



***CTI Logistics Limited***

ACN 008 778 925

**ANNUAL REPORT 2017**

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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**

KPMG  
235 St. Georges Terrace  
Perth WA 6000  
Telephone (08) 9263 7171

## **SHARE REGISTRY**

Computershare Investor Services Pty Ltd  
Level 11, 172 St. Georges Terrace  
Perth WA 6000  
Telephone (08) 9323 2000

## **REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS**

1 Drummond Place  
West Perth WA 6005  
Telephone (08) 9422 1100  
Facsimile (08) 9227 8000  
E-mail [corporate@ctilogistics.com](mailto:corporate@ctilogistics.com)  
Web [www.ctilogistics.com](http://www.ctilogistics.com)

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 29 August 2017. 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.

# Chairman's Statement

In my Chairman's Statement for last year's annual report, I advised shareholders that directors had decided not to declare a final dividend. That decision was based on the difficult and uncertain business environment in Western Australia that followed the end of the mining boom, plus the need to reduce our debt levels which were historically high resulting from the purchase of GMK Logistics and our land bank for future warehouse expansion at Hazelmere.

Although the difficult trading conditions still persist in Western Australia where most of our business is currently based and generated, the group returned positive results for the 2016-17 financial year with increases in revenue, EBITDA, profit before tax and earnings per share, and in the same period reduced debt by \$15.5m [25.8%]. This situation, with continued reduction of our existing debt, has allowed us to

[a] resume the regular payment of dividends; and

[b] plan our expansion, both nationally and within Western Australia.

Shareholders were paid an interim dividend of 1.75 cents per share, and will be paid a final dividend of 1.75 cents per share.

For the reasons set out above, there was just one acquisition during the 2016-17 financial year. SRH Transport was acquired in September 2016, as a Western Australian regional carrier. The business was merged with our existing CTI Freightlines business that provides scheduled services to the South West and North West of the State, resulting in a substantial improvement in margin and cash flow for that business. We are now exploring and evaluating opportunities for the acquisition of businesses both nationally and within Western Australia in fields related to or compatible with the group's existing core operations.

And finally, as always, on behalf of the board I would like to acknowledge the dedication and contribution of all members of management, staff, drivers and sub-contractors. We have a great team of people, without whom our continued growth would not be possible.



DAVID WATSON  
Executive Chairman

# Directors' Report

**YOUR DIRECTORS PRESENT THEIR REPORT ON THE GROUP CONSISTING OF CTI LOGISTICS LIMITED AND THE ENTITIES IT CONTROLLED AT THE END OF, OR DURING, THE YEAR ENDED 30 JUNE 2017.**

## 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 Carnarvon 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
Interim 2017 ordinary	1.75	\$1,199,204		11 April 2017

## 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 2017 ordinary	1.75	\$1,257,923		15 November 2017

The financial effect of this post year dividend has not been brought to account in the financial statements for the year ended 30 June 2017 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 2.5% to \$154,421,823. Reported profit before tax for the year was \$7,787,575, including the profit on sale of the Malaga properties of \$2,870,260 and an increase in the deferred contingent payment of \$289,895 related to the GMK Logistics acquisition. The profit before tax excluding these adjustments is \$5,207,210, up 20.2% on a comparable basis with the previous corresponding period. The reported net profit after tax is \$6,069,920 which represents earnings per share for the year of 8.82 cents. EBITDA\* for the year excluding the Malaga properties and the deferred contingent payment was \$15,168,736, up 6.5% on the previous year.

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

- increased freight volume and fleet utilisation resulting in improved margins following the acquisition of SRH Transport in September 2016
- growth in the GMK Logistics business following the expansion at the Gregory Hills site in NSW and the successful onboarding of three new clients
- productivity gains flowing from a maturing of the distribution model for the group's largest warehousing client
- increased volumes including e-commerce related activity in the parcel business
- increased levels of installation activity in the security business along with productivity benefits arising from implementation of a new software platform in the security monitoring business
- benefits flowing from sustainable cost-saving including re-negotiation of leases and supplier contracts
- profit on sale of two non-core Malaga properties with no tax impact in the current period
- proceeds from property sales and earnings in the period were used to reduce debt resulting in lower interest costs
- difficult trading conditions and increased pressure on margins in Western Australia

The group's net assets increased by 9.2% compared with the previous year which is largely attributable to the current year's

# Directors' Report

profit after tax, the proceeds from the sale of property and an issue of 3.2million new ordinary shares following a placement in May 2017.

Operating cash flow increased from \$9.9million in the previous period to \$17.6million. 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 \$15.5million 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 SRH Transport.

The Company paid an interim dividend of 1.75 cents per share and the board has declared a final dividend for the financial year ended 30 June 2017 of 1.75 cents per share fully franked, payable on 15 November 2017.

The 2017/18 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 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
- 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

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	7	6
D A Mellor	7	7
B E Saxild	7	6
D R Watson	7	7
M D Watson	7	7

## Audit and Risk Committee

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

## Remuneration Committee

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

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

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	-	601,562
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 7)

## 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.

# Directors' Report

## **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 8.

# 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			
	\$	\$	\$	\$	\$
<b>2017</b>					
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
<b>Total</b>	<b>1,565,712</b>	<b>69,327</b>	<b>108,153</b>	<b>58,003</b>	<b>1,801,195</b>
<b>2016</b>					
P J Leonhardt	57,500	-	-	-	57,500
*D A Mellor	397,022	8,427	35,034	69,871	510,354
*B E Saxild	533,535	24,297	34,884	69,871	662,587
*D R Watson	490,620	26,846	34,980	-	552,446
M D Watson	34,703	-	3,296	-	37,999
<b>Total</b>	<b>1,513,380</b>	<b>59,570</b>	<b>108,194</b>	<b>139,742</b>	<b>1,820,886</b>

\*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	Other changes* during the year	Balance at the end of the year
P J Leonhardt	588,993	12,569	-	601,562
D A Mellor	5,705,168	-	(1,470,317)	4,234,851
B E Saxild	4,785,178	-	(1,470,317)	3,314,861
D R Watson	29,581,058	-	(3,701,512)	25,879,546
M D Watson	324,512	-	-	324,512

\* The other changes during the year relate to the sale of shares from a company co-owned by D R Watson, B E Saxild and D A Mellor. Following this sale, B E Saxild and D A Mellor no longer have a declared interest in the shares disposed by D R Watson. D R Watson following the sale no longer has a declared interest in the shares B E Saxild and D A Mellor continue to hold. B E Saxild and D A Mellor did not dispose of any shares in the period.

