CTI LOGISTICS LIMITED

ABN 69 008 778 925

FULL YEAR STATUTORY ACCOUNTS
30 JUNE 2021

Contents

Directory

DIRECTORS
David Robert Watson
(Executive Chairman)

David Anderson Mellor
(Executive)

Bruce Edmond Saxild
(Executive)

Peter James Leonhardt
(Non-Executive)

SECRETARY
Owen Roy Venter

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The financial report covers the Group consisting of CTI Logistics Limited and its subsidiaries.

The financial report is presented in Australian dollars.

The financial report was authorised for issue by the directors on 30 August 2021.

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

Directors' Report

YOUR DIRECTORS PRESENT THEIR REPORT ON THE GROUP CONSISTING OF CTI LOGISTICS LIMITED AND THE ENTITIES IT CONTROLLED AT THE END OF, OR DURING, THE YEAR ENDED 30 JUNE 2021

Directors
Directors of the Company who were in office during 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 and nomination 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. 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 and nomination committee.

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

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

Declared and paid during the year	Cents per share	Total amount Franked	Date of payment
Final 2020			
Ordinary	nil	nil	n/a
Interim 2021			
Ordinary	2.0	$1,500,548 Franked	28 April 2021

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 2021			
Ordinary	2.0	$1,503,833 Franked	12 November 2021

The financial effect of this post year dividend has not been brought to account in the financial statements for the year ended 30 June 2021 and will be recognised in subsequent financial reports.

Review of operations and results
The Group is a Western Australian based transport and logistics provider. Transport operations cover couriers and taxi trucks, B2B and B2C parcel distribution, container handling, fleet management, WA regional road freight and interstate freight. Logistics includes 3PL, 4PL, supply chain and DC warehousing, flooring logistics, E-commerce fulfilment, temperature-controlled warehousing, minerals and energy supply base services, quarantine and preservation wrapping and fumigation, document storage, media destruction and recycling. The Group also has a security business providing installation, maintenance and monitoring of alarms, CCTV visual verification and lone worker protection.

Directors' Report

During the year the Company has invested in growing our national freight operations in Sydney, Adelaide and Perth, including the relocation of two transport depots in Perth and Sydney and a warehouse in South Australia. Investment has continued in information technology at GMK (specialised flooring logistics) and warehousing divisions to enhance our operating systems and performance as well as a cyber security investment in ongoing managed services to protect our IT systems network.

For the year ended 30 June 2021 revenue from operations was up 11.1% to $239,044,247.

The Group implemented the requirements of AASB 16 Leases at 1 July 2019 and the following key financial data is provided to show the current period and prior period excluding the impacts of AASB 16 Leases and the non-cash impairment on the vacant land at Hazelmere of $5,771,500 in the prior year.

	30 June 2021			30 June 2020				Movement
Statement of profit or loss and other comprehensive income	Excluding AASB 16 $000	Impact of AASB 16 $000	As reported $000	Excluding AASB 16 and Impairment $000	Impact of AASB 16 $000	Impairment charges $000	As reported $000	Excluding adjustments
Revenue from operations	239,044	-	239,044	215,209	-	-	215,209	
Other income	1,724	644	2,368	892	636	-	1,528	
Impairment prior year	-	-	-	-	-	(5,772)	(5,772)	
Motor vehicle and transport costs	(29,367)	1,125	(28,242)	(27,682)	918	-	(26,764)	
Property costs	(18,367)	14,038	(4,329)	(16,109)	13,245	-	(2,864)	
Other costs*	(171,040)	-	(171,040)	(158,303)	-	-	(158,303)	
Results from operating activities excluding interest, depreciation and amortisation ("EBITDA")	21,994	15,807	37,801	14,007	14,799	(5,772)	23,034	57%
Depreciation and amortisation	(9,303)	(13,203)	(22,506)	(9,832)	(11,986)	-	(21,818)	
Net finance costs	(1,126)	(2,906)	(4,032)	(1,704)	(3,393)	-	(5,097)	
Profit (loss) before tax	11,565	(302)	11,263	2,471	(580)	(5,772)	(3,881)	368%

*represents all other expenses in the consolidated statement of profit or loss which have not been impacted by the adjustments noted above.

