

CTI LOGISTICS LIMITED

ABN 69 008 778 925

FULL YEAR STATUTORY ACCOUNTS 30 JUNE 2018

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Directory

DIRECTORS

David Robert Watson
(Executive Chairman)

David Anderson Mellor
(Executive)

Bruce Edmond Saxild
(Executive)

Peter James Leonhardt
(Non-Executive)

Matthew David Watson
(Non-Executive)

SECRETARY

Owen Roy Venter

AUDITORS

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Perth WA 6000
Telephone (08) 9263 7171

SHARE REGISTRY

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Perth WA 6000
Telephone (08) 9323 2000

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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West Perth WA 6005
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The financial report covers the group consisting of CTI Logistics Limited and its subsidiaries.

The financial report is presented in the Australian currency.

The financial report was authorised for issue by the directors on 30 August 2018. The directors have the power to amend and reissue the financial report.

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

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 2018.

Directors

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

David Robert Watson (Executive Chairman)

Mr Watson is the founder, executive chairman and chief executive officer 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.

David Anderson Mellor (Executive Director)

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 (Executive Director)

Mr Saxild has been with the group since 1977. He is responsible for the group's logistics and transport operations. He is a member of the audit and risk committee. Mr Saxild has not held any other directorships in listed companies over the past 4 years.

Peter James Leonhardt (Non-Executive Director)

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 served as Chairman of Camarvon Petroleum Limited (March 2005 and continuing). Mr Leonhardt is a former managing partner of Coopers & Lybrand (now PricewaterhouseCoopers). Mr Leonhardt is the chairman of the audit and risk committee and the remuneration committee.

Matthew David Watson (Non-Executive Director)

Mr Watson is a non-executive director of CTI Logistics Limited and has been with the group since 2010. He has a Post Graduate Diploma of Business Information Systems and is a Chartered Management Accountant (CIMA). He is a member of the audit and risk committee. Mr Watson has not held any other directorships in listed companies since his appointment.

Principal activities of the group

The principal activities of the group during the year were the provision of logistics and transport services, rental of property, specialised flooring logistics and provision of security services.

Dividends

Dividends paid or declared by the Company to members since the end of the previous financial year were:

Declared and paid during the year	Cents per share	Total amount	Franked	Date of payment
Final 2017 Ordinary	1.75	\$1,257,923		15 November 2017
Interim 2018 ordinary	2.0	\$1,461,927		24 April 2018

Declared after end of year

After the balance sheet date the directors have declared the following dividend. The dividend has not been provided and there are no income tax consequences.

Declared	Cents per share	Total amount	Franked	Date of payment
Final 2018 ordinary	2.0	\$1,489,076		14 November 2018

The financial effect of this post year dividend has not been brought to account in the financial statements for the year ended 30 June 2018 and will be recognised in subsequent financial reports.

Review of operations and results

The group is a transport and logistics provider in couriers, parcels, taxi trucks, fleet management, general and contract warehousing and specialised flooring logistics.

Revenue from operations was up 18.4% to \$182,910,253. Reported profit before tax for the year was \$6,350,218, including the profit on sale of a non-core property of \$293,365. The profit before tax excluding this disposal was \$6,056,853, up 23.2% on a comparable basis with the previous corresponding period after excluding the sale of non-core properties in the previous year of \$2,870,260. The reported net profit after tax is \$4,067,251 which represents earnings per share for the year of 5.58 cents. EBITDA* for the year excluding the sale of non-core properties was \$16,170,425, up 8.7% on the previous year.

The results for the period were impacted by a combination of:

- increase in freight volume and margin contribution following the acquisition of Jayde Transport on 30 October 2017
- increased fleet utilisation resulting in improved margins in both regional freight and e-commerce related activity in the parcel business
- increased revenue growth through East coast expansion along with associated cost of investment to fund future expansion including at the Truganina site in Victoria
- steady growth in the GMK Logistics business following the expansion at the Gregory Hills site in NSW
- weaker than expected warehousing demand and related margin pressure in Western Australia
- increased costs incurred relating to the closure of intermodal operator providing services between South Australia and Western Australia in October 2017
- reduced levels of installation activity in the security business offset by productivity gains arising from new software platform in the security monitoring business
- benefits flowing from sustainable cost-saving including renegotiation of leases and supplier contracts
- profit on sale of one non-core property in the current period
- proceeds from property sales and earnings in the period were used to reduce debt resulting in lower interest costs

Directors' Report

- difficult trading conditions in certain sectors with continued pressure on margins in Western Australia

The group's net assets increased by 4.7% compared with the previous year which is largely attributable to the current year's profit after tax, the proceeds from the sale of property and the issue of 2.1 million new ordinary shares following placements in November 2017 and April 2018 to fund the dividends in addition to Dividend Reinvestment Plan and Bonus Share Plan share issues.

Operating cash flow has remained strong at \$8,864,987 for the period after funding working capital requirements of Jayde Transport. The group's receivables and cash flow management remained well controlled with debtors days outstanding in line with the prior year. With a diverse and large customer base, the strength of the group's focus on receivables management is reflected in the value of receivables written off during the year representing only 0.1% of revenue, consistent with the previous year.

The Company reduced interest bearing debt by \$630,687 from the proceeds of property sales, earnings in the period and the issue of shares. The reduction in debt was achieved after allowing for cost of plant, equipment and motor vehicles and the consideration paid for Jayde Transport of \$7,500,000 plus related working capital.

The Company paid an interim dividend of 2 cents per share and the board has declared a final dividend for the financial year ended 30 June 2018 of 2 cents per share fully franked, payable on 16 November 2018.

The 2018/19 year will see the Company:

- continue to explore further opportunities for the acquisition of businesses both locally and nationally in fields related to or compatible with the group's existing core operations
- continue to strategically expand operations on the East coast through existing and new facilities
- continue to deliver on cost savings and productivity improvement measures to counter market driven margin compression
- maintain a stable financial platform from which to grow the Company in the future
- continue to maintain a strong focus on safety
- continue to invest in improving and developing the Company's financial and operational systems.

* EBITDA is the result from operating activities excluding depreciation and amortisation expense in the Statement of Profit and Loss and Other Comprehensive Income.

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

On 2 July 2018 the group acquired the business operations of Stirling Freight Express for \$4,500,000. The assets and liabilities acquired included property, plant and equipment, intangibles and employee provisions.

Other than the above, the directors are not aware of any other matters or circumstances 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:

- expansion of existing operations by aggressive marketing and by acquisition;
- establishment or acquisition of businesses in fields related to or compatible with the group's existing core operations; and
- to maximise the profits and returns to shareholders by constant review of existing operations.

Company secretary

The company secretary is Mr O Venter. He was appointed to the position on 26 August 2016.

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
P J Leonhardt	9	9
D A Mellor	9	8
B E Saxild	9	9
D R Watson	9	9
M D Watson	9	8

Audit and Risk Committee

	Number Held	Number Attended
P J Leonhardt	5	5
B E Saxild	5	5
M D Watson	5	4

Remuneration Committee

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

Directors' Report

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

The relevant interest of each director in the shares issued by the Company as notified by the directors to the ASX in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	Direct Holding	Indirect Holding
P J Leonhardt	-	622,722
D A Mellor*	522,080	3,712,771
B E Saxild*	347,120	2,967,741
D R Watson	18,062,683	7,816,863
M D Watson	324,512	-

*The above do not include Employee Share Plan shares (refer page 6)

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). The disclosure of the premium paid in respect of the insurance policy is prohibited under the terms of 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, KPMG, for audit services provided during the year are set out in Note 24 of the financial statements. There were no non-audit services provided during the year. The directors are satisfied the auditor did not 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 7.

Directors' Report

Remuneration report - audited

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*
- D. *Key management personnel transactions*
- E. *Additional information*

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

- A. *Principles used to determine the nature and amount of remuneration*
Executive directors

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.

Non-executive directors

Remuneration of non-executive directors is determined by the board within the maximum amount of \$300,000, approved by shareholders at the annual general meeting on 26 November 2009.

- B. *Details of remuneration*

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.

	Short-term	Non-	Post-employment	Share-based	Total
	Cash salary	monetary	Superannuation	payments	
	and fees	benefits			
	\$	\$	\$	\$	\$
2018					
P J Leonhardt	57,500	-	-	-	57,500
*D A Mellor	456,895	9,665	24,084	-	490,644
*B E Saxild	540,893	15,613	24,084	-	580,590
*D R Watson	501,516	16,743	24,084	-	542,343
M D Watson	33,333	-	3,167	-	36,500
Total	1,590,137	42,021	75,419	-	1,707,577
2017					
P J Leonhardt	57,500	-	-	-	57,500
*D A Mellor	470,909	19,664	34,992	29,001	554,566
*B E Saxild	513,360	23,263	35,004	29,002	600,629
*D R Watson	490,610	26,400	34,990	-	552,000
M D Watson	33,333	-	3,167	-	36,500
Total	1,565,712	69,327	108,153	58,003	1,801,195

*The cash salary and fees of the Executive Directors has not changed for the last three financial years. Any movement up or down is due to variations in the amount of accrued leave taken or not taken during the financial year by the director concerned.

- C. *Service agreements*

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.

Directors' Report

Remuneration report – audited (continued)

D. Key management personnel transactions

Movement in shares

The number 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.

	Balance at the start of the year	Additions during the year	Balance at the end of the year
P J Leonhardt	601,562	21,160	622,722
D A Mellor	4,234,851	-	4,234,851
B E Saxild	3,314,861	-	3,314,861
D R Watson	25,879,546	-	25,879,546
M D Watson	324,512	-	324,512

E. Additional information

As there is no remuneration link between management compensation and the performance of the Company on the Australian Securities Exchange disclosure of the past four years results is deemed not necessary.

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 directors.

Employee Share Plan

ESP shares

The number of ESP 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.