### 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 over the 2 year vesting period through the statement of profit or loss and other comprehensive income.



DAVID WATSON  
Director

Perth, WA  
29 August 2017



# 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 2017 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.

KPMG  
KPMG

G-H-77

Graham Hogg  
*Partner*

Perth

29 August 2017

# Consolidated Statement of Profit or Loss and other Comprehensive Income for the year ended 30 June 2017

		Consolidated	
	Notes	2017 \$	2016 \$
Revenue from operations	5	154,421,823	150,640,994
Other income	6	3,936,459	20,764,686
Changes in inventories of finished goods and work in progress		(28,453)	(231,125)
Raw materials and consumables used		(1,050,620)	(1,222,177)
Employee benefits expense		(54,894,143)	(54,196,462)
Subcontractor expense		(40,746,008)	(38,154,913)
Depreciation and amortisation expense	7	(7,992,879)	(7,438,377)
Motor vehicle and transport costs		(17,987,702)	(20,287,317)
Property costs		(14,682,061)	(13,099,100)
Other expenses		(11,220,194)	(12,212,435)
Results from operating activities		<u>9,756,222</u>	<u>24,563,774</u>
Finance income		46,716	68,425
Finance expenses	7	<u>(2,015,363)</u>	<u>(2,536,058)</u>
Net finance costs		<u>(1,968,647)</u>	<u>(2,467,633)</u>
Profit before income tax		7,787,575	22,096,141
Income tax expense	8	<u>(1,717,655)</u>	<u>(1,794,508)</u>
Profit for the year	21	<u>6,069,920</u>	<u>20,301,633</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>(13,229)</u>	<u>(1,902)</u>
<b>Total comprehensive income</b>		<b><u>6,056,691</u></b>	<b><u>20,299,731</u></b>
<b>Earnings per share for profit attributable to the ordinary equity holders of the Company – adjusted for bonus share issue</b>		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	29a	8.82	30.19
Diluted earnings per share	29b	8.82	30.19

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 2017

		2017	Consolidated	2016
	Notes	\$		\$
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	9	4,273,005		2,161,728
Trade and other receivables	10	20,123,378		19,987,439
Inventories	11	105,670		134,133
Income tax receivable		-		1,730,003
Property held-for-sale	32	1,328,199		2,300,907
Total current assets		25,830,252		26,314,210
<b>Non-current assets</b>				
Available-for-sale financial assets	12	69,949		88,848
Property, plant and equipment	13	96,943,235		97,985,196
Investment properties	14	2,212,021		3,567,220
Intangible assets	15	29,570,167		29,933,929
Total non-current assets		128,795,372		131,575,193
<b>Total assets</b>		<b>154,625,624</b>		<b>157,889,403</b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables	16	14,558,207		10,732,207
Contingent consideration		-		160,105
Borrowings	17	1,582,007		1,699,857
Current tax liabilities		1,333,813		-
Provisions	19	4,199,814		3,886,183
Total current liabilities		21,673,841		16,478,352
<b>Non-current liabilities</b>				
Borrowings	18	42,935,704		58,321,329
Deferred tax liabilities	8e	742,836		1,566,766
Provisions	19	1,514,543		1,149,600
Total non-current liabilities		45,193,083		61,037,695
<b>Total liabilities</b>		<b>66,866,924</b>		<b>77,516,047</b>
<b>Net assets</b>		<b>87,758,700</b>		<b>80,373,356</b>
<b>EQUITY</b>				
Contributed equity	20	24,053,602		21,656,107
Reserves	21a	1,698,399		1,581,266
Retained profits	21b	62,006,699		57,135,983
<b>Total equity</b>		<b>87,758,700</b>		<b>80,373,356</b>

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 2017

	Notes	Contributed equity \$	Reserves \$	Retained profits \$	Total equity \$
<b>Consolidated</b>					
Balance at 1 July 2015		18,673,329	1,299,185	42,187,138	62,159,652
Total comprehensive income for the year			(1,902)	20,301,633	20,299,731
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity /share issue	20	2,669,767	-	-	2,669,767
Share-based payment transactions	31	-	283,983	-	283,983
Dividends provided for or paid	22	313,011	-	(5,352,788)	(5,039,777)
Balance at 30 June 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

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 2017

		Consolidated	
	Notes	2017 \$	2016 \$
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of goods and services tax)		169,875,366	166,941,042
Payments to suppliers and employees (inclusive of goods and services tax)		(151,611,369)	(152,291,402)
Dividends received		4,382	4,278
Interest received		46,716	68,425
Interest paid		(1,809,533)	(2,391,887)
Income tax refund received		2,352,464	1,475,975
Income taxes paid		(1,235,370)	(3,939,105)
Net cash inflow from operating activities	28	17,622,656	9,867,326
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(5,886,352)	(15,085,398)
Payments for intangibles - security lines		(13,979)	(2,313)
Payments for intangibles - software		(722,783)	(287,708)
Acquisition of subsidiary, net of cash acquired		-	(14,194,011)
Purchase of business		(1,734,594)	-
Proceeds from sale of property, plant and equipment		8,448,258	26,657,670
Net cash inflow/(outflow) from investing activities		90,550	(2,911,760)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		9,000,000	20,500,000
Proceeds from issue of shares		2,387,845	2,669,765
Repayment of borrowings		(25,790,570)	(29,024,628)
Dividend paid to Company's shareholders		(1,199,204)	(5,039,777)
Net cash outflow from financing activities		(15,601,929)	(10,894,640)
Net increase/(decrease) in cash and cash equivalents		2,111,277	(3,939,074)
Cash and cash equivalents at the beginning of the financial year		2,161,728	6,100,802
Cash and cash equivalents at the end of the financial year	9	4,273,005	2,161,728

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 2017 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 29 August 2017.