After adding back the impairment of properties in the previous year and excluding the impact of AASB 16 in the current and previous year, the profit before tax and EBITDA were up 368% and 57% respectively on the previous year. The results for the year have been impacted by:

- Strong revenue growth in transport volumes including interstate from Sydney, WA regional freight and WA metro freight activity
- Strong revenue growth in both flooring logistics and warehousing volumes across all sites
- Improved margins as a result of volume increases, a focus on quality revenue and cost savings as a result of ongoing cost control measures offset in part by increasing wage costs in particular due to lack of available staff, site relocations and ongoing issues with interstate linehaul services
- Productivity gains flowing from ongoing improvements from successful system implementations

The COVID 19 pandemic has seen various impacts within the Group. The freight, flooring and warehouse businesses within the Group have generally increased revenue, albeit with ongoing pressure on margin in particular in the interstate business. The Group's couriers and security businesses have seen reductions in revenues as a result of the pandemic.

Despite the challenging market conditions, operating cash flow has remained strong at $31,087,414 for the year, being a 33% improvement on the prior year. 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 0.02% of revenue.

The Company decreased interest bearing debt by $10,865,000 and has further reduced the gearing ratio of the Group from 58% to 54% while maintaining an available cash balance of $6,493,618 at 30 June 2021.

Although current market conditions have been challenging, the Company continues to generate strong cash flow and is poised to take advantage of and benefit from any upturn in the economy.

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.

Directors' Report

Events subsequent to balance date

The directors are not aware of any other matters or circumstances that have significantly or may significantly affect the operations of the Group, the results of those operations, or the affairs of the Group in subsequent financial years.

Likely developments

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

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

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

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

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	13	13
D A Mellor	13	13
B E Saxild	13	13
D R Watson	13	13

Audit and Risk Committee

	Number Held	Number Attended
P J Leonhardt	3	3
B E Saxild	3	3

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	-	666,310
D A Mellor*	522,080	3,182,102
B E Saxild*	347,120	2,980,843
D R Watson	18,062,683	7,273,093

*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 20 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.

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		Post-employment	
	Cash salary and fees	Non-monetary benefits	Superannuation	Total
	$	$	$	$
2021				
P J Leonhardt	72,500	-	-	72,500
*D A Mellor	447,712	13,115	24,960	485,787
*B E Saxild	532,634	14,949	24,960	572,543
*D R Watson	500,640	19,357	24,960	544,957
Total	1,553,486	47,421	74,880	1,675,787
2020				
P J Leonhardt	70,000	-	-	70,000
*D A Mellor	469,864	11,831	24,960	506,655
*B E Saxild	540,019	14,599	24,960	579,578
*D R Watson	500,640	17,862	24,960	543,462
Total	1,580,523	44,292	74,880	1,699,695

*The cash salary and fees of the Executive Directors has not changed for the last seven 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 and nomination committee within legislative framework at the time.

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, additions relate to additional shares purchased during the year or issued as part of the dividend reinvestment plan.

	Balance at the start of the year	Additions during the year	Other	Balance at the end of the year
P J Leonhardt	651,338	14,972	-	666,310
D A Mellor	4,271,340	-	(567,158)	3,704,182
B E Saxild	3,327,963	-	-	3,327,963
D R Watson	25,902,933	-	(567,157)	25,335,776

E. Consequences of performance on shareholder wealth

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.

	Number at the start of the year	Issued during the year	Exercised	Number 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 vested 2 years after issue and may be purchased with the assistance of an interest-free, limited recourse loan for a term of 10 years. The shares were priced using a Black-Scholes pricing model to determine the fair value and amortised through the statement of profit or loss and other comprehensive income.