	Balance at the start of the year	Issued during the year	Exercised	Balance at the end of the year
D A Mellor (issued 05/12/11, 01/12/14)	330,000	-	-	330,000
B E Saxild (issued 05/12/11, 01/12/14)	330,000	-	-	330,000

The shares may be purchased with the assistance of an interest-free, limited recourse loan for a term of 10 years. The shares are priced using a Black-Scholes pricing model to determine the fair value and are amortised through the statement of profit or loss and other comprehensive income.



DAVID WATSON
Director

Perth, WA
30 August 2018



Lead Auditor's Independence Declaration under

Section 307C of the Corporations Act 2001

To the Directors of CTI Logistics Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of CTI Logistics Limited for the financial year ended 30 June 2018 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in blue ink that reads 'KPMG'.

KPMG

A handwritten signature in blue ink that reads 'G L + 177'.

Graham Hogg
Partner
Perth
30 August 2018

Consolidated Statement of Profit or Loss and other Comprehensive Income for the year ended 30 June 2018

		Consolidated	
	Notes	2018 \$	2017 \$
Revenue from operations	5	182,910,253	154,421,823
Other income	6	1,206,667	3,936,459
Changes in inventories of finished goods and work in progress		55,956	(28,453)
Raw materials and consumables used		(1,119,189)	(1,050,620)
Employee benefits expense		(59,546,865)	(54,894,143)
Subcontractor expense		(55,526,473)	(40,746,008)
Depreciation and amortisation expense	7	(8,307,288)	(7,992,879)
Motor vehicle and transport costs		(25,261,509)	(17,987,702)
Property costs		(14,994,632)	(14,682,061)
Other expenses		(11,260,418)	(11,220,194)
Results from operating activities		<u>8,156,502</u>	<u>9,756,222</u>
Finance income		42,385	46,716
Finance expenses	7	<u>(1,848,669)</u>	<u>(2,015,363)</u>
Net finance costs		<u>(1,806,284)</u>	<u>(1,968,647)</u>
Profit before income tax		6,350,218	7,787,575
Income tax expense	8	<u>(2,282,967)</u>	<u>(1,717,655)</u>
Profit for the year	21	<u>4,067,251</u>	<u>6,069,920</u>
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Available-for-sale financial assets – net change in fair value		<u>(15,608)</u>	<u>(13,229)</u>
Total comprehensive income		<u>4,051,643</u>	<u>6,056,691</u>
Earnings per share for profit attributable to the ordinary equity holders of the Company – adjusted for bonus share issue		Cents	Cents
Basic earnings per share	29a	5.58	8.82
Diluted earnings per share	29b	5.57	8.82

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

Consolidated Statement of Financial Position as at 30 June 2018

		Consolidated	
	Notes	2018 \$	2017 \$
ASSETS			
Current assets			
Cash and cash equivalents	9	1,990,790	4,273,005
Trade and other receivables	10	28,955,356	20,123,378
Inventories	11	161,626	105,670
Property held-for-sale	32	-	1,328,199
Total current assets		31,107,772	25,830,252
Non-current assets			
Available-for-sale financial assets	12	47,653	69,949
Property, plant and equipment	13	96,755,569	96,943,235
Investment properties	14	2,207,021	2,212,021
Intangible assets	15	34,588,747	29,570,167
Total non-current assets		133,598,990	128,795,372
Total assets		164,706,762	154,625,624
LIABILITIES			
Current liabilities			
Trade and other payables	16	21,145,324	14,558,207
Borrowings	17	1,603,866	1,582,007
Current tax liabilities		566,729	1,333,813
Provisions	19	4,845,941	4,199,814
Total current liabilities		28,161,860	21,673,841
Non-current liabilities			
Borrowings	18	42,283,158	42,935,704
Deferred tax liabilities	8e	119,485	742,836
Provisions	19	2,282,341	1,514,543
Total non-current liabilities		44,684,984	45,193,083
Total liabilities		72,846,844	66,866,924
Net assets		91,859,918	87,758,700
EQUITY			
Contributed equity	20	26,727,285	24,053,602
Reserves	21a	1,778,533	1,698,399
Retained profits	21b	63,354,100	62,006,699
Total equity		91,859,918	87,758,700

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity for the year ended 30 June 2018

	Notes	Contributed equity \$	Reserves \$	Retained profits \$	Total equity \$
Consolidated					
Balance at 1 July 2016		21,656,107	1,581,266	57,135,983	80,373,356
Total comprehensive income for the year		-	(13,229)	6,069,920	6,056,691
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity /share issue	20	2,387,845	-	-	2,387,845
Share-based payment transactions	31	-	130,362	-	130,362
Dividends provided for or paid	22	9,650	-	(1,199,204)	(1,189,554)
Balance at 30 June 2017		24,053,602	1,698,399	62,006,699	87,758,700
Balance at 1 July 2017		24,053,602	1,698,399	62,006,699	87,758,700
Total comprehensive income for the year		-	(15,608)	4,067,251	4,051,643
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity /share issue	20	2,645,574	-	-	2,645,574
Share-based payment transactions	31	-	95,742	-	95,742
Dividends provided for or paid	22	28,109	-	(2,719,850)	(2,691,741)
Balance at 30 June 2018		26,727,285	1,778,533	63,354,100	91,859,918

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

Consolidated Statement of Cash Flows

for the year ended 30 June 2018

		Consolidated	
	Notes	2018 \$	2017 \$
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		194,097,438	169,875,366
Payments to suppliers and employees (inclusive of goods and services tax)		(180,406,246)	(151,611,369)
Dividends received		3,758	4,382
Interest received		42,385	46,716
Interest paid		(1,626,772)	(1,809,533)
Income tax refund received		31,333	2,352,464
Income taxes paid		(3,276,909)	(1,235,370)
Net cash inflow from operating activities	28	8,864,987	17,622,656
Cash flows from investing activities			
Payments for property, plant and equipment		(2,994,949)	(5,886,352)
Payments for intangibles - security lines		(15,765)	(13,979)
Payments for intangibles - software		(176,134)	(722,783)
Purchase of business (refer note 33)		(7,251,793)	(1,734,594)
Proceeds from sale of property, plant and equipment		2,010,015	8,448,258
Net cash (outflow)/inflow from investing activities		(8,428,626)	90,550
Cash flows from financing activities			
Proceeds from borrowings		8,000,000	9,000,000
Proceeds from issue of shares		2,673,684	2,387,845
Repayment of borrowings		(10,672,410)	(25,790,570)
Dividend paid to Company's shareholders		(2,719,850)	(1,199,204)
Net cash outflow from financing activities		(2,718,576)	(15,601,929)
Net (decrease)/increase in cash and cash equivalents		(2,282,215)	2,111,277
Cash and cash equivalents at the beginning of the financial year		4,273,005	2,161,728
Cash and cash equivalents at the end of the financial year	9	1,990,790	4,273,005

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

Notes to the Financial Statements

REPORTING ENTITY

CTI Logistics Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is 1 Drummond Place, West Perth, Western Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2018 comprise the Company and its subsidiaries (together referred to as the "group" and individually as "group entities"). The group is a for-profit entity and primarily is involved in the provision of logistics and transport services, rental of property and provision of security services.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report is for 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 adopted by the Australian Accounting Standards Board and the *Corporations Act 2001*.

Compliance with IFRS

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

The consolidated financial statements were authorised for issue by the board of directors on 30 August 2018.

Historical cost convention

These financial statements have been prepared under the historical cost convention except for available-for-sale financial assets which are measured at fair value.

Functional and presentation currency

All group entities are based in Australia. The consolidated financial statements are presented in Australian dollars, which is the Company's and subsidiaries functional currency and the group's presentation currency.

(b) PRINCIPLES OF CONSOLIDATION

Subsidiaries

The financial statements incorporate the assets and liabilities of all entities controlled by CTI Logistics Limited ("Company") as at 30 June 2018 and the results of all subsidiaries for the period the Company controlled them during the year then ended.

Subsidiaries are entities controlled by the group. The group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

The acquisition method of accounting is used to account for business combinations by the group (refer to note 1(g)).

Intercompany transactions, balances and unrealised gains on transactions within the group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) SEGMENT REPORTING

Determination and presentation of operating segments

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the group's other components. All operating segments' operating results are reviewed regularly by the group's Executive Chairman to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

Segment results that are reported to the group's Executive Chairman include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly parent company and items that cannot be allocated to specific segments in respect of revenue, profit, assets and liabilities.

(d) 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 transferred 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 on a straight-line basis in accordance with note 1(f).

(e) INCOME TAX

Income tax expense comprises current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the notional 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.

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 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.

Tax consolidation

CTI Logistics Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(f) LEASES

Leases of property, plant and equipment where the group has substantially all the risks 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 cost. The finance cost is charged to profit and loss 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.

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 profit and loss 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.

(g) BUSINESS COMBINATIONS

The acquisition method of accounting is used to account for all business combinations entities regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

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.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(h) IMPAIRMENT OF ASSETS

Non-derivative financial assets

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) *Assets carried at amortised cost*

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

Impairment testing of trade receivables is described in note 1(j).

(ii) *Assets classified as available-for-sale*

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non-financial 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. Other assets are tested 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 inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period. Value-in-use calculations are described in note 15.

(i) **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 statement of financial position.

(j) **TRADE RECEIVABLES**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) 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.

(l) INVESTMENTS AND OTHER FINANCIAL ASSETS

Classification

The group classifies its investments in 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) 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 securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit and loss as gains and losses from investment securities.

Measurement

At initial recognition, the group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within other income or other expenses in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of revenue from continuing operations when the group's right to receive payments is established. Interest income from these financial assets is included in the net gains/(losses).

Changes in the fair value of monetary securities classified as available-for-sale are recognised in other comprehensive income.

Impairment

Impairment testing of financial assets is described in note 1(h).

(m) 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 profit and loss 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:

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Buildings	25 - 40 years
Plant and 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(h)).

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in profit or loss under other income and other expenses.

(n) 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 is held at historical cost less depreciation. Investment property includes properties that are under construction for future use as investment property and is carried at historical cost. Investment buildings are depreciated using the straight line method over their estimated useful lives of 10 to 40 years.