##### *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.

##### *Change in classification*

During the current year, the group modified the statements of profit or loss and other comprehensive income classification of subcontractor expense from 'motor vehicle and transport costs' to 'subcontractor expense' to reflect more appropriately the costs related to third party subcontractors. Comparative amounts in the consolidated statement of profit or loss and other comprehensive income were reclassified for consistency, which resulted in \$8,417,336 being reclassified from 'motor vehicle and transport costs' to 'subcontractor expense'.

Since the amounts are reclassifications within operating activities in the consolidated statements of profit or loss and other comprehensive income, this reclassification did not have any effect on the consolidated statement of financial position.

#### (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 2017 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	8 years
Customer relationships	5 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, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2017, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the group are set out below. The group does not plan to adopt these standards early. The impact of these new standards are not yet known.

#### (i) AASB 9 Financial Instruments

AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018. The group is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 9.

#### (ii) 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.

AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The group is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 15.

#### (iii) AASB 16 Leases

As at the reporting date, the Company has operating lease commitments of \$64,304,195. Under AASB 16 the present value of the Company's operating lease commitments as defined under the new standard, excluding low-value leases and short-term leases, will be shown as right of use assets and as lease liabilities on the Consolidated Balance Sheet. In addition, optional renewable periods may be included in the lease term if it is reasonably certain that an extension will occur. The Company has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Company's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under AASB 16. Work on the detailed review of contracts and financial reporting impacts will commence in the 30 June 2018 financial reporting period, at which point potential embedded leases in service contracts will also be assessed.

## 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.

# Notes to the Financial Statements

## 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.

### (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, 29.24% (2016 – 12.53%) 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	
	2017	2017	2016	2016
	%	\$	%	\$
Bank loans and other loans	2.38	41,500,000	2.77	56,500,000
Cash and cash equivalents	1.45	4,273,005	1.82	2,161,728
Hire purchase liabilities	4.21	3,017,711	4.39	3,521,186

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.



# Notes to the Financial Statements

## 3. FINANCIAL RISK MANAGEMENT (continued)

### Group sensitivity

The group's main interest rate risk arises from loans and cash and cash equivalents. At 30 June 2017, 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 \$290,500 (2016 - change of 100bps: \$367,500 higher/lower) for loans and higher/lower by \$ 29,911 (2016 - change of 100bps: \$15,132 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 2017. 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:

	Consolidated	
	2017	2016
	\$	\$
Cash and cash equivalents	4,273,005	2,161,728
Trade receivables	17,854,832	17,337,826
Other receivables	1,012,073	1,294,003
	<u>23,139,910</u>	<u>20,793,557</u>

Trade receivables are non-interest bearing and terms of trade are 30 days from month end. At 30 June 2017, 7.78% (2016 – 3.79%) 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:

	Past due but not impaired		
	30-60 days	> 60 days	Total
	\$	\$	\$
<b>2017</b>			
<b>Consolidated</b>			
Trade receivables	<u>747,079</u>	<u>725,201</u>	<u>1,472,280</u>
<b>2016</b>			
<b>Consolidated</b>			
Trade receivables	<u>239,013</u>	<u>418,737</u>	<u>657,750</u>

At the reporting date the group has impaired trade receivables of \$432,408 (2016 - \$109,089) (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.

# Notes to the Financial Statements

## 3. FINANCIAL RISK MANAGEMENT (continued)

The ageing of the impaired receivables is as follows:

	Consolidated	
	2017	2016
	\$	\$
1 to 30 days	42,805	10,734
30 to 60 days	13,468	11,581
Over 60 days	376,135	86,774
Total	432,408	109,089

### *Provision for impairment of trade receivables*

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

Balance 1 July	109,089	91,400
Provision for impairment recognised during the year	414,083	97,220
Receivables written off during the year as uncollectable	(13,409)	(18,712)
Unused amount reversed	(77,355)	(60,819)
Balance 30 June	432,408	109,089

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.

### (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:

	Consolidated	
	2017	2016
	\$	\$
Floating rate		
Expiring within one year (note 18c)	-	8,000,000
Expiring beyond one year (note 18c)	12,815,202	8,641,404
	12,815,202	16,641,404

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.

# Notes to the Financial Statements

## 3. FINANCIAL RISK MANAGEMENT (continued)

### *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	Over 5 years		
	\$	\$	\$	\$	\$	\$
<b>2017</b>						
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	17,852,661	32,838,580	10,915,804	-	61,607,045	59,720,407
<b>2016</b>						
Non-interest bearing	10,732,207	-	-	-	10,732,207	10,732,207
Variable rate	1,380,500	5,299,184	48,810,275	-	55,489,959	52,500,000
Fixed rate	1,986,347	5,313,552	511,042	242,446	8,053,387	7,521,186
Total	14,099,054	10,612,736	49,321,317	242,446	74,275,553	70,753,393

### (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 2017.

	Consolidated	
	2017 Level 1 \$	2016 Level 1 \$
Available-for-sale financial assets		
Equity securities	69,949	88,848

### *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 2017, the group's gearing ratio decreased due to sale of property and a share issue and shareholders taking up the dividend reinvestment plan.

# Notes to the Financial Statements

## 3. FINANCIAL RISK MANAGEMENT (continued)

The gearing ratios at 30 June 2017 and 30 June 2016 were as follows:

	Notes	Consolidated	
		2017 \$	2016 \$
Total payables and borrowings	16,17,18,32	59,075,918	70,913,498
Less: cash and cash equivalents	9	(4,273,005)	(2,161,728)
Net debt		54,802,913	68,751,770
Total equity		87,758,700	80,373,356
Total capital		142,561,613	149,125,126
Gearing ratio		38%	46%

## 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.
- 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 include the manufacturing of plastic products (sold during the prior period) and 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.