DAVID WATSON
Director

Perth, WA
30 August 2021

KPMG

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 2021 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

Jane Bailey

Jane Bailey
Partner
Perth
30 August 2021

Consolidated Statement of Profit or Loss and other Comprehensive Income for the year ended 30 June 2021

	Notes	Consolidated 2021 $	Consolidated 2020 $
Revenue from operations	5	239,044,247	215,209,363
Other income	6	2,367,612	1,527,970
Changes in inventories of finished goods and work in progress		132,599	31,014
Raw materials and consumables used		(1,053,292)	(1,071,721)
Employee benefits expense		(74,869,047)	(71,374,148)
Subcontractor expense		(80,271,717)	(71,199,715)
Depreciation and amortisation expense	7	(22,506,025)	(21,817,627)
Motor vehicle and transport costs		(28,241,637)	(26,764,106)
Impairment	14	-	(5,771,500)
Property costs		(4,329,009)	(2,863,822)
Other expenses		(14,978,917)	(14,689,728)
Results from operating activities		15,294,814	1,215,980
Finance income		3,323	15,250
Finance expenses	7	(4,035,425)	(5,111,900)
Net finance costs		(4,032,102)	(5,096,650)
Profit/(loss) before income tax		11,262,712	(3,880,670)
Income tax expense	8	(3,094,013)	(468,169)
Profit/(loss) for the year		**8,168,699**	**(4,348,839)**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Equity investments at FVOCI – net change in fair value		6,084	2,306
Total comprehensive income		**8,174,783**	**(4,346,533)**
Earnings per share for profit attributable to the ordinary equity holders of the Company		Cents	Cents
Basic earnings/(loss) per share	25a	10.88	(5.79)
Diluted earnings/(loss) per share	25b	10.88	(5.79)

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 2021

	Notes	Consolidated 2021 $	Consolidated 2020 $
ASSETS			
Current assets			
Cash and cash equivalents		6,493,618	7,611,064
Trade and other receivables	9	33,073,591	29,936,811
Inventories		297,958	165,359
Total current assets		39,865,167	37,713,234
Non-current assets			
Other investments		52,836	44,144
Property, plant and equipment	10	88,101,780	90,001,535
Right-of-use assets	11	45,350,001	43,233,588
Investment properties	12	2,207,021	2,207,021
Deferred tax assets	8	3,170,678	4,003,829
Intangible assets	13	31,118,628	32,797,412
Total non-current assets		170,000,944	172,287,529
Total assets		209,866,111	210,000,763
LIABILITIES			
Current liabilities			
Trade and other payables	15	18,650,995	17,532,246
Lease liabilities	16	17,404,357	14,915,331
Current tax liabilities		1,407,694	137,864
Employee benefits provision		6,914,405	6,713,668
Total current liabilities		44,377,451	39,299,109
Non-current liabilities			
Lease liabilities	16	42,505,951	44,157,058
Loans and borrowings	16	31,905,000	42,770,000
Employee benefits provision		2,646,392	2,160,411
Total non-current liabilities		77,057,343	89,087,469
Total liabilities		121,434,794	128,386,578
Net assets		**88,431,317**	**81,614,185**
EQUITY			
Contributed equity	17	27,390,922	27,248,025
Reserves		1,932,562	1,926,478
Retained profits		59,107,833	52,439,682
Total equity		**88,431,317**	**81,614,185**

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 2021

	Notes	Contributed equity $	Reserves $	Retained profits $	Total equity $
Consolidated					
Balance at 1 July 2019		27,248,025	1,893,175	56,788,521	85,929,721
Total comprehensive income for the year		-	2,306	(4,348,839)	(4,346,533)
Transactions with equity holders in their capacity as equity holders:					
Share-based payment transactions		-	30,997	-	30,997
Balance at 30 June 2020		27,248,025	1,926,478	52,439,682	81,614,185
Balance at 1 July 2020		27,248,025	1,926,478	52,439,682	81,614,185
Total comprehensive income for the year		-	6,084	8,168,699	8,174,783
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity/share issue	17	132,553	-	-	132,553
Dividends provided for/paid	18	10,344	-	(1,500,548)	(1,490,204)
Balance at 30 June 2021		27,390,922	1,932,562	59,107,833	88,431,317

