 28 SEPTEMBER 2007

| | NUMBER OF SHARES | PERCENTAGE |
|---|---|---|
| David R Watson | 10,452,945 | 30.58 |
| ANZ Nominees Limited | 1,786,719 | 5.23 |
| Parmelia Pty Ltd | 1,599,762 | 4.68 |
| Aberdeen Management Pty Ltd | 1,185,804 | 3.47 |
| W W Nominees Pty Ltd | 1,091,622 | 3.19 |
| Catherine Rachel Watson | 1,055,259 | 3.09 |
| Dixson Trust Pty Ltd | 976,062 | 2.86 |
| Fortunegreen Pty Ltd | 945,000 | 2.76 |
| Bruce Saxild and Michelle Saxild | 1,176,264 | 3.44 |
| DAM Nominees Pty Ltd | 1,126,062 | 3.29 |
| David Watson Nominees Pty Ltd | 1,025,343 | 3.00 |
| David J and Elizabeth L Clarke | 800,000 | 2.34 |
| Peachtree Pty Ltd | 629,505 | 1.84 |
| William Grove | 442,500 | 1.29 |
| Jonathan D Elbery | 440,178 | 1.29 |
| Australian Marketing Services Pty Ltd | 414,150 | 1.21 |
| Walter J and Hilary M Hall | 285,951 | 0.84 |
| Brian G and Myrna R Vernon | 246,153 | 0.72 |
| David A Mellor | 244,389 | 0.71 |
| Bruce E Saxild | 200,880 | 0.59 |
| | 26,124,548 | 76.42 |

## SUBSTANTIAL SHAREHOLDERS AS AT 28 SEPTEMBER 2007

The Company's register of substantial shareholders recorded the following information as at 28 September 2007.

| | NUMBER OF SHARES | PERCENTAGE |
|---|---|---|
| David R Watson | 16,371,528 | 47.89 |
| David A Mellor | 3,015,903 | 8.82 |
| Bruce E Saxild | 2,445,465 | 7.15 |

## DISTRIBUTION OF EQUITY SECURITIES AS AT 28 SEPTEMBER 2007

(i) Distribution schedule of holdings

| | | | NUMBER OF SHAREHOLDERS ORDINARY SHARES |
|---|---|---|---|
| 1 | - | 1,000 | 72 |
| 1,001 | - | 5000 | 122 |
| 5,001 | - | 10,000 | 71 |
| 10,001 | - | 100,000 | 162 |
| 100,001 and over | | | 38 |
| | | | 465 |

(ii) There were 30 shareholders holding less than a marketable parcel of ordinary shares.

(iii) There were a total of 34,182,421 ordinary shares on issue.

## VOTING RIGHTS

Ordinary shares carry voting rights of one vote per share.