### (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.

# Notes to the Financial Statements

## 4. SEGMENT INFORMATION

### (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 2017 is as follows:

	Transport \$	Logistics \$	Property \$	Other \$	Consolidated \$
<b>2017</b>					
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
<b>2016</b>					
Reportable segment revenue					
Sales to external customers	62,828,577	81,053,074	669,784	5,600,607	150,152,042
Intra and inter-segment revenue	9,415,144	84,093	4,447,217	1,326,793	15,273,247
Total segment revenue	72,243,721	81,137,167	5,117,001	6,927,400	165,425,289
Other income	13,237	1,353,258	18,902,139	49,362	20,317,996
Interest expense	229,630	49,437	1,062,991	4,766	1,346,824
Depreciation and amortisation	2,891,297	3,268,233	507,847	594,557	7,261,934
Reportable segment profit before income tax	2,325,062	3,007,698	18,462,055	1,020,444	24,815,259
Reportable segment assets	23,703,206	42,144,955	79,651,264	4,556,703	150,056,128
Reportable segment liabilities	14,925,621	13,638,023	45,782,185	2,535,912	76,881,741

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

	Notes	2017 \$	Consolidated 2016 \$
<i>Revenues</i>			
Total segment revenue for reportable segments		168,841,916	165,425,289
Elimination of intra-segment and inter-segment revenue		(14,997,450)	(15,273,247)
Unallocated revenue		577,357	488,952
Consolidated revenue	5	154,421,823	150,640,994
<i>Profit</i>			
Total profit before tax for reportable segments		11,802,781	24,815,259
Unallocated amounts		(4,015,206)	(2,719,118)
Consolidated profit before income tax		7,787,575	22,096,141

# Notes to the Financial Statements

## 4. SEGMENT INFORMATION (continued)

### (d) Reconciliations of reportable segment assets and liabilities and other material items (continued)

	Consolidated	
	2017	2016
	\$	\$
<i>Assets</i>		
Total assets for reportable segments	148,122,123	150,056,128
Unallocated amounts	6,503,501	7,833,275
Consolidated total assets	154,625,624	157,889,403
<i>Liabilities</i>		
Total liabilities for reportable segments	64,000,108	76,881,741
Unallocated amounts	2,866,816	634,306
Consolidated total liabilities	66,866,924	77,516,047
<i>Other material items</i>		
<i>Interest Income</i>		
Unallocated amounts	46,716	68,425
Consolidated interest income	46,716	68,425
<i>Other income</i>		
Total for reportable segments	3,327,223	20,317,996
Unallocated amounts	609,236	446,690
Consolidated other income	3,936,459	20,764,686
<i>Interest expense</i>		
Total for reportable segments	1,030,219	1,346,824
Unallocated amounts	779,314	1,045,063
Consolidated interest expense	1,809,533	2,391,887
<i>Depreciation and amortisation</i>		
Total for reportable segments	7,529,403	7,261,934
Unallocated amounts	463,476	176,443
Consolidated depreciation and amortisation	7,992,879	7,438,377

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

#### Services

1,942,580	1,646,415
152,113,901	148,320,517
154,056,481	149,966,932

#### *Other revenue*

#### Dividends

#### Rent

4,382	4,278
360,960	669,784
365,342	674,062
154,421,823	150,640,994

## 6. OTHER INCOME

### Net gain/(loss) on disposal of:

#### - property

#### - motor vehicles

#### - plant and equipment

#### Contingent consideration

#### Other

2,870,260	18,902,139
110,555	59,727
159,469	(53,863)
-	1,339,895
796,175	516,788
3,936,459	20,764,686

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 current period. In the prior year, the group disposed of its Bibra Lake property for \$26,000,000. The profit on sale of land and buildings net of disposal costs amounted to \$18,902,139 and has been recognised in full in the prior year ended 30 June 2016. The group has utilised available capital losses to offset the capital gain arising on the disposal in the prior year.

# Notes to the Financial Statements

## 7. EXPENSES

	Consolidated	
	2017	2016
	\$	\$
<i>Profit before income tax includes the following specific expenses:</i>		
<i>Employee benefits</i>		
Defined contribution superannuation	3,947,819	3,717,690
Share-based payments	130,362	283,983
<i>Depreciation and amortisation</i>		
Buildings	699,071	473,402
Investment properties	27,000	57,301
Plant and equipment and motor vehicles	5,958,990	5,430,104
Security lines	12,060	12,355
Software	142,880	184,770
Trade name and customer relationships	1,152,878	1,280,445
	7,992,879	7,438,377
<i>Finance expenses</i>		
Interest	1,809,532	2,391,887
Finance charges	205,831	144,171
	2,015,363	2,536,058
<i>Rental expense relating to operating leases</i>		
Minimum lease payments	13,710,301	6,131,147
<b>8. INCOME TAXES</b>		
<b>(a) Income tax expense</b>		
Current tax	2,195,132	1,655,571
Deferred tax	(829,600)	85,414
Under/(over) provided in prior years	352,123	53,523
Income tax expense	1,717,655	1,794,508
Deferred income tax (benefit)/expense included in income tax expense comprises:		
(Decrease)/increase in deferred tax assets (note 8d)	(394,329)	353,993
Increase)/(decrease) in deferred tax liabilities (note 8e)	(435,271)	(268,579)
	(829,600)	85,414
<b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>		
Profit before income tax expense	7,787,575	22,096,141
Tax at the Australian rate of 30% (2016 - 30%)	2,336,273	6,628,842
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Depreciation and amortisation	86,861	139,872
Share-based payment	39,109	85,195
Rebatable dividends	(1,878)	(1,833)
Impairment of properties	-	750,000
Sale of property	(948,420)	(5,347,423)
Contingent consideration	86,969	(401,969)
Sundry items	(233,382)	(111,699)
	1,365,532	1,740,985
Under provision in prior years	352,123	53,523
Income tax expense	1,717,655	1,794,508