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 2021

	Notes	Consolidated 2021 $	2020 $
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		260,641,772	238,029,899
Payments to suppliers and employees (inclusive of goods and services tax)		(224,793,899)	(209,201,046)
Dividends received		2,212	2,382
Interest received		3,323	15,250
Interest paid		(3,767,254)	(4,782,804)
Income taxes paid net of income tax refunded		(998,740)	(731,532)
Net cash inflow from operating activities	24	31,087,414	23,332,149
Cash flows from investing activities			
Payments for property, plant and equipment		(4,640,941)	(1,729,754)
Payments for intangibles - security lines		(28,173)	(71,575)
Payments for intangibles - software		(104,136)	(886,150)
Proceed from sale of investment		-	16,668
Proceeds from sale of property, plant and equipment		911,952	692,788
Net cash outflow from investing activities		(3,861,298)	(1,978,023)
Cash flows from financing activities			
Proceeds from borrowings		13,905,000	9,500,000
Repayment of borrowings		(24,770,000)	(11,030,000)
Repayment of lease liabilities		(16,120,911)	(14,399,403)
Dividend paid to Company's shareholders net of Dividend reinvestment/Bonus share plan shares issued		(1,357,651)	-
Net cash outflow from financing activities		(28,343,562)	(15,929,403)
Net (decrease)/increase in cash and cash equivalents		(1,117,446)	5,424,723
Cash and cash equivalents at the beginning of the financial year		7,611,064	2,186,341
Cash and cash equivalents at the end of the financial year		6,493,618	7,611,064

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 2021 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 is primarily involved in the provision of logistics and transport services, rental of property and provision of security services.

As the COVID-19 pandemic continues to impact Australia and the world, the Group's focus remains on keeping its people well, and maintaining safe and reliable operations. The Group has considered the impact of COVID-19 on each of its significant accounting judgements and estimates, particularly with respect to assumptions used in determining expected credit losses on receivables, impairment of non-current assets and going concern. At this stage no further significant estimates have been identified as a result of COVID-19, however management is monitoring the increased level of uncertainty in all future cash flow forecasts used in asset valuation and financial viability.

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, except as described below. The financial report is for the consolidated entity consisting of CTI Logistics Limited and its subsidiaries.

(a) BASIS OF PREPARATION OF FINANCIAL REPORT

This general purpose financial report has been prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board and the *Corporations Act 2001.*

Compliance with IFRS

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

The consolidated financial statements were authorised for issue by the board of directors on 30 August 2021.

Historical cost convention

These financial statements have been prepared under the historical cost convention except for "Fair value through other comprehensive income" (FVOCI) investments which are measured at fair value.

Functional and presentation currency

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

(b) PRINCIPLES OF CONSOLIDATION

Subsidiaries

The financial statements incorporate the assets and liabilities of all entities controlled by CTI Logistics Limited as at 30 June 2021 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(f)).

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) 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.

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.

(e) LEASES

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in AASB 16.

i. As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which compromises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if the rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of use has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' or 'right-of-use assets' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Short-term leases and leases of low-value assets

The Group has elected not to recognise the right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

ii. As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease, if not, then it is an operating lease, as part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When the Group is an intermediate lessor, it accounts for its interests in the lead lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies AASB 15 to allocate the consideration in the contract.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other income'.

Generally, the accounting policies applicable to the Group as a lessor in the comparative period were not different from AASB 16.

(f) 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.

(g) IMPAIRMENT OF ASSETS

Non-derivative financial assets

Financial instruments

The Group recognises loss allowances for Expected Credit Losses ("ECLs") on financial assets measured at amortised cost, being trade and other receivables.

These loss allowances are measured at an amount equal to lifetime ECLs. Lifetime ECLs are ECLs that result from all possible default events over the expected life of a financial instrument.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any held).