(o) 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. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments (note 4).

(ii) Security Lines

Security lines have a finite useful life and are carried at cost less accumulated amortisation and impairment losses.

(iii) Software

Costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software.

(iv) Trade names

Trade names have a finite useful life and are carried at cost less accumulated amortisation and impairment losses.

(v) Customer relationships

Customer relationships acquired as part of a business combination are recognised separately from goodwill. The customer relationships are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill is recognised in profit or loss as incurred.

Amortisation

Amortisation is calculated over the cost of the asset less its residual value. Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Security lines	5 - 7 years
Software	2.5 - 4 years
Trade names	6 - 8 years
Customer relationships	5 - 6 years

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) 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. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

(q) 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 profit or loss over the period of the borrowings using the effective interest method.

The group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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 reporting date.

(r) BORROWING COSTS

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

(s) PROVISIONS

Provisions 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 reporting date.

(t) EMPLOYEE BENEFITS

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

(ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service 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 end of the reporting period. 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 end of the reporting period 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

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

(v) Share-based payment transactions

An Employee Share Plan ("ESP") allows certain group employees to acquire shares of the Company. The grant date fair value of the shares granted to employees is recognised as an employee expense with a corresponding increase in equity, over the period during which the employees become unconditionally entitled to the shares. The fair value of the shares granted is measured using a Black-Scholes pricing model, taking into account the terms and conditions upon which the shares were granted. The amount recognised as an expense is adjusted to reflect the actual number of shares that vest.

Employees have been granted a limited recourse 10 year interest-free loan in which to acquire the shares. The loan has not been recognised as the Company only has recourse to the value of the shares.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) CONTRIBUTED EQUITY

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(v) 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.

(w) 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 additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(x) 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.

(y) PARENT ENTITY FINANCIAL INFORMATION

The financial information for the parent entity, CTI Logistics Limited, disclosed in note 30 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries

Investments in subsidiaries are accounted for at cost in the financial statements of CTI Logistics Limited.

(ii) Tax consolidation legislation

CTI Logistics Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

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.

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.

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.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) Financial guarantees

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees is not recognised as contributions or as part of the cost of the investment.

(z) ASSETS HELD FOR SALE

Non-current assets are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on re-measurement are recognised in profit or loss.

Once classified as held-for-sale, property, plant and equipment are no longer depreciated.

(aa) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following standards are expected to have a material impact on the Group's financial statements in the period of initial application.

A. Estimated impact of the adoption of AASB 9 and AASB 15

The Group is required to adopt AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* from 1 July 2018. The Group has assessed the estimated impact that the initial application of AASB 9 (see (B)) and AASB 15 (see (C)) will have on its consolidated financial statements. The estimated impact of the adoption of these standards on the Group's equity as at 1 July 2018 is based on assessments undertaken to date, the actual impacts of adopting the standards at 1 July 2018 may change as the new accounting policies are subject to change until the Group presents its first financial statements that include the date of initial application.

B. AASB 9 *Financial Instruments*

AASB 9 *Financial Instruments* sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces AASB 39 *Financial Instruments: Recognition and Measurement*.

In relation to financial liabilities, AASB 9 largely retains the existing requirements in AASB 39 for the classification of financial liabilities, except for those designated as fair value through profit or loss (FVTPL) where the new standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). As the Group has not designated any financial liabilities at FVTPL and has no current intention to do so, the Group's assessment does not indicate any material impact regarding the classification of financial liabilities at 1 July 2018.

The new standard also introduces new simpler hedge accounting requirements that are intended to more closely align the accounting treatment with the risk management activities of the entity. As the Group does not apply hedge accounting this will have no impact to the Group's financial statements.

The assessed impacts of the standard on financial assets and disclosures are set out below.

i. Classification – Financial assets

AASB 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

AASB 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and FVTPL. The standard eliminates the existing AASB 39 categories of held to maturity, loans and receivables and available for sale.

Based on its assessment, the Group does not believe that the new classification requirements will have a material impact on its accounting for trade receivables, loans and investments in equity securities that are managed on a fair value basis. At 30 June 2018, the Group had equity investments classified as available-for-sale with a fair value of \$47,653 that are held for long-term strategic purposes.

Under AASB 9, the Group has designated these investments as measured at FVOCI. Consequently, all fair value gains and losses will be reported in OCI, no impairment losses will be recognised in profit or loss and no gains or losses will be reclassified to profit or loss on disposal.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ii. **Impairment – Financial assets**

AASB 9 replaces the 'incurred loss' model in AASB 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments. Under AASB 9, loss allowances will be measured under a 12 month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted.

The Group believes that impairment losses are likely to increase and become more volatile assets in the scope of the AASB 9 impairment model, however these increases are not expected to be significant to the financial statements, as set out below.

- *Trade receivables:* Trade receivables do not carry a significant financing component and involve a single cash flow representing the repayment of principal, being the transaction price. Based on a review of the historical credit losses experienced over the past 5 years, the Group does not expect that the new impairment model will result in a significant increase to these losses. Any significant deterioration in future market conditions may result in an increase to these provisions. The group will continue to monitor for the impact of this.
- *Cash and cash equivalents:* The cash and cash equivalents are held with bank and financial institution counterparties, which are rated AA and higher at 30 June 2018. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties, as such do not expect a significant impact from the application of the AASB 9 impairment model.

iii. **Disclosures**

AASB 9 will require extensive new disclosures, in particular about credit risk and ECLs. The Group is currently performing an assessment of the impact of these changes to its financial statements.

C. **AASB 15 Revenue from Contracts with Customers**

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 *Revenue*, AASB 111 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

Currently revenue from the provision of transport and logistics services is recorded when the goods or services have been delivered or collected by a customer in accordance with the arrangements made within the group. For security, manufacturing and other revenue the sale is recorded when goods have been despatched to a customer pursuant to a sales order and the associated risks of ownership have transferred to the customer.

The provision of these services and sale of goods is in most cases is either performed on the same day, or within a week for long distance freight and sale of security, manufacturing and other revenue.

The Group has performed a preliminary assessment of the impacts of AASB 15 and does not expect the standard to have a significant impact to its consolidated financial statements based on the short timeframe for the provision of services and sale of goods.

D. **AASB 16 leases**

AASB 16 replaces existing leases guidance, including AASB 117 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply AASB 15 at or before the date of initial application of AASB 16.

AASB 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group has completed an initial assessment of the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The actual impact of applying AASB 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 July 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.

So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases of offices and warehouses. As at 30 June 2018, the Group's future minimum lease payments under non-cancellable operating leases amounted to \$67,642,698, on an undiscounted basis (see Note 25).

In addition, the nature of expenses related to those leases will now change as AASB 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

No significant impact is expected for the Group's finance leases.

2. 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 an adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Intangible assets

The group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1(h). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations as described in note 15. The fair value of trade names acquired in a business combination is based on the discounted estimated royalty payments that are expected to be avoided as a result of the trade names being owned. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

3. FINANCIAL RISK MANAGEMENT

Overview

The group has exposure to the following risks from their use of financial instruments:

- (a) *Market risk*
- (b) *Credit risk*
- (c) *Liquidity risk*

This note presents information about the group's exposure to each of the above risks, the group's objectives, policies and processes for measuring and managing risk, and the group's management of capital.

Risk management framework

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

The group's risk management policies are established to identify and analyse the risks faced by the group. These policies are reviewed regularly to reflect changes in market conditions and the group's activities.

Notes to the Financial Statements

3. FINANCIAL RISK MANAGEMENT (continued)

(a) Market risk

i) Price risk

The group is exposed to equity securities price risk. This arises from investments held by the group and classified on the balance sheet as available-for-sale.

The price risk for listed and unlisted securities is immaterial in terms of the possible impact on profit or loss or total equity. Therefore no sensitivity analysis is completed.

The group is not exposed to commodity price risk, or foreign exchange risk from currency exposure.

(ii) Cash flow and fair value interest rate risk

The group's interest rate risk arises from 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. At the year end 30.50% (2017 – 29.24%) of borrowings were at fixed rates.

(iii) Borrowings and cash and cash equivalents

At the reporting date the group had the following borrowings and cash and cash equivalents.

	Consolidated			
	Weighted average interest rate		Weighted average interest rate	
	2018	2018	2017	2017
	%	\$	%	\$
Bank loans	2.71	40,500,000	2.38	41,500,000
Cash and cash equivalents	1.50	1,990,790	1.45	4,273,005
Hire purchase liabilities	4.22	3,387,024	4.21	3,017,711

An analysis by maturities is provided in 3(c) below.

The group manages interest rate risk by assessing the appropriateness of fixed or floating rate debt when funding is required.

The group monitors loan covenants on a regular basis to ensure compliance with agreements.

Group sensitivity

The group's main interest rate risk arises from loans and cash and cash equivalents. At 30 June 2018, if the interest rates had changed by +/- 100 basis points from the year-end rates with all other variables held constant, post-tax profit for the year would have been higher/lower by \$283,500 (2017 - change of 100bps: \$290,500 higher/lower) for loans and higher/lower by \$13,936 (2017 - change of 100bps: \$29,911 higher/lower) for cash and cash equivalents, mainly as a result of higher/lower interest expense from borrowings and higher/lower interest income from cash and cash equivalents.

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

The group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The group has no significant concentrations of credit risk. 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.

There is no independent rating of individual customers. Financial institutions have credit ratings of AA* and higher at 30 June 2018. Risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Customers that are graded as "high risk" are placed on a restricted customer list and monitored on a weekly basis. Receivables balances are monitored on an ongoing basis.

*Standard and Poor credit rating

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as follows:

Notes to the Financial Statements

3. FINANCIAL RISK MANAGEMENT (continued)

	2018 \$	Consolidated 2017 \$
Cash and cash equivalents	1,990,790	4,273,005
Trade receivables	25,968,796	17,854,832
Other receivables	1,181,398	1,012,073
	<u>29,140,984</u>	<u>23,139,910</u>

Trade receivables are non-interest bearing and terms of trade are 30 days from month end. At 30 June 2018, 9.06% (2017 – 7.78%) of trade receivables of the group exceed 30 days.