# Notes to the Financial Statements

## 8. INCOME TAXES (continued)

	Consolidated 2017 \$	2016 \$
<b>(c) Amounts recognised directly in equity</b>		
Net deferred tax - (credited)/debited directly to equity (note 8d)	(5,670)	816
<b>(d) Deferred tax assets</b>		
The balance comprises temporary differences attributable to:		
<i>Amounts recognised in profit or loss</i>		
Doubtful debts	129,722	32,726
Employee benefits	1,714,307	1,510,735
Depreciation and amortisation	176,127	64,356
Other	55,868	73,062
	2,076,024	1,680,879
<i>Amounts recognised directly in equity</i>		
Available-for-sale financial assets	(5,670)	816
	2,070,354	1,681,695
Set-off of deferred tax liabilities (note 8e)	(2,070,354)	(1,681,695)
Net deferred tax assets	-	-
<i>Movements</i>		
Balance 1 July	1,681,695	2,034,872
(Debited)/credited to profit or loss	394,329	(353,993)
Debited to equity	(5,670)	816
Balance 30 June	2,070,354	1,681,695
<b>(e) Deferred tax liabilities</b>		
The balance comprises temporary differences attributable to:		
<i>Amounts recognised in profit or loss</i>		
Depreciation and amortisation	932,338	1,101,181
Intangible assets	1,880,852	2,147,280
	2,813,190	3,248,461
Set-off of deferred tax assets (note 8d)	(2,070,354)	(1,681,695)
Net deferred tax liabilities	742,836	1,566,766
<i>Movements (deferred tax liabilities)</i>		
Balance 1 July	3,248,461	3,517,040
Charged to profit or loss	(435,271)	(268,579)
Balance 30 June	2,813,190	3,248,461

## 9. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

Cash at bank and in hand at the end of the financial year as shown in the statement of cash flows

4,273,005	2,161,728
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Cash at bank earns interest at varying rates between nil and 1.50% per annum (2016 - nil and 1.85% per annum).



# Notes to the Financial Statements

## 10. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

	Consolidated 2017 \$	2016 \$
Trade receivables	18,287,240	17,446,915
Provision for impairment of receivables (note 3(b))	(432,408)	(109,089)
	<u>17,854,832</u>	<u>17,337,826</u>
Other receivables	1,012,073	1,294,003
Prepayments	1,256,473	1,355,610
	<u>2,268,546</u>	<u>2,649,613</u>
	<u>20,123,378</u>	<u>19,987,439</u>

## 11. CURRENT ASSETS - INVENTORIES

Work in progress - at cost	32,218	39,876
Finished goods - at cost	73,452	94,257
	<u>105,670</u>	<u>134,133</u>

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

Listed securities		
Equity securities at fair value	69,949	88,848

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

Consolidated	Freehold land \$	Freehold buildings \$	Plant and equipment and fixtures and fittings \$	Motor vehicles \$	Total \$
<b>1 July 2015</b>					
Cost	47,823,018	19,899,871	23,801,268	20,395,642	111,919,799
Accumulated depreciation	-	(2,803,747)	(12,264,556)	(7,533,873)	(22,602,176)
Net book amount	<u>47,823,018</u>	<u>17,096,124</u>	<u>11,536,712</u>	<u>12,861,769</u>	<u>89,317,623</u>
<b>Year ended 30 June 2016</b>					
Opening net book amount	47,823,018	17,096,124	11,536,712	12,861,769	89,317,623
Additions	-	10,871,414	4,291,461	2,167,941	17,330,816
Transfers	-	39,102	(1,884,052)	1,844,950	-
Transfer to property held-for-sale	(275,000)	(174,747)	-	-	(449,747)
Transfer from property held-for-sale	-	98,562	-	-	98,562
Impairment of property	(1,450,000)	-	-	-	(1,450,000)
Disposals	-	(51,213)	(486,760)	(420,579)	(958,552)
Depreciation charge	-	(473,402)	(2,274,810)	(3,155,294)	(5,903,506)
Closing 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>
<b>At 30 June 2016</b>					
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>

# 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 \$
<b>Year ended 30 June 2017</b>					
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	43,899,191	28,376,391	10,804,101	13,863,552	96,943,235
<b>At 30 June 2017</b>					
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	43,899,191	28,376,391	10,804,101	13,863,552	96,943,235

### (a) Valuations

In the prior year, due to changes in market conditions in Western Australia the directors have impaired two operating properties by \$1,450,000.

### (b) 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 \$
<b>1 July 2015</b>			
Cost	4,888,384	2,261,210	7,149,594
Accumulated depreciation	-	(1,069,950)	(1,069,950)
Net book amount	4,888,384	1,191,260	6,079,644
<b>Year ended 30 June 2016</b>			
Opening net book amount	4,888,384	1,191,260	6,079,644
Transfer to property held-for-sale	(511,414)	(893,709)	(1,405,123)
Impairment of property	(1,050,000)	-	(1,050,000)
Depreciation charge	-	(57,301)	(57,301)
Closing net book amount	3,326,970	240,250	3,567,220
<b>At 30 June 2016</b>			
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
<b>Year ended 30 June 2017</b>			
Opening net book amount	3,326,970	240,250	3,567,220
Transfer to 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
<b>At 30 June 2017</b>			
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

# 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 2017 at \$2,212,021 (2016 - directors' valuation \$3,567,220). 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. In the prior year, due to changes in market conditions in Western Australia the directors have impaired two non-core properties by \$1,050,000.

### (b) Disposal

During the year, the group sold its Malaga properties for \$6,575,000 resulting in a profit on sale of \$2,870,260 after sale costs. (2016 - \$1,300,000 resulting in a loss on sale of \$100,000 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 (2016 - \$78,500), receivable later than one year but not later than five years - \$132,286 (2016 - \$190,125).