Measurement of ECLs

ECLs are probability-weighted estimates of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

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

Credit-impaired financial assets
At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:
- Significant financial difficulty of the borrower or issuer;
- A breach of contract such as a default or being more than 60 days past due;
- It is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- The disappearance of an active market for a security because of financial difficulties.

Presentation of allowance for ECL in the statement of financial position
Loss allowance for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off
The gross carrying amount of a financial asset is written off when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. The Group individually makes an assessment of customers with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of the amount due.

(i) 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 14.

(h) 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.

(i) 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.

(j) FINANCIAL ASSETS

(i) Recognition and initial measurement
Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

Notes to the Financial Statements

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

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement
On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:
- It is held with the objective to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income and impairment are recognised in profit or loss. Any gain or loss de-recognition is recognised in profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

(iii) De-recognition
The Group de-recognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the right to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

(k) 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 recorded at historical cost and not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost net of their residual values, over their estimated useful lives, as follows:

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

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

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(g)).

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.

(l) 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.

(m) 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	5 - 8 years
Customer relationships	5 - 6 years

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

(n) 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) 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 de-recognises 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.

(p) 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.

(q) 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.

(r) 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 Group of 100 Discount Rates provided by Milliman at the end of the reporting period 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.

(s) 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.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) 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.

(u) 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.

(v) 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.

(w) PARENT ENTITY FINANCIAL INFORMATION

The financial information for the parent entity, CTI Logistics Limited, disclosed in note 26 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 less any impairment 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.

(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.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) SHARE-BASED PAYMENT RESERVE

The share-based payment reserve comprises the expenses incurred from the issue of the Company's share under the Employee Share Plan.

(y) REVENUE RECOGNITION

Under AASB 15, revenue is recognised when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement. The details of the Group's revenue recognition for major business activities are set out below:

(i) Logistics and transport

Revenue is recognised over the period of time that the goods or services are being delivered to or collected by a customer in accordance with the arrangements made within the Group. The provision of these services and sale of goods is in most cases either performed on the same day, or within a week for long distance freight.

(ii) Security, manufacturing and other

A sale is recorded when goods have been despatched to a customer pursuant to a sales order and control has transferred to the customer. A sale is recorded for services over the period of time the service is performed.

Other income outside the scope of AASB 15

(ii) 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 over time on a straight-line basis.

(z) NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

The Group has adopted all new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current reporting period.

There are no accounting standards issued but not yet effective at 30 June 2021 which are expected to have a material impact on the financial statements of the Group.

Notes to the Financial Statements

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(g). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations as described in note 14.

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.

Property, plant and equipment and Right-of-use assets
Property, plant and equipment and Right-of-use assets are tested for impairment where there is an indicator of impairment, in accordance with the accounting policy stated in note 1(g). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations or fair value less cost to dispose as described in note 14.

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 other investments.

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 and cash and cash equivalents. Borrowings and Lease liabilities (hire purchases component only) issued at variable rates expose the Group to cash flow interest rate risk. Borrowings and lease liabilities (hire purchases component only) issued at fixed rates expose the Group to fair value interest rate risk. At the year end 11.98% (2020 – 30.82%) of borrowings and lease liabilities were at fixed rates.

3. FINANCIAL RISK MANAGEMENT (continued)

(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 2021 %	2021 $	Weighted average interest rate 2020 %	2020 $
Cash and cash equivalents	0.10	6,493,618	0.52	7,611,064
Bank loans	0.83	31,905,000	1.40	42,770,000
Lease liabilities	4.33	59,910,308	5.42	59,072,389

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

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

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

Group sensitivity

The Group's main interest rate risk arises from loans and cash and cash equivalents. At 30 June 2021, 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 $223,335 (2020 - change of 100bps: $299,390 higher/lower) for loans and higher/lower by $45,455 (2020 - change of 100bps: $53,277 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 2021. 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	
	2021 $	2020 $
Cash and cash equivalents	6,493,618	7,611,064
Trade receivables	29,133,308	25,526,279
Other receivables	2,253,207	2,751,528
	37,880,133	35,888,871

Trade receivables are non-interest bearing and terms of trade are 30 days from month end. At 30 June 2021, 6.56% (2020 – 7.78%) of trade receivables of the Group exceed 30 days.