Other receivables are non-interest bearing and have repayment terms exceeding 30 days but are not considered impaired.

The ageing of receivables that are past due but not impaired at the reporting date is as follows:

	30-60 days \$	Past due but not impaired > 60 days \$	Total \$
2018			
Consolidated			
Trade receivables	<u>1,576,630</u>	<u>787,133</u>	<u>2,363,763</u>
2017			
Consolidated			
Trade receivables	<u>747,079</u>	<u>725,201</u>	<u>1,472,280</u>

At the reporting date the group has impaired trade receivables of \$130,650 (2017 - \$432,408) (refer note 10). The individually impaired receivables mainly relate to customers which are in unexpectedly difficult economic situations and they were fully provided for at reporting date.

The ageing of the impaired receivables is as follows:

	2018 \$	Consolidated 2017 \$
1 to 30 days	18,155	42,805
30 to 60 days	3,164	13,468
Over 60 days	109,331	376,135
Total	<u>130,650</u>	<u>432,408</u>

Provision for impairment of trade receivables

Movements in the provision for impairment of receivables are as follows:

Balance 1 July	432,408	109,089
Provision for impairment recognised during the year	23,461	414,083
Receivables written off during the year as uncollectable	(34,318)	(13,409)
Unused amount reversed	(290,901)	(77,355)
Balance 30 June	<u>130,650</u>	<u>432,408</u>

The creation and release of the provision for impaired receivables has been included in 'other expenses' in profit or loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering cash.

Notes to the Financial Statements

3. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. The group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of current financial assets and liabilities. 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 with a variety of counterparties. Surplus funds are generally only invested in instruments that are tradeable in highly liquid markets.

Financing arrangements

The group had access to the following undrawn borrowing facilities at the reporting date:

	2018 \$	Consolidated 2017 \$
Floating rate		
Expiring within one year (note 18c)	-	-
Expiring beyond one year (note 18c)	13,815,000	12,815,202
	<u>13,815,000</u>	<u>12,815,202</u>

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

Maturities of financial liabilities

The table below sets out the group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Consolidated	Maturity			Total contractual cash flows \$	Carrying amount \$
	1 year or less \$	1 to 2 years \$	2 to 5 years \$		
2018					
Non-interest bearing	21,145,324	-	-	21,145,324	21,145,324
Variable rate	1,098,550	10,994,217	30,761,850	42,854,617	40,500,000
Fixed rate	1,693,812	1,254,764	644,822	3,593,398	3,387,024
Total	<u>23,937,686</u>	<u>12,248,981</u>	<u>31,406,672</u>	<u>67,593,339</u>	<u>65,032,348</u>
2017					
Non-interest bearing	15,202,696	-	-	15,202,696	15,202,696
Variable rate	985,875	31,980,469	10,208,000	43,174,344	41,500,000
Fixed rate	1,664,090	858,111	707,804	3,230,005	3,017,711
Total	<u>17,852,661</u>	<u>32,838,580</u>	<u>10,915,804</u>	<u>61,607,045</u>	<u>59,720,407</u>

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The group has not disclosed the fair value for financial instruments such as short-term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair values.

The following tables present the group's assets measured and recognised at fair value at 30 June 2018.

	2018 Level 1 \$	Consolidated 2017 Level 1 \$
Available-for-sale financial assets		
Equity securities	<u>47,653</u>	<u>69,949</u>

Notes to the Financial Statements

3. FINANCIAL RISK MANAGEMENT (continued)

Capital risk management

The group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistently with others in the industry, the group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'borrowings' and 'trade and other payables' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt.

During 2018, the group's gearing ratio increased because of additional borrowing to fund the purchase of a business.

The gearing ratios at 30 June 2018 and 30 June 2017 were as follows:

	Notes	Consolidated	
		2018	2017
		\$	\$
Total payables and borrowings	16,17,18,32	65,032,348	59,075,918
Less: cash and cash equivalents	9	(1,990,790)	(4,273,005)
Net debt		63,041,558	54,802,913
Total equity		91,859,918	87,758,700
Total capital		154,901,476	142,561,613
Gearing ratio		40%	38%

4. SEGMENT INFORMATION

(a) Description of segments

Management has determined the operating segments based on the reports reviewed by the group's Executive Chairman. (note 1c)

The group's Executive Chairman considers the business from a product and services perspective and has identified three reportable segments: logistics, transport and property.

The reportable segments operate solely in Australia and are involved in the following operations:

- Transport services - includes the provision of courier, taxi truck, parcel distribution and fleet management and line haul freight.
- Logistics services - includes the provision of warehousing and distribution, specialised flooring logistics, supply based management services and document storage services.
- Property - rental of owner-occupied and investment property.

"Other" segments includes the provision of security services. Neither of these segments meets any of the quantitative thresholds for determining reportable segments.

The group does not have a single external customer which represents greater than 10% of the entity's revenue.

The group's Executive Chairman assesses the performance of the operating segments based on segment profit before income tax, as included in internal management reports. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Notes to the Financial Statements

4. SEGMENT INFORMATION (continued)

(b) Accounting policies

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in note 1(c) and accounting standard AASB 8 *Operating Segments*.

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.

Segment assets and liabilities

Segment assets are allocated based on the operations of the segment and the physical location of the asset. Segment liabilities are allocated based on the operations of the segment.

Unallocated amounts

Unallocated amounts are made up of the parent company and amounts that cannot be allocated to specific segments in respect of revenue, profit, assets and liabilities.

(c) Information about reportable segments

The segment information provided to the group's Executive Chairman for the reportable segments for the year ended 30 June 2018 is as follows:

	Transport \$	Logistics \$	Property \$	Other \$	Consolidated \$
2018					
Reportable segment revenue					
Sales to external customers	94,413,524	81,762,829	187,671	6,198,304	182,562,328
Intra and inter-segment revenue	12,458,765	53,694	3,837,756	1,002,250	17,353,465
Total segment revenue	106,872,289	81,816,523	4,025,427	7,201,554	199,915,793
Other income	407,650	174,223	293,365	-	875,238
Interest expense	205,290	52,510	720,426	-	978,226
Depreciation and amortisation	3,586,587	3,074,234	597,304	566,372	7,824,497
Reportable segment profit before income tax	4,428,835	3,345,046	1,261,966	828,596	9,864,443
Reportable segment assets	40,893,997	43,622,786	74,555,742	3,105,946	162,178,471
Reportable segment liabilities	20,897,852	8,192,263	37,181,552	1,794,648	68,066,315
2017					
Reportable segment revenue					
Sales to external customers	66,028,608	81,084,020	361,064	6,370,774	153,844,466
Intra and inter-segment revenue	9,953,461	64,124	3,735,005	1,244,860	14,997,450
Total segment revenue	75,982,069	81,148,144	4,096,069	7,615,634	168,841,916
Other income	146,586	304,631	2,870,260	5,746	3,327,223
Interest expense	189,502	69,638	771,079	-	1,030,219
Depreciation and amortisation	3,136,116	3,150,743	661,314	581,230	7,529,403
Reportable segment profit before income tax	2,857,709	3,803,219	3,390,417	1,751,436	11,802,781
Reportable segment assets	26,508,434	41,467,461	76,579,793	3,566,435	148,122,123
Reportable segment liabilities	15,915,247	9,104,725	37,245,661	1,734,475	64,000,108

Notes to the Financial Statements

4. SEGMENT INFORMATION (continued)

(d) Reconciliations of reportable segment revenues, profit, assets and liabilities and other material items

	Notes	2018 \$	Consolidated 2017 \$
<i>Revenues</i>			
Total segment revenue for reportable segments		199,915,793	168,841,916
Elimination of intra-segment and inter-segment revenue		(17,353,465)	(14,997,450)
Unallocated revenue		347,925	577,357
Consolidated revenue	5	182,910,253	154,421,823
<i>Profit</i>			
Total profit before tax for reportable segments		9,864,443	11,802,781
Unallocated amounts		(3,514,225)	(4,015,206)
Consolidated profit before income tax		6,350,218	7,787,575
<i>Assets</i>			
Total assets for reportable segments		162,178,471	148,122,123
Unallocated amounts		2,528,291	6,503,501
Consolidated total assets		164,706,762	154,625,624
<i>Liabilities</i>			
Total liabilities for reportable segments		68,066,315	64,000,108
Unallocated amounts		4,780,529	2,866,816
Consolidated total liabilities		72,846,844	66,866,924
<i>Other material items</i>			
<i>Interest Income</i>			
Unallocated amounts		42,385	46,716
Consolidated interest income		42,385	46,716
<i>Other income</i>			
Total for reportable segments		875,238	3,327,223
Unallocated amounts		331,429	609,236
Consolidated other income		1,206,667	3,936,459
<i>Interest expense</i>			
Total for reportable segments		978,226	1,030,219
Unallocated amounts		660,833	779,314
Consolidated interest expense		1,639,059	1,809,533
<i>Depreciation and amortisation</i>			
Total for reportable segments		7,824,497	7,529,403
Unallocated amounts		482,791	463,476
Consolidated depreciation and amortisation	7	8,307,288	7,992,879

The reports provided to the group's Executive Chairman with respect to reconciliation of reportable segment revenues, profit, assets and liabilities are measured in a manner consistent with that of the financial statements.

5. REVENUE

Revenue from operations

Sales revenue

Sale of goods	460,084	1,942,580
Services	182,258,840	152,113,901
	182,718,924	154,056,481

Other revenue

Dividends	3,758	4,382
Rent	187,571	360,960
	191,329	365,342
	182,910,253	154,421,823

Notes to the Financial Statements

6. OTHER INCOME

	Consolidated	
	2018	2017
	\$	\$
Net gain/(loss) on disposal of:		
- property	293,365	2,870,260
- motor vehicles	146,876	110,555
- plant and equipment	72	159,469
Other	766,354	796,175
	<u>1,206,667</u>	<u>3,936,459</u>

During the prior year the group disposed of its Malaga properties for a total of \$6,575,000. The profit on sale of land and buildings net of disposal costs amounted to \$2,870,260 and has been recognised in full in the prior year.