## 15. NON-CURRENT ASSETS - INTANGIBLE ASSETS

Consolidated	Goodwill	Trade names	Customer relationships	Security lines	Software	Consolidated Total
At 1 July 2015	\$	\$	\$	\$	\$	\$
Cost	22,023,777	2,089,657	8,262,156	1,488,763	995,466	34,859,819
Accumulated amortisation	-	(335,020)	(1,216,430)	(1,446,375)	(740,516)	(3,738,341)
Net book amount	22,023,777	1,754,637	7,045,726	42,388	254,950	31,121,478
<b>Year ended 30 June 2016</b>						
Opening net book amount	22,023,777	1,754,637	7,045,726	42,388	254,950	31,121,478
Additions	-	-	-	2,313	287,708	290,021
Amortisation charge	-	(266,083)	(1,014,362)	(12,355)	(184,770)	(1,477,570)
Closing net book amount	22,023,777	1,488,554	6,031,364	32,346	357,888	29,933,929
<b>At 30 June 2016</b>						
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
<b>Year ended 30 June 2017</b>						
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
<b>At 30 June 2017</b>						
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

SRH Transport was acquired on 1 September 2016 for a total consideration of \$1,734,594. The consideration paid equals 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.

#### 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.

# Notes to the Financial Statements

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

The segment-level summary of goodwill allocation is presented below.

	Transport \$	Logistics \$	Other \$	Total \$
2017	4,111,690	17,868,016	44,071	22,023,777
2016	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% (2016-2.5%) 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% (2016-9.0%), 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 EBITDA margin would not result in an impairment in the current year.

## 16. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	Consolidated	
	2017 \$	2016 \$
Trade payables	4,590,546	3,605,511
Other payables	9,967,661	7,126,696
	<u>14,558,207</u>	<u>10,732,207</u>

## 17. CURRENT LIABILITIES - BORROWINGS

### Secured

Hire purchase liabilities	<u>1,582,007</u>	<u>1,699,857</u>
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## 18. NON-CURRENT LIABILITIES - BORROWINGS

### Secured

Bank loans	41,500,000	56,500,000
Hire purchase liabilities	1,435,704	1,821,329
Total secured non-current interest-bearing borrowings	<u>42,935,704</u>	<u>58,321,329</u>

### (a) Total secured liabilities

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

### Secured

Bank loans	41,500,000	56,500,000
Hire purchase liabilities	3,017,711	3,521,186
Total secured liabilities	<u>44,517,711</u>	<u>60,021,186</u>

# 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:

	<b>Consolidated</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
<b>Current</b>		
<i>Floating charge</i>		
Cash and cash equivalents	4,273,005	2,161,728
Receivables	18,866,905	18,631,829
Inventories	105,670	134,133
Property held-for-sale	1,328,199	476,569
<i>First mortgage</i>		
Property held-for-sale	-	1,435,424
Total current assets pledged as security	24,573,779	22,839,683
<i>First mortgage</i>		
Freehold land and buildings	40,069,983	39,187,475
<i>Floating charge</i>		
Available-for-sale financial assets	69,949	88,848
Plant, equipment and motor vehicles	24,907,154	24,481,338
Freehold land and buildings	32,205,599	34,348,575
Investment properties	2,212,021	3,567,220
Intangible assets	949,350	390,234
Total non-current assets pledged as security	100,414,056	102,063,690
Total assets pledged as security	124,987,835	124,903,373
<b>(c) Financing arrangements</b>		
Unrestricted access was available at balance date to the following lines of credit:		
<i>Credit standby arrangements</i>		
Total facilities		
Cash advance and interchangeable	-	8,000,000
Secured financial guarantee and documentary credit	2,276,000	3,000,000
Secured bill acceptance facility	54,315,000	65,135,000
	56,591,000	76,135,000
Used at balance date		
Secured bill acceptance facility	41,500,000	56,500,000
Secured financial guarantee and documentary credit facility	2,275,798	2,993,596
	43,775,798	59,493,596
<i>Bank loan facility</i>		
Total facility	56,591,000	76,135,000
Used at balance date	(43,775,798)	(59,493,596)
Unused at balance date	12,815,202	16,641,404

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 2.06% -3.41 % per annum on the bill facilities, 5.38% per annum on overdraft (2016 - bill facilities (2.10% - 3.60%), overdraft – 5.84%).

# 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	2017		2016	
	Carrying amount \$	Fair value \$	Carrying amount \$	Fair value \$
<b>On-balance sheet</b>				
<i>Non-traded financial liabilities</i>				
Bank loans	41,500,000	41,500,000	56,500,000	56,500,000
Hire purchase liabilities	3,017,711	3,083,147	3,521,186	3,812,569
Total secured liabilities	44,517,711	44,583,147	60,021,186	60,312,569

## 19. NON-CURRENT LIABILITIES - PROVISIONS

Employee benefits	Consolidated	
	2017 \$	2016 \$
Current	4,199,814	3,886,183
Non-current	1,514,543	1,149,600
	5,714,357	5,035,783

## 20. CONTRIBUTED EQUITY

### (a) Share capital

	Consolidated	
	Number of shares	\$
Ordinary shares (fully paid)		
At 30 June 2016		
Opening balance	65,830,691	18,673,329
Shares issued (net of transaction costs)	1,688,180	2,059,580
Dividend reinvestment plan	690,485	706,204
Bonus share plan	316,579	313,011
Less: Transaction costs arising on share issue	-	(96,017)
Closing balance	68,525,935	21,656,107
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

During the year the Company issued 3,200,000 new ordinary shares for cash consideration of \$2,400,000. During the year the Company made bonus issues of 11,769 (2016 – 316,579) new ordinary shares under the Company's Bonus Share Plan. During the year the Company issued 143,585 (2016 – 690,485) new ordinary shares under the Company's Dividend Reinvestment Plan.

At 30 June 2017 there were 2,500,000 contingently issuable shares (2016 – 2,210,000) relating to shares issued under the Company's Employee Share Plan. In January 2017 290,000 contingently issuable shares (2016 – nil) were issued to senior employees under the Company's Employee Share Plan (refer to note 31).