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

3. **FINANCIAL RISK MANAGEMENT (continued)**

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
	$	$	$
2021			
Consolidated			
Trade receivables	1,304,449	626,200	1,930,649
2020			
Consolidated			
Trade receivables	1,238,407	778,291	2,016,698

The Group uses an allowance matrix to measure the expected credit losses (ECLs) of trade receivables from individual customers, which comprise a very large number of small balances.

Loss rates are calculated using a 'roll rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. Loss rates are based on actual credit loss experience over the past 5 years, adjusted to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

The Group's monitoring of recoverability of receivables has increased due to the changes in market conditions arising from COVID 19. Credit limits continue to be monitored.

The following table provides information about the ECLs for trade receivables as at 30 June.

	Consolidated	
	2021	2020
	$	$
1 to 30 days	96,407	93,344
31 to 60 days	41,154	47,135
Over 60 days	171,907	268,912
Total	309,468	409,391

Provision for expected credit losses
Movements in the ECLs of receivables are as follows:

Balance 1 July	409,391	214,473
Net loss allowance (reversed)/recognised	(52,070)	235,094
Receivables written off during the year as uncollectable	(47,853)	(40,176)
Balance 30 June	309,468	409,391

The creation and release of the ECLs provision 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.

Notes to the Financial Statements

3. FINANCIAL RISK MANAGEMENT (continued)

Financing arrangements

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

	Consolidated 2021 $	Consolidated 2020 $
Floating rate		
Expiring beyond one year (note 16c)	16,692,070	6,000,000
	16,692,070	6,000,000

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

Maturities of financial liabilities

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

Variable rate borrowings mature between October 2023 and March 2024, and are revised on an ongoing basis. The Group expects these borrowings to be renewed for a further period prior to maturity.

	Maturity					
Consolidated	1 year or less $	1 to 2 years $	2 to 5 years $	> 5 Years $	Total contractual cash flows $	Carrying amount $
2021						
Trade and other payables (Non-interest bearing)	18,650,995	-	-	-	18,650,995	18,650,995
Lease liabilities*	19,878,298	17,043,100	25,863,451	3,701,048	66,485,897	59,910,308
Borrowings	265,188	147,628	32,030,418	-	32,443,234	31,905,000
Total	38,794,481	17,190,728	57,893,869	3,701,048	117,580,126	110,466,303
2020						
Trade and other payables (Non-interest bearing)	17,532,246	-	-	-	17,532,246	17,532,246
Lease liabilities*	17,074,938	17,316,890	33,220,053	14,441,334	82,053,215	59,072,388
Borrowings	571,448	42,893,307	-	-	43,464,755	42,770,000
Total	35,178,632	60,210,197	33,220,053	14,441,334	143,050,216	119,374,634

*Lease liability cash flows include fixed rate contractual cash flows of $4,486,080 (2020 - $5,898,000) which are linked to hire purchase liabilities with a carrying value of $4,340,658 (2020 - $5,652,000) (included within lease liabilities).

(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 Group's assets measured and recognised at fair value at 30 June 2021 comprises of 'Level 1' equity securities of $52,836 (2020 - $44,144).

Notes to the Financial Statements

3. FINANCIAL RISK MANAGEMENT (continued)

Capital risk management

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

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

Consistently with others in the industry, the Group monitors capital on the basis of the gearing ratio (a non-IFRS measure). 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.

The gearing ratios at 30 June 2021 and 30 June 2020 were as follows:

	Notes	Consolidated 2021 $	2020 $
Total payables and borrowings	15,16	110,466,303	119,374,635
Less: cash and cash equivalents	9	(6,493,618)	(7,611,064)
Net debt		103,972,685	111,763,571
Total equity		88,431,317	81,614,185
Total capital		192,404,002	193,377,756
Gearing ratio		54%	58%

4. SEGMENT INFORMATION

(a) Description of segments

Management has determined the operating segments based on the reports reviewed by the Group's Executive Chairman.