7. EXPENSES

	Consolidated	
	2018	2017
	\$	\$
<i>Profit before income tax includes the following specific expenses:</i>		
<i>Employee benefits</i>		
Defined contribution superannuation	4,241,724	3,947,819
Share-based payments	<u>95,742</u>	<u>130,362</u>
<i>Depreciation and amortisation</i>		
Buildings	674,265	699,071
Investment properties	5,000	27,000
Plant and equipment and motor vehicles	6,199,118	5,958,990
Security lines	12,537	12,060
Software	128,956	142,880
Trade name and customer relationships	<u>1,287,412</u>	<u>1,152,878</u>
	<u>8,307,288</u>	<u>7,992,879</u>
<i>Finance expenses</i>		
Interest	1,639,059	1,809,532
Finance charges	<u>209,610</u>	<u>205,831</u>
	<u>1,848,669</u>	<u>2,015,363</u>
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	<u>13,477,379</u>	<u>13,710,301</u>

8. INCOME TAXES

(a) Income tax expense

Current tax	2,690,029	2,195,132
Deferred tax	(473,048)	(829,600)
Under provided in prior years	65,986	352,123
Income tax expense	<u>2,282,967</u>	<u>1,717,655</u>

Deferred income tax (benefit)/expense included in income tax expense comprises:

(Decrease) in deferred tax assets (note 8d)	(176,088)	(394,329)
(Decrease) in deferred tax liabilities (note 8e)	(296,960)	(435,271)
	<u>(473,048)</u>	<u>(829,600)</u>

Notes to the Financial Statements

8. INCOME TAXES (continued)

	Consolidated 2018 \$	2017 \$
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before income tax expense	6,350,218	7,787,575
Tax at the Australian rate of 30% (2017 - 30%)	1,905,065	2,336,273
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Depreciation and amortisation	121,821	86,861
Share-based payment	28,723	39,109
Rebatable dividends	(1,610)	(1,878)
Sale of property	(88,010)	(948,420)
Contingent consideration	-	86,969
Sundry items	250,992	(233,382)
	2,216,981	1,365,532
Under provision in prior years	65,986	352,123
Income tax expense	2,282,967	1,717,655
(c) Amounts recognised directly in equity		
Net deferred tax - (credited) directly to equity (note 8d)	(6,689)	(5,670)
(d) Deferred tax assets		
The balance comprises temporary differences attributable to:		
<i>Amounts recognised in profit or loss</i>		
Doubtful debts	39,195	129,722
Employee benefits	2,127,998	1,714,307
Depreciation and amortisation	235,637	176,127
Other	604	55,868
	2,403,434	2,076,024
<i>Amounts recognised directly in equity</i>		
Available-for-sale financial assets	(6,689)	(5,670)
	2,396,745	2,070,354
Set-off of deferred tax liabilities (note 8e)	(2,396,745)	(2,070,354)
Net deferred tax assets	-	-
<i>Movements</i>		
Balance 1 July	2,070,354	1,681,695
Credited to profit or loss	176,088	394,329
Purchase of business (note 33)	156,992	-
Debited to equity	(6,689)	(5,670)
Balance 30 June	2,396,745	2,070,354
(e) Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
<i>Amounts recognised in profit or loss</i>		
Depreciation and amortisation	899,806	932,338
Intangible assets	1,616,424	1,880,852
	2,516,230	2,813,190
Set-off of deferred tax assets (note 8d)	(2,396,745)	(2,070,354)
Net deferred tax liabilities	119,485	742,836
<i>Movements (deferred tax liabilities)</i>		
Balance 1 July	2,813,190	3,248,461
Credited to profit or loss	(296,960)	(435,271)
Balance 30 June	2,516,230	2,813,190

Notes to the Financial Statements

9. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	Consolidated	
	2018	2017
	\$	\$
Cash at bank and in hand at the end of the financial year as shown in the statement of cash flows	1,990,790	4,273,005

Cash at bank earns interest at varying rates between nil and 1.50% per annum (2017 - nil and 1.50% per annum).

10. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

Trade receivables	26,099,446	18,287,240
Provision for impairment of receivables (note 3(b))	(130,650)	(432,408)
	<u>25,968,796</u>	<u>17,854,832</u>
Other receivables	1,181,398	1,012,073
Prepayments	1,805,162	1,256,473
	<u>2,986,560</u>	<u>2,268,546</u>
	<u>28,955,356</u>	<u>20,123,378</u>

11. CURRENT ASSETS - INVENTORIES

Work in progress - at cost	117,197	32,218
Finished goods - at cost	44,429	73,452
	<u>161,626</u>	<u>105,670</u>

12. NON-CURRENT ASSETS - AVAILABLE-FOR-SALE FINANCIAL ASSETS

Listed securities		
Equity securities at fair value	47,653	69,949

13. NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

Consolidated	Freehold land	Freehold buildings	Plant and equipment and fixtures and fittings	Motor vehicles	Total
	\$	\$	\$	\$	\$
1 July 2016					
Cost	46,098,018	30,617,881	25,916,265	25,594,358	128,226,522
Accumulated depreciation	-	(3,212,041)	(14,733,714)	(12,295,571)	(30,241,326)
Net book amount	<u>46,098,018</u>	<u>27,405,840</u>	<u>11,182,551</u>	<u>13,298,787</u>	<u>97,985,196</u>
Year ended 30 June 2017					
Opening net book amount	46,098,018	27,405,840	11,182,551	13,298,787	97,985,196
Additions	-	2,089,165	2,045,057	4,344,035	8,478,257
Disposals	(2,198,827)	(419,543)	(2,659)	(241,128)	(2,862,157)
Depreciation charge	-	(699,071)	(2,420,848)	(3,538,142)	(6,658,061)
Closing net book amount	<u>43,899,191</u>	<u>28,376,391</u>	<u>10,804,101</u>	<u>13,863,552</u>	<u>96,943,235</u>
At 30 June 2017					
Cost	43,899,191	32,093,245	27,317,613	28,079,540	131,389,589
Accumulated depreciation	-	(3,716,854)	(16,513,512)	(14,215,988)	(34,446,354)
Net book amount	<u>43,899,191</u>	<u>28,376,391</u>	<u>10,804,101</u>	<u>13,863,552</u>	<u>96,943,235</u>

Notes to the Financial Statements

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

Consolidated	Freehold land \$	Freehold buildings \$	Plant and Equipment and fixtures and fittings \$	Motor vehicles \$	Total \$
Year ended 30 June 2018					
Opening net book amount	43,899,191	28,376,391	10,804,101	13,863,552	96,943,235
Additions	-	863,821	1,744,901	2,427,952	5,036,674
Purchase of business (refer note 33)	-	-	-	1,872,523	1,872,523
Disposals	-	-	(12,415)	(211,065)	(223,480)
Depreciation charge	-	(674,265)	(2,387,239)	(3,811,879)	(6,873,383)
Closing net book amount	43,899,191	28,565,947	10,149,348	14,141,083	96,755,569
At 30 June 2018					
Cost	43,899,191	32,957,066	28,467,528	31,387,725	136,711,510
Accumulated depreciation	-	(4,391,119)	(18,318,180)	(17,246,642)	(39,955,941)
Net book amount	43,899,191	28,565,947	10,149,348	14,141,083	96,755,569

(a) Non-current assets pledged as security

Refer to note 18(b) for information on non-current assets pledged as security.

14. NON-CURRENT ASSETS - INVESTMENT PROPERTIES

Consolidated	Freehold land \$	Freehold buildings \$	Total \$
1 July 2016			
Cost	3,326,970	480,000	3,806,970
Accumulated depreciation	-	(239,750)	(239,750)
Net book amount	3,326,970	240,250	3,567,220
Year ended 30 June 2017			
Opening net book amount	3,326,970	240,250	3,567,220
Transfer to property held-for-sale	(1,119,949)	(208,250)	(1,328,199)
Depreciation charge	-	(27,000)	(27,000)
Closing net book amount	2,207,021	5,000	2,212,021
At 30 June 2017			
Cost	2,207,021	200,000	2,407,021
Accumulated depreciation	-	(195,000)	(195,000)
Net book amount	2,207,021	5,000	2,212,021
Year ended 30 June 2018			
Opening net book amount	2,207,021	5,000	2,212,021
Depreciation charge	-	(5,000)	(5,000)
Closing net book amount	2,207,021	-	2,207,021
At 30 June 2018			
Cost	2,207,021	200,000	2,407,021
Accumulated depreciation	-	(200,000)	(200,000)
Net book amount	2,207,021	-	2,207,021

Notes to the Financial Statements

14. NON-CURRENT ASSETS - INVESTMENT PROPERTIES (continued)

(a) Valuations

Investment freehold land and buildings were valued by the directors at 30 June 2018 at \$2,207,021 (2017 - directors' valuation \$2,212,021). 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.

(b) Disposal

In the prior year, the group sold its Malaga properties for \$6,575,000 resulting in a profit on sale of \$2,870,260 after sale costs. Refer to note 32 for the property transferred to held-for-sale.

(c) Contractual obligations

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

(d) Leasing arrangements

Leasing arrangements

The group has investment properties that are leased to tenants on monthly operating leases or fixed terms not exceeding five years.

Commitments in relation to these leases that are contracted for at reporting date but not recognised as assets are: receivable within one year - \$58,794 (2017 - \$58,794), receivable later than one year but not later than five years - \$73,492 (2017 - \$132,286).