# Notes to the Financial Statements

## (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	
	2017	2016
	\$	\$
<b>(a) Reserves</b>		
Available-for-sale investments revaluation reserve	(4,957)	8,272
Share-based payment reserve	1,703,356	1,572,994
	<u>1,698,399</u>	<u>1,581,266</u>
<i>Movements</i>		
Available-for-sale investments revaluation reserve		
Balance 1 July	8,272	10,174
Revaluation, net of tax	(13,229)	(1,902)
Balance 30 June	<u>(4,957)</u>	<u>8,272</u>
<i>Share-based payment reserve</i>		
Balance 1 July	1,572,994	1,289,011
Share-based payment transactions	130,362	283,983
Balance 30 June	<u>1,703,356</u>	<u>1,572,994</u>
<b>(b) Retained profits</b>		
<i>Movements</i>		
Balance 1 July	57,135,983	42,187,138
Profit for the year	6,069,920	20,301,633
Dividends	(1,199,204)	(5,352,788)
Balance 30 June	<u>62,006,699</u>	<u>57,135,983</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	
	2017	2016
	\$	\$
<b>(a) Ordinary shares</b>		
<b>Final dividend</b> for the year ended 30 June 2016 of nil cents (2015 – 4.0 cents) per fully paid share (2015 – paid on 20 November 2015)		
Fully franked dividend based on tax paid @ 30% (2015 - 30%)	-	2,633,228
Less – bonus issue of ordinary shares under the Company's Bonus Share Plan.	-	(157,195)
	<u>-</u>	<u>2,476,033</u>
<b>Interim dividend</b> for the year ended 30 June 2017 of 1.75 cents (2016 – 4.0 cents) per fully paid share (2016 – paid on 15 April 2016)		
Fully franked dividend based on tax paid @ 30% (2016 - 30%)	1,199,204	2,719,560
Less – bonus issue of ordinary shares under the Company's Bonus Share Plan.	(9,650)	(155,816)
	<u>1,189,554</u>	<u>2,563,744</u>

# Notes to the Financial Statements

## 22. DIVIDENDS (continued)

	Parent Entity	
	2017	2016
	\$	\$
(b) <b>Dividends not recognised at the end of the reporting period</b>		
In addition to the above dividends, since year end the directors have declared the payment of a final dividend of 1.75 cents per fully paid ordinary share, (2016 – nil cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 15 November 2017 out of retained profits at 30 June 2017, but not recognised as a liability at year end, is	1,257,923	-

### (c) Franked dividends

Franking credits available at 30 June 2017 for subsequent financial years based on a tax rate of 30% - \$17,671,452 (2016 - \$20,066,523 - 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	
	2017	2016
	\$	\$
Key management personnel compensation comprised the following:		
Short-term	1,635,039	1,572,950
Post-employment	108,153	108,194
Share-based payments	58,003	139,742
	<u>1,801,195</u>	<u>1,820,886</u>

## 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

141,000	123,500
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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

1,622,888	681,839
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### (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

Between one and five years

Later than five years

11,570,339	13,793,693
37,408,130	34,365,384
15,325,726	23,727,687
<u>64,304,195</u>	<u>71,886,764</u>



# 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	
	2017	2016
	\$	\$
	1,582,006	1,699,857
	1,435,705	1,821,329
	<u>3,017,711</u>	<u>3,521,186</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)	
		2017	2016
		%	%
CTI Logistics Limited	Australia		
<b>Directly controlled by CTI Logistics Limited</b>			
<b>Controlled entities</b>			
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 Investments Pty Ltd	Australia	100	100
Consolidated Transport Industries Pty Ltd	Australia	100	100
Logico Operations Group Pty Ltd	Australia	100	100
<b>Other controlled entities</b>			
<b>Directly controlled by CTI Investments Pty Ltd</b>			
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
<b>Directly controlled by Blackwood Industries Pty Ltd</b>			
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
<b>Directly controlled by Consolidated Transport Industries Pty Ltd</b>			
Foxline Logistics Pty Ltd	Australia	100	100
<b>Directly controlled by Logico Operations Group Pty Ltd</b>			
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	
	2017	2016
	\$	\$
Profit for the year	6,069,920	20,301,633
Depreciation and amortisation	7,992,879	7,438,377
Impairment of property	-	2,500,000
Reversal of contingent consideration	-	(1,339,895)
Provision for doubtful debts	323,319	17,688
Net gain on sale of non-current assets	(3,140,284)	(18,908,003)
Share-based payment expense	130,362	283,983
Change in operating assets and liabilities		
(Increase)/decrease in trade and other debtors	(697,128)	242,430
Decrease in inventories	28,463	231,125
(Decrease)/increase in provision for income taxes receivable	3,063,816	(754,037)
(Decrease)/increase in deferred tax liabilities	(823,930)	84,598
Increase/(decrease) in trade creditors, employee benefits and other provisions	4,675,239	(230,573)
Net cash inflow from operating activities	17,622,656	9,867,326

## 29. EARNINGS PER SHARE

	Consolidated	
	2017	2016
	Cents per share	
<b>(a) Basic earnings per share</b>		
Basic earnings per share attributable to the ordinary equity holders of the Company (2016 - adjusted for bonus share issue).	8.82	30.19
	\$	\$
Profit attributable to ordinary shareholders used in calculating basic earnings per share.	6,069,920	20,301,633
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share (2016 – adjusted for bonus share issue).	68,811,252	67,245,959
<b>(b) Diluted earnings per share</b>		
Diluted earnings per share attributable to the ordinary equity holders of the Company (2016 – adjusted for bonus share issue).	8.82	30.19
	\$	\$
Profit attributable to ordinary shareholders used in calculating diluted earnings per share.	6,069,920	20,301,633

# Notes to the Financial Statements

## 29. EARNINGS PER SHARE (continued)

	2017 Number	2016 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) (2016 – adjusted for bonus share issue)	68,811,252	67,245,959
The effect of the vesting of contingently issuable shares	17,073	-
Weighted average number of shares (diluted)	<u>68,828,325</u>	<u>67,245,959</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:

	2017 \$	2016 \$
<b>Balance sheet</b>		
Current assets	5,370,229	7,051,254
Total assets	<u>43,248,026</u>	<u>45,734,135</u>
Current liabilities	10,021,757	639,998
Total liabilities	<u>15,920,984</u>	<u>20,815,211</u>
<b>Net assets</b>	<u>27,327,042</u>	<u>24,918,923</u>
<b>Shareholders' equity</b>		
Issued capital	24,053,602	21,656,107
Reserves	1,712,016	1,593,825
Retained earnings	1,561,424	1,668,991
	<u>27,327,042</u>	<u>24,918,923</u>
<b>Profit for the year</b>	<u>1,091,637</u>	<u>1,010,389</u>
<b>Total comprehensive income</b>	<u>1,079,466</u>	<u>1,001,407</u>

### (b) Guarantees entered into by the parent entity

	2017 \$	2016 \$
Carrying amount included in group		
- current liabilities	1,521,207	1,673,690
- non-current liabilities	38,894,710	58,321,329
	<u>40,415,917</u>	<u>59,995,019</u>

The parent entity has provided financial guarantees in respect of loans and hire purchase commitments of subsidiaries amounting to \$40,415,917 (2016 - \$59,995,019). 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.