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

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

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

"Other" segments includes the provision of security services. These segments do not meet any of the quantitative thresholds for determining reportable segments.

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

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

Notes to the Financial Statements

4. SEGMENT INFORMATION (continued)

(b) Accounting policies

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

Inter-segment transfers

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

Segment assets and liabilities

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

Unallocated amounts

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

(c) Information about reportable segments

The segment information provided to the Group's Executive Chairman for the reportable segments for the year ended 30 June 2021 is as follows:

	Transport $	Logistics $	Property $	Other $	Consolidated $
2021					
Reportable segment revenue					
Sales to external customers	139,627,383	93,091,379	174,349	6,108,911	239,002,022
Intra and inter-segment revenue	23,138,148	59,747	3,759,191	625,553	27,582,639
Total segment revenue	162,765,531	93,151,126	3,933,540	6,734,464	266,584,661
Other income	168,540	833,331	-	-	1,001,871
Interest expense	555,002	2,593,421	294,956	-	3,443,379
Depreciation and amortisation	7,166,636	13,254,221	821,448	405,876	21,648,181
Reportable segment profit before income tax	5,480,269	6,502,994	1,441,111	607,414	14,031,788
Reportable segment assets	55,894,320	77,507,703	66,019,333	1,590,892	201,012,248
Reportable segment liabilities	32,288,850	53,848,669	30,791,329	1,629,719	118,558,567
2020					
Reportable segment revenue					
Sales to external customers	126,819,307	82,095,427	161,026	6,007,122	215,082,882
Intra and inter-segment revenue	17,672,349	52,273	3,813,125	688,451	22,226,198
Total segment revenue	144,491,656	82,147,700	3,974,151	6,695,573	237,309,080
Other income	217,421	750,587	-	(1,038)	966,970
Interest expense	598,499	3,086,272	520,694	-	4,205,465
Depreciation and amortisation	6,233,101	13,181,451	821,831	520,024	20,756,407
Reportable segment profit before income tax	3,943,990	197,685	(4,587,208)	407,651	(37,882)
Reportable segment assets	51,746,493	79,123,244	66,873,078	1,989,378	199,732,193
Reportable segment liabilities	32,421,176	53,270,771	38,592,450	1,623,229	125,907,626

4. SEGMENT INFORMATION (continued)

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

	Notes	Consolidated 2021 $	Consolidated 2020 $
Revenues			
Total segment revenue for reportable segments		266,584,661	237,309,080
Elimination of intra-segment and inter-segment revenue		(27,582,639)	(22,226,198)
Unallocated revenue		42,225	126,481
Consolidated revenue	5	239,044,247	215,209,363
Profit/(loss)			
Total profit/(loss) before tax for reportable segments		14,031,788	(37,882)
Unallocated amounts		(2,769,076)	(3,842,788)
Consolidated profit/(loss) before income tax		11,262,712	(3,880,670)
Assets			
Total assets for reportable segments		201,012,248	199,732,193
Unallocated amounts		8,853,863	10,268,570
Consolidated total assets		209,866,111	210,000,763
Liabilities			
Total liabilities for reportable segments		118,558,567	125,907,626
Unallocated amounts		2,876,227	2,478,952
Consolidated total liabilities		121,434,794	128,386,578
Other material items			
Interest Income			
Unallocated amounts		3,323	15,250
Consolidated interest income		3,323	15,250
Other income			
Total for reportable segments		1,001,871	966,970
Unallocated amounts		1,365,741	561,000
Consolidated other income		2,367,612	1,527,970
Interest expense			
Total for reportable segments		3,443,379	4,205,465
Unallocated amounts		374,555	609,349
Consolidated interest expense		3,817,934	4,814,814
Depreciation and amortisation			
Total for reportable segments		21,648,181	20,756,407
Unallocated amounts		857,844	1,061,220
Consolidated depreciation and amortisation	7	22,506,025	21,817,627

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

Notes to the Financial Statements

5. REVENUE FROM OPERATIONS

The Group generates revenue primarily from the provision of transport, logistics and security services. Other sources of revenue include rental income from investment properties and dividends from other investments (refer note 1(y)).