15. NON-CURRENT ASSETS - INTANGIBLE ASSETS

Consolidated	Goodwill	Trade names	Customer relationships	Security lines	Software	Consolidated Total
At 1 July 2016	\$	\$	\$	\$	\$	\$
Cost	22,023,777	2,089,657	8,262,156	1,491,076	1,283,174	35,149,840
Accumulated amortisation	-	(601,103)	(2,230,792)	(1,458,730)	(925,286)	(5,215,911)
Net book amount	22,023,777	1,488,554	6,031,364	32,346	357,888	29,933,929
Year ended 30 June 2017						
Opening net book amount	22,023,777	1,488,554	6,031,364	32,346	357,888	29,933,929
Purchase of business	-	-	230,000	-	-	230,000
Additions	-	-	-	13,979	722,783	736,762
Disposals	-	-	-	-	(22,706)	(22,706)
Amortisation charge	-	(265,800)	(887,078)	(12,060)	(142,880)	(1,307,818)
Closing net book amount	22,023,777	1,222,754	5,374,286	34,265	915,085	29,570,167
At 30 June 2017						
Cost	22,023,777	2,089,657	8,492,156	1,505,055	1,930,773	36,041,418
Accumulated amortisation	-	(866,903)	(3,117,870)	(1,470,790)	(1,015,688)	(6,471,251)
Net book amount	22,023,777	1,222,754	5,374,286	34,265	915,085	29,570,167
Year ended 30 June 2018						
Opening net book amount	22,023,777	1,222,754	5,374,286	34,265	915,085	29,570,167
Purchase of business (refer note 33)	4,437,252	1,131,734	686,600	-	-	6,255,586
Additions	-	-	-	15,765	176,134	191,899
Amortisation charge	-	(324,239)	(963,173)	(12,537)	(128,956)	(1,428,905)
Closing net book amount	26,461,029	2,030,249	5,097,713	37,493	962,263	34,588,747
At 30 June 2018						
Cost	26,461,029	3,221,391	9,178,756	1,520,820	2,106,907	42,488,903
Accumulated amortisation	-	(1,191,142)	(4,081,043)	(1,483,327)	(1,144,644)	(7,900,156)
Net book amount	26,461,029	2,030,249	5,097,713	37,493	962,263	34,588,747

In the prior year, SRH Transport was acquired for a total consideration of \$1,734,594. The consideration paid equal the fair value of identifiable assets, no goodwill was recognised as a result of the acquisition. Assets acquired include property, plant and equipment of \$1,604,594 and customer relationships of \$230,000. No liabilities were assumed as part of the acquisition.

Notes to the Financial Statements

15. NON-CURRENT ASSETS - INTANGIBLE ASSETS (continued)

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

	Transport \$	Logistics \$	Other \$	Total \$
2018	8,548,942	17,868,016	44,071	26,461,029
2017	4,111,690	17,868,016	44,071	22,023,777

The recoverable amount of a CGU is determined based on value-in-use calculations which are based on budgets. These calculations use cash flow projections based on current sustainable earnings and financial budgets approved by the board. Cash flows indicate that the carrying amounts are recoverable and that there is no impairment.

Key assumptions used for value-in-use calculations

Growth rate of 2.5% (2017-2.5%) based on the inflation rate is used to extrapolate cash flows beyond the one year budget for an additional four years and a terminal value was calculated after 5 years. Nominal post tax discount rate of 9.0% (2017-9.0%), is used to discount the forecast future attributable post-tax cash flows when performing the value-in-use calculations.

The group has assessed that a reasonably possible change in its key discount rate and margin would not result in an impairment in the current year.

16. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	Consolidated	
	2018 \$	2017 \$
Trade payables	8,032,600	4,590,546
Other payables	13,112,724	9,967,661
	21,145,324	14,558,207

17. CURRENT LIABILITIES - BORROWINGS

Secured

Hire purchase liabilities	1,603,866	1,582,007
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18. NON-CURRENT LIABILITIES - BORROWINGS

Secured

Bank loans	40,500,000	41,500,000
Hire purchase liabilities	1,783,158	1,435,704
Total secured non-current interest-bearing borrowings	42,283,158	42,935,704

(a) Total secured liabilities

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

Secured

Bank loans	40,500,000	41,500,000
Hire purchase liabilities	3,387,024	3,017,711
Total secured liabilities	43,887,024	44,517,711

Notes to the Financial Statements

18. NON-CURRENT LIABILITIES – BORROWINGS (continued)

(b) Assets pledged as security

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

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 carrying amounts of assets pledged as security for current and non-current interest-bearing liabilities are:

	Consolidated	
	2018	2017
	\$	\$
Current		
<i>Floating charge</i>		
Cash and cash equivalents	1,990,790	4,273,005
Receivables	27,150,194	18,866,905
Inventories	161,626	105,670
Property held-for-sale	-	1,328,199
Total current assets pledged as security	29,302,610	24,573,779
<i>First mortgage</i>		
Freehold land and buildings	39,503,634	40,069,983
<i>Floating charge</i>		
Available-for-sale financial assets	47,653	69,949
Plant, equipment and motor vehicles	24,290,431	24,907,154
Freehold land and buildings	32,961,504	32,205,599
Investment properties	2,207,021	2,212,021
Intangible assets	999,756	949,350
	60,506,365	60,344,073
Total non-current assets pledged as security	100,009,999	100,414,056
Total assets pledged as security	129,312,609	124,987,835
(c) Financing arrangements		
Unrestricted access was available at balance date to the following lines of credit:		
<i>Credit standby arrangements</i>		
Total facilities		
Cash advance and interchangeable	-	-
Secured financial guarantee and documentary credit	1,708,000	2,276,000
Secured bill acceptance facility	54,315,000	54,315,000
	56,023,000	56,591,000
Used at balance date		
Secured bill acceptance facility	40,500,000	41,500,000
Secured financial guarantee and documentary credit facility	1,708,000	2,275,798
	42,208,000	43,775,798
<i>Bank loan facility</i>		
Total facility	56,023,000	56,591,000
Used at balance date	(42,208,000)	(43,775,798)
Unused at balance date	13,815,000	12,815,202

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 2.10% - 3.13% per annum on bill facilities, 5.71% on overdraft (2017 - bill facilities (2.06% - 3.41%), overdraft – 5.38%).

Notes to the Financial Statements

18. NON-CURRENT LIABILITIES – BORROWINGS (continued)

(d) Interest rate risk exposure

Information concerning interest rate risk is set out in note 3.

(e) Fair value

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

Consolidated	2018		2017	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
On-balance sheet				
<i>Non-traded financial liabilities</i>				
Bank loans	40,500,000	40,500,000	41,500,000	41,500,000
Hire purchase liabilities	3,387,024	3,477,438	3,017,711	3,083,147
Total secured liabilities	43,887,024	43,977,438	44,517,711	44,583,147

19. PROVISIONS

Employee benefits	Consolidated	
	2018 \$	2017 \$
Current	4,845,941	4,199,814
Non-current	2,282,341	1,514,543
	7,128,282	5,714,357

20. CONTRIBUTED EQUITY

(a) Share capital

	Consolidated	
	Number of shares	\$
Ordinary shares (fully paid)		
At 30 June 2017		
Opening balance	68,525,935	21,656,107
Dividend reinvestment plan	143,585	117,740
Bonus share plan	11,769	9,650
Shares issued	3,200,000	2,400,000
Less: Transaction costs arising on share issue	-	(129,895)
Closing balance	71,881,289	24,053,602
At 30 June 2018		
Opening balance	71,881,289	24,053,602
Dividend reinvestment plan	403,640	434,440
Bonus share plan	26,175	28,109
Shares issued	2,142,673	2,303,587
Less: Transaction costs arising on share issue	-	(92,453)
Closing balance	74,453,777	26,727,285

During the year the Company issued 2,142,673 (2017 – 3,200,000) new ordinary shares for cash consideration of \$2,303,587 (2017 – \$2,400,000). During the year the Company made bonus issues of 26,175 (2017 – 11,769) new ordinary shares under the Company's Bonus Share Plan. During the year the Company issued 403,640 (2017 – 143,585) new ordinary shares under the Company's Dividend Reinvestment Plan.

At 30 June 2018 there were 2,685,000 contingently issuable shares (2017 – 2,500,000) relating to shares issued under the Company's Employee Share Plan. During the year 185,000 (2017 – 290,000) contingently issuable shares were issued to senior employees under the Company's Employee Share Plan (refer to note 31).

Notes to the Financial Statements

20. CONTRIBUTED EQUITY (continued)

(b) 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.

21. RESERVES AND RETAINED PROFITS

	Consolidated	
	2018 \$	2017 \$
(a) Reserves		
Available-for-sale investments revaluation reserve	(20,565)	(4,957)
Share-based payment reserve	1,799,098	1,703,356
	<u>1,778,533</u>	<u>1,698,399</u>
<i>Movements</i>		
<i>Available-for-sale investments revaluation reserve</i>		
Balance 1 July	(4,957)	8,272
Revaluation, net of tax	(15,608)	(13,229)
Balance 30 June	<u>(20,565)</u>	<u>(4,957)</u>
<i>Share-based payment reserve</i>		
Balance 1 July	1,703,356	1,572,994
Share-based payment transactions	95,742	130,362
Balance 30 June	<u>1,799,098</u>	<u>1,703,356</u>
(b) Retained profits		
<i>Movements</i>		
Balance 1 July	62,006,699	57,135,983
Profit for the year	4,067,251	6,069,920
Dividends	(2,719,850)	(1,199,204)
Balance 30 June	<u>63,354,100</u>	<u>62,006,699</u>

(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(l). Amounts are recognised in profit or loss when the associated assets are sold or impaired.

Share-based payment reserve

The share-based payment reserve comprises the expenses incurred from the issue of the Company's shares under the Employee Share Plan. Refer to note 31 and note 1(t).