### (c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2017 (30 June 2016 - \$nil). For information about guarantees given by the parent entity, refer note (b).

### (d) Contractual commitments for the acquisition of property, plant or equipment

The parent entity had no contractual commitments for the acquisition of property, plant or equipment at 30 June 2017 (2016 - \$nil).

# 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 2017	Key management personnel 2015	Senior employees 2015
Fair value at grant date	\$0.42	\$0.93	\$0.66
Share price at grant date	\$0.81	\$1.77	\$1.76
Exercise price	\$0.81	\$1.77	\$1.76
Expected volatility (weighted average)	52%	40%	40%
Loan amount	\$234,900	\$531,000	\$580,800
Term	5 years	10 years	5 years
Risk-free interest rate	2.0%	2.8%	2.8%
Fair value recognised as remuneration during the year	(2017: \$27,727)	(2017: \$58,003) (2016: \$139,742)	(2017: \$44,632) (2016: \$144,241)

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	1,550,000	290,000	-	1,840,000
	2,210,000	290,000	-	2,500,000

## 32. DISPOSAL OF PROPERTY HELD FOR SALE

### 2017

The group executed an unconditional offer for the disposal of a non-core property on 25 May 2017 for \$1,650,000. This property is treated as held-for-sale at 30 June 2017. The profit on sale net of disposal costs will be recognised in full on settlement expected in early September 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 current year.

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

### 2016

The group disposed of its Bibra Lake property in October 2015 recognising a profit on sale of \$18,902,139.

The group utilised available capital losses to offset the capital gains arising on the disposal of the above properties.

# Notes to the Financial Statements

## 33. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

No other events have occurred 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 9 to 43 and the remuneration report on pages 6 to 7 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 2017 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  
29 August 2017



# 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 2017 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 2017
- 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

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.

This matter was 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 this matter.

## Value of Property, Plant and Equipment and Goodwill (\$118,967,012)

Refer to Note 13 and Note 15 to the financial report

### The key audit matter

The carrying value of property, plant and equipment and goodwill was considered a key audit matter due to:

- The size of property, plant and equipment and goodwill which, in aggregate, represents 77% 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 goodwill, and
- The Group's market capitalisation at 30 June 2017 was less than the net assets, bringing into question the value ascribed to property, plant and equipment and goodwill, 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 a continued downturn in business activity resulting in a reduction 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 goodwill 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 goodwill 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 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.

### How the matter was addressed in our audit

Our procedures included:

- We considered the appropriateness of the value in use methodology against the requirements of 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 entities, and
  - Assessed management's rationalisation of the difference between the market capitalisation and net assets of the Group 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.



## 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 Report 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. 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\\_files/ar2.pdf](http://www.auasb.gov.au/auditors_files/ar2.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 2017, 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 in the Directors' report for the year ended 30 June 2017.

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

29 August 2017

# Shareholder Information

## THE TWENTY LARGEST SHAREHOLDERS AS AT 30 SEPTEMBER 2017

	NUMBER OF SHARES	PERCENTAGE
David R Watson	18,062,683	24.28
Simon Dirk Kenworthy-Groen	3,906,399	5.25
HSBC Custody Nominees (Australia) Limited	3,551,808	4.78
JP Morgan Nominees Australia Limited	3,499,647	4.71
Parmelia Pty Ltd	3,221,939	4.33
David Watson Nominees Pty Ltd	2,942,489	3.96
Forager Australian Shares Fund	2,750,000	3.69
Bruce E Saxild and Michelle P Saxild	2,579,302	3.47
DAM Nominees Pty Ltd	2,231,714	3.00
W W Nominees Pty Ltd	1,886,322	2.54
Catherine R Watson	1,823,486	2.45
Dixson Trust Pty Ltd	1,686,633	2.27
Peachtree Pty Ltd	1,110,928	1.49
Bond Street Custodians Limited	755,968	1.02
Aberdeen Management Pty Ltd	622,346	0.84
Coram Pty Ltd	605,821	0.81
David A Mellor	522,080	0.70
Mr Walter Hall and Mrs Hilary Hall	521,000	0.70
Dewver Pty Ltd	500,000	0.67
HSBC Custody Nominees (Australia) Limited – A/C 2	414,252	0.56
	<u>53,194,817</u>	<u>71.52</u>

## SUBSTANTIAL SHAREHOLDERS AS AT 30 SEPTEMBER 2017

The Company's register of substantial shareholders recorded the following information as at 30 September 2017.

	NUMBER OF SHARES	PERCENTAGE
David R Watson	25,879,546	34.79
David A Mellor	4,564,851	6.14

## DISTRIBUTION OF EQUITY SECURITIES AS AT 30 SEPTEMBER 2017

(i) Distribution schedule of holdings

	NUMBER OF SHAREHOLDERS ORDINARY SHARES
1 - 1,000	153
1,001 - 5,000	286
5,001 - 10,000	176
10,001 - 100,000	310
100,001 and over	76
	<u>1,001</u>

(ii) There were 84 shareholders holding less than a marketable parcel of ordinary shares.

(iii) There were a total of 74,381,289 ordinary shares on issue.

## VOTING RIGHTS

Ordinary shares carry voting rights of one vote per share.