22. DIVIDENDS

	Parent Entity	
	2018 \$	2017 \$
(a) Ordinary shares		
Final dividend for the year ended 30 June 2017 of 1.75 cents (2016 – nil cents) per fully paid share – paid on 15 November 2017		
Fully franked dividend based on tax paid @ 30% (2016 - 30%)	1,257,923	-
Less – bonus issue of ordinary shares under the Company's Bonus Share Plan.	(17,088)	-
	<u>1,240,835</u>	<u>-</u>
Interim dividend for the year ended 30 June 2018 of 2.0 cents (2017 – 1.75 cents) per fully paid share (2017 – paid on 11 April 2017)		
Fully franked dividend based on tax paid @ 30% (2017 - 30%)	1,461,927	1,199,204
Less – bonus issue of ordinary shares under the Company's Bonus Share Plan.	(11,021)	(9,650)
	<u>1,450,906</u>	<u>1,189,554</u>

Notes to the Financial Statements

22. DIVIDENDS (continued)

	Parent Entity	
	2018	2017
	\$	\$
(b) Dividends not recognised at the end of the reporting period		
In addition to the above dividends, since year end the directors have declared the payment of a final dividend of 2.0 cents per fully paid ordinary share, (2017 – 1.75 cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 14 November 2018 out of retained profits at 30 June 2018, but not recognised as a liability at year end, is	1,489,076	1,257,923

(c) Franked dividends

Franking credits available at 30 June 2018 for subsequent financial years based on a tax rate of 30% - \$19,225,823 (2017 - \$17,671,452 - 30%).

23. RELATED PARTIES

(a) Parent entity

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

(b) Transactions with key management personnel

Key management personnel compensation

	Consolidated	
	2018	2017
	\$	\$
Key management personnel compensation comprised the following:		
Short-term	1,632,158	1,635,039
Post-employment	75,419	108,153
Share-based payments	-	58,003
	1,707,577	1,801,195

24. 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:

Audit services

KPMG Australia

Audit and review of financial reports

157,500	141,000
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25. COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities:

Property, plant and equipment

Payable within one year

158,546	1,622,888
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As at 30 June 2018 the group was also committed to the purchase of Stirling Freight Express for \$4,500,000. Refer to Note 34 for further details.

(b) Lease commitments: group company as lessee

Commitments in relation to leases contracted for at the reporting date are as follows:

(i) *Operating leases*

The group leases offices and warehouses under non-cancellable operating leases.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

Less than one year	13,620,068	11,570,339
Between one and five years	41,523,554	37,408,130
Later than five years	12,499,076	15,325,726
	67,642,698	64,304,195

Notes to the Financial Statements

25. COMMITMENTS (continued)

ii) Hire purchase

Commitments in relation to hire purchase are payable as follows:

Less than one year

Between one and five years

	Consolidated	
	2018	2017
	\$	\$
	1,603,866	1,582,006
	1,783,158	1,435,705
	<u>3,387,024</u>	<u>3,017,711</u>

26. 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	Country of Incorporation	Equity holding (Ordinary shares)	
		2018 %	2017 %
CTI Logistics Limited	Australia		
Directly controlled by CTI Logistics Limited			
Controlled entities			
Bring Transport Industries Pty Ltd	Australia	100	100
Mercury Messengers Pty Ltd	Australia	100	100
CTI Security Services Pty Ltd	Australia	100	100
CTI Transport Systems Pty Ltd	Australia	100	100
CTI Taxi Trucks Pty Ltd	Australia	100	100
CTI Security Systems Pty Ltd	Australia	100	100
CTI Transport Services Pty Ltd	Australia	100	100
CTI Freight Management Pty Ltd	Australia	100	100
Action Logistics (WA) Pty Ltd	Australia	100	100
CTI Freight Systems Pty Ltd	Australia	100	100
CTI Couriers Pty Ltd	Australia	100	100
CTI Swinglift Services Pty Ltd	Australia	100	100
CTI Xpress Systems Pty Ltd	Australia	100	100
CTI Nationwide Logistics Pty Ltd (formerly CTI Investments Pty Ltd)	Australia	100	100
Consolidated Transport Industries Pty Ltd	Australia	100	100
CTI Logistics (NSW) Pty Ltd (formerly Logico Operations Group Pty Ltd)	Australia	100	100
Other controlled entities			
Directly controlled by CTI Nationwide Logistics Pty Ltd			
Lafe (WA) Pty Ltd	Australia	100	100
CTI Freightlines Pty Ltd	Australia	100	100
Blackwood Industries Pty Ltd	Australia	100	100
Australian Fulfilment Services Pty Ltd	Australia	100	100
Directly controlled by Blackwood Industries Pty Ltd			
CTI Logistics (Vic) Pty Ltd (formerly Efal Pty Ltd)	Australia	100	100
CTI Online Pty Ltd	Australia	100	100
CTI Records Management Pty Ltd	Australia	100	100
CTI Quarantine & Fumigation Services Pty Ltd	Australia	100	100
Directly controlled by Consolidated Transport Industries Pty Ltd			
Foxline Logistics Pty Ltd	Australia	100	100
Directly controlled by CTI Logistics (NSW) Pty Ltd			
G.M. Kane & Sons Pty Ltd	Australia	100	100

These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with Class Order 2016/785 issued by the Australian Securities and Investments Commission. For further information refer to note 27.

Notes to the Financial Statements

27. 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 2016/785 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.

The consolidated results of the Company and all the parties to the Deed are the same as the consolidated results of the group.

28. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Consolidated	
	2018	2017
	\$	\$
Profit for the year	4,067,251	6,069,920
Depreciation and amortisation	8,307,288	7,992,879
Provision/(reversal) for doubtful debts	(301,758)	323,319
Net gain on sale of non-current assets	(440,313)	(3,140,284)
Share-based payment expense	95,742	130,362
Change in operating assets and liabilities		
Increase in trade and other debtors	(8,530,220)	(697,128)
(Increase)/decrease in inventories	(55,956)	28,463
(Decrease)/increase in provision for income taxes	(767,084)	3,063,816
Decrease in deferred tax liabilities	(623,351)	(823,930)
Increase in trade creditors, employee benefits and other provisions	7,113,388	4,675,239
Net cash inflow from operating activities	8,864,987	17,622,656

29. EARNINGS PER SHARE

	Consolidated	
	2018	2017
	Cents per share	
(a) Basic earnings per share		
Basic earnings per share attributable to the ordinary equity holders of the Company (2017 - adjusted for bonus share issue).	5.58	8.82
	\$	\$
Profit attributable to ordinary shareholders used in calculating basic earnings per share.	4,067,251	6,069,920
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share (2017 – adjusted for bonus share issue).	72,893,167	68,837,427
(b) Diluted earnings per share		
Diluted earnings per share attributable to the ordinary equity holders of the Company (2017 – adjusted for bonus share issue).	5.57	8.82
	\$	\$
Profit attributable to ordinary shareholders used in calculating diluted earnings per share.	4,067,251	6,069,920

Notes to the Financial Statements

29. EARNINGS PER SHARE (continued)

	2018 Number	2017 Number
<i>Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share.</i>		
Weighted average number of shares (basic) (2017 – adjusted for bonus share issue)	72,893,167	68,837,427
The effect of the vesting of contingently issuable shares	64,386	17,073
Weighted average number of shares (diluted)	<u>72,957,553</u>	<u>68,854,500</u>

The average market value of the Company's shares for the purposes of calculating the dilutive effect of the vesting of contingently issuable shares was based on quoted market prices for the period during which the contingently issuable shares were outstanding.

30. PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2018 \$	2017 \$
Balance sheet		
Current assets	4,953,824	5,370,229
Total assets	<u>42,480,055</u>	<u>43,248,026</u>
Current liabilities	7,869,835	10,021,757
Total liabilities	<u>12,830,347</u>	<u>15,920,984</u>
Net assets	<u>29,649,708</u>	<u>27,327,042</u>
Shareholders' equity		
Issued capital	26,727,285	24,053,602
Reserves	1,791,532	1,712,016
Retained earnings	1,130,891	1,561,424
	<u>29,649,708</u>	<u>27,327,042</u>
Profit for the year	<u>2,289,319</u>	<u>1,091,637</u>
Total comprehensive income	<u>2,273,094</u>	<u>1,079,466</u>

(b) Guarantees entered into by the parent entity

	2018 \$	2017 \$
Carrying amount included in group		
- current liabilities	1,603,866	1,521,207
- non-current liabilities	<u>37,583,158</u>	<u>38,894,710</u>
	<u>39,187,024</u>	<u>40,415,917</u>

The parent entity has provided financial guarantees in respect of loans and hire purchase commitments of subsidiaries amounting to \$39,187,024 (2017 - \$40,415,917). The loans are secured by registered mortgages over the freehold properties of the subsidiaries.

In addition, there are cross guarantees given by CTI Logistics Limited, as described in note 27. No deficiencies of assets exist in any of these entities.

Notes to the Financial Statements

31. SHARE-BASED PAYMENT PLAN

Employee Share Plan

Senior employees are offered the opportunity to purchase shares in the Company under the Employee Share Plan (ESP). The shares may be purchased with the assistance of an interest-free, limited recourse loan for a term of 10 years for key management personnel and 5 years for senior employees and are repayable by dividends.

Measurement of fair values

The fair value of the shares granted under the ESP was measured based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The fair value is amortised over the two year vesting period through the statement of profit or loss and other comprehensive income.

The inputs used in the measurement of the fair values at grant date of the share-based payment plan were as follows.

	Employee Share Plan	
	Senior employees 2018	Senior employees 2017
Grant date	22 December 2017	18 January 2017
Fair value at grant date	\$0.71	\$0.42
Share price at grant date	\$1.07	\$0.81
Exercise price	\$1.07	\$0.81
Expected volatility (weighted average)	48%	52%
Loan amount	\$185,000	\$234,900
Term	10 years	5 years
Risk-free interest rate	2.0%	2.0%

Expected volatility has been based on an evaluation of the historical volatility of the Company's share price, particularly over the historical period commensurate with the expected term.

ESP shares

The number of ESP shares under the Employee Share Plan were as follows:

	Balance at the start of the year	Issued during the year	Exercised	Balance at the end of the year
Key management personnel	660,000	-	-	660,000
Senior employees	1,840,000	185,000	-	2,025,000
	2,500,000	185,000	-	2,685,000

32. DISPOSAL OF PROPERTY HELD FOR SALE

2018

The group disposed of an investment property in September 2017 for \$1,650,000. The profit on sale of land and buildings net of disposal costs amounted to \$293,365 and has been recognised in full in the year to 30 June 2018, within "Other income". This property was treated as held for sale at 30 June 2017.

2017

The group disposed of its Malaga properties in September 2016 and October 2016 for a total of \$6,575,000. The profit on sale of land and buildings net of disposal costs amounted to \$2,870,260 and has been recognised in full in the prior year.

The Shire of Swan resumed a parcel of land at the Hazelmere site in August 2016 for \$1,351,800, at cost.

Notes to the Financial Statements

33. PURCHASE OF BUSINESS

On 30 October 2017 the group acquired the business operations and assets of the interstate road and rail transport and warehousing business trading as Jayde Transport ("Jayde").

For the 8 months to 30 June 2018, Jayde contributed revenue of \$24,596,273 and profit after tax of \$788,314 to the group's results. If the acquisition had occurred on 1 July 2017, management estimates that consolidated revenue would have been \$194,337,629, and the consolidated profit after tax for the year would have been \$4,341,610. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 July 2017.

Details of the purchase consideration, the net assets acquired and goodwill are set-out below.

(a) <i>Purchase consideration</i>	\$
Cash paid	6,251,793
Deferred consideration	1,000,000
Contingent consideration	510,000
Total purchase consideration	<u>7,761,793</u>

In accordance with the terms of the acquisition agreement, the initial cash consideration payable of \$6,500,000 was reduced for an agreed value of employee provisions assumed at acquisition date.

(i) *Deferred consideration*

The deferred consideration was paid to the vendors on 30 April 2018.

(ii) *Contingent consideration*

The contingent consideration of up to \$2,850,000 is payable to the vendors on or before 15 February 2019 dependent of achieving earnings thresholds for the calendar year ending 31 December 2018. The group included \$510,000 as contingent consideration related to the additional consideration which represented its fair value at the date of acquisition.

(b) *Identifiable assets acquired and liabilities assumed*

The assets recognised and liabilities assumed as a result of the acquisition are as follows:

	Fair value
	\$
Property, plant and equipment	1,872,523
Deferred tax assets	156,992
Intangible assets: trade names	1,131,734
Intangible assets: customer relationships	686,600
Provisions	(523,308)
Total identifiable assets	<u>3,324,541</u>

(i) *Measurement of fair values*

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Property, plant and equipment

Market comparison technique and cost technique: The model considers quoted market prices for similar items when available, and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.

Intangible assets

Relief-from-royalty method and multi-period excess earnings method: The relief-from-royalty method considers the discounted estimated royalty payments that are expected to be avoided as a result of the patents or trademarks being owned. The multi-period excess earnings method considers the present value of net cash flows expected to be generated by the customer relationships, by excluding any cash flows related to contributory assets.

Goodwill recognised as a result of the acquisition is as follows:

Notes to the Financial Statements

33. PURCHASE OF BUSINESS (continued)

\$

(c) Goodwill

Goodwill recognised as a result of the acquisition is as follows:

Total consideration	7,761,793
Less fair value of identifiable assets	<u>(3,324,541)</u>
Goodwill	<u>4,437,252</u>

The goodwill was attributable to the workforce, synergies, mutual client base and profitability of the acquired business.

(d) Acquisition-related costs

Acquisition-related costs of \$131,523 have been included in "other expenses" in the current year.

34. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

On 2 July 2018 the group acquired the business operations of Stirling Freight Express for \$4,500,000. The assets and liabilities acquired included property, plant and equipment, intangibles and employee provisions.

There are no other events since the end of the financial year that provide additional evidence of conditions that existed at the end of the financial year or that reveal for the first time a condition that existed at the end of the financial year.

Directors' Declaration

In the opinion of the directors of CTI Logistics Limited ('the Company'):

- (a) the consolidated financial statements and notes that are set out on pages 8 to 44 and the remuneration report on pages 5 to 6 in the Directors' Report, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the group's financial position as at 30 June 2018 and of its performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

There are reasonable grounds to believe that the Company and the group entities identified in note 26 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those group entities pursuant to ASIC Class Order 2016/785.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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 WATSON
Director

Perth, WA
30 August 2018



Independent Auditor's Report

To the shareholders of CTI Logistics Limited

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report** of CTI Logistics Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated statement of financial position as at 30 June 2018
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

The **Key Audit Matters** we identified are:

- Value of property, plant and equipment and intangible assets
- The acquisition of Jayde Transport

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Value of property, plant and equipment and intangible assets (\$131,344,316)

Refer to Note 13 and Note 15 to the financial report

The key audit matter	How the matter was addressed in our audit
The carrying value of property, plant and equipment and intangible assets was considered a key audit matter due to: • The size of property, plant and equipment and intangible assets which, in aggregate, represents 80% of total assets • The level of judgment required by us in evaluating management's assessment of the carrying value of property, plant and equipment, and intangible assets, and • The Group's market capitalisation at 30 June 2018 was less than the net assets. This brings into question the value ascribed to property, plant and equipment and intangible assets, and as a result increasing our audit effort in this area. In addition, the Western Australian economy, within which a significant part of the Group operates, has experienced challenging market conditions resulting in volatility in the demand for services, margin pressure, and cost reduction mandates. This puts increasing pressure on asset values and increases the risk of impairment. The assessment of the carrying value of the Group's property, plant and equipment and intangible assets applies significant judgments through the use of value in use models. We focused on the significant forward-looking assumptions the Group applied, including: • Forecast operating cash flows for transport and logistics services given the downturn in the WA economy. These conditions increase the possibility of property, plant and equipment and intangible assets being impaired. • Forecast growth rates and terminal growth rates – in addition to the uncertainties described above, the Group's models are highly sensitive to small changes in these assumptions, reducing available headroom. This drives additional audit effort specific to	Our procedures included: • We considered the appropriateness of the value in use methodology against the criteria in the accounting standards. • We considered the Group's determination of their CGUs based on our understanding of the operations of the Group's business, how independent cash flows were generated, and against the requirements of the accounting standards. • We assessed the accuracy of previous Group forecasts to inform our evaluation of forecasts incorporated in the models. • We considered the sensitivity of the models by varying key assumptions, such as forecast growth rates, terminal growth rates and discount rates, within a reasonably possible range, to identify those CGUs at higher risk of impairment and to focus our further procedures. • We challenged the Group's significant forecast cash flow and growth assumptions in light of the competitive market conditions and continued downturn in business activity. We applied increased scepticism to forecasts in the areas where previous forecasts were not achieved. • We compared forecast growth rates and terminal growth rates to published studies of industry trends and expectations, and considered differences for the Group's operations. We used our knowledge of the Group, their past performance, business and customers, and our industry experience. • Working with our valuation specialists, we: • Independently developed a discount rate range considered comparable using publicly available market data for comparable

their feasibility. The discount rate - these are complicated in nature and vary according to the conditions and environment the specific Cash Generating Units (CGUs) is subject to from time to time. The Group also has a large number of operating businesses and service lines necessitating our consideration of the Group's determination of CGUs, based on their ability to generate independent cash flows. We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.	entities; and - Assessed the Group's rationalisation of the difference between the market capitalisation and net assets of the Group including by comparing the implicit earnings multiple in management's valuations to market multiples of comparable entities. - We assessed the disclosures in the financial report using the results of our testing and against the requirements of the accounting standards.
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Acquisition of Jayde Transport (\$7,761,793)	
Refer to Note 33 to the financial report	
The key audit matter	How the matter was addressed in our audit
The Group's acquisition of Jayde Transport for cash consideration at settlement of \$6,500,000, deferred consideration of \$1,000,000 and contingent consideration of up to \$2,850,000 represents a significant transaction for the Group. This was a key audit matter due to the: - Size of the acquisition having a pervasive impact on the financial statements; - Significant judgements made by the Group relating to the purchase price allocation (PPA) at 30 June 2018. The Group performed an analysis on the identification and measurement of acquired assets and liabilities, in particular determining the allocation of purchase consideration to tangible assets, separately identifiable intangible assets and goodwill; and - Level of judgment applied by the Group to measure the fair value of contingent consideration due to estimates of the forecast future performance of the acquired business. Contingent consideration of up to \$2,850,000 is payable dependent upon the achievement of earnings thresholds for the calendar year ending 31 December 2018. The Group determined the fair value of	Our procedures included: - We read the Jayde Transport Business Sale Deed related to the acquisition to understand the structure, key terms and conditions, and nature of purchase consideration. Using this, we evaluated the accounting treatment of the purchase consideration and transaction costs against the criteria in the accounting standards. - We worked with our valuation specialists to assess and challenge the key assumptions used in the PPA. We: - Compared the inputs used by the Group to historical financial information and approved budgets; and - Challenged the Group's approach and methodology to valuing the identified intangible assets by comparing to accepted industry practice and the requirements of the accounting standards. - We assessed the Group's determination of the fair value measurement of contingent consideration. This involved: - Checking key inputs from the Group's calculation of contingent consideration to



contingent consideration to be \$510,000 at the date of acquisition. These conditions and associated complex acquisition accounting required significant audit effort and greater involvement by senior team members and our valuation specialists.	the Jayde Transport Business Sale Deed; • Comparing key assumptions within the Group's calculation of contingent consideration to historical performance and our understanding of industry trends; and • Checking the mathematical accuracy of the contingent consideration schedule. • We assessed the Group's disclosures of the quantitative and qualitative considerations in relation to the business acquisition, by comparing these disclosures to our understanding of the acquisition and the requirements of the accounting standards.
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Other Information

Other Information is financial and non-financial information in CTI Logistics Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Director's Report. The Chairman's Letter and Shareholder Information, are expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.



Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of CTI Logistics Limited for the year ended 30 June 2018, complies with *Section 300A of the Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A of the Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included on pages 5 and 6 of the Directors' report for the year ended 30 June 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

Graham Hogg
Partner
Perth
30 August 2018