In the following table, revenue from contracts with customers is disaggregated by major services provided.

	Consolidated	
	2021	2020
	$	$
Revenue from contracts with customers		
Sales revenue		
Transport	139,627,383	126,819,307
Logistics	93,091,379	82,095,427
Security services	6,108,911	6,007,122
Other	40,013	124,099
	238,867,686	215,045,955
Other revenue		
Dividends	2,212	2,382
Rent	174,349	161,026
	176,561	163,408
	239,044,247	215,209,363

6. OTHER INCOME

	2021	2020
Net gain on disposal of:		
- motor vehicles	233,940	170,981
- plant and equipment	9,940	23,425
JobKeeper	1,312,500	561,000
Other	811,232	772,564
	2,367,612	1,527,970

Notes to the Financial Statements

7. EXPENSES

	Consolidated 2021 $	Consolidated 2020 $
Profit/(loss) before income tax includes the following specific expenses:		
Employee benefits		
Defined contribution superannuation	5,264,518	5,058,550
Share-based payments	-	30,997
Depreciation and amortisation		
Buildings	1,268,996	1,210,972
Plant and equipment and motor vehicles	6,224,087	6,411,225
Right-of-use assets	13,201,849	11,986,277
Security lines	24,600	15,855
Software	523,292	922,512
Trade name and customer relationships	1,263,201	1,270,786
	22,506,025	21,817,627
Finance expenses		
Interest	3,817,934	4,814,814
Finance charges	217,491	297,086
	4,035,425	5,111,900

8. INCOME TAXES

	2021 $	2020 $
(a) Income tax expense		
Current tax	2,775,424	1,278,045
Deferred tax	834,779	(501,753)
Over provided in prior years	(516,190)	(308,123)
Income tax expense	3,094,013	468,169
Deferred income tax (benefit) included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets (note 8d)	(209,974)	(538,907)
Decrease in deferred tax liabilities (note 8e)	1,044,753	37,154
	834,779	(501,753)
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) before income tax expense	11,262,712	(3,880,670)
Tax at the Australian rate of 30% (2020 - 30%)	3,378,814	(1,164,201)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Amortisation	112,532	114,808
Impairment	-	1,731,450
Share-based payment	-	9,299
Rebatable dividends	(948)	(1,021)
Sundry items	119,805	85,957
	3,610,203	776,292
Over provision in prior years	(516,190)	(308,123)
Income tax expense	3,094,013	468,169

Notes to the Financial Statements

8. INCOME TAXES (continued)

	Consolidated 2021 $	Consolidated 2020 $
(c) Amounts recognised directly in equity		
Net deferred tax – debited directly to equity (note 8d)	2,608	980
(d) Deferred tax assets		
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Doubtful debts	92,840	122,700
Employee benefits	2,868,239	2,662,223
Depreciation and amortisation	377,107	317,962
Right-of-use assets	3,065,895	3,107,135
Other	38,263	22,350
	6,442,344	6,232,370
Amounts recognised directly in equity		
Other investments	2,608	980
	6,444,952	6,233,350
Set-off of deferred tax liabilities (note 8e)	(3,274,274)	(2,229,521)
Net deferred tax assets	3,170,678	4,003,829
Movements		
Balance 1 July	6,233,350	2,760,319
Adoption of AASB 16	-	2,933,144
Credited to profit or loss	209,974	538,907
Debited to equity	1,628	980
Balance 30 June	6,444,952	6,233,350
(e) Deferred tax liabilities		
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Depreciation and amortisaton	2,459,134	1,147,953
Intangible assets	815,140	1,081,568
	3,274,274	2,229,521
Set-off of deferred tax assets (note 8d)	(3,274,274)	(2,229,521)
Net deferred tax liabilities	-	-
Movements (deferred tax liabilities)		
Balance 1 July	2,229,521	2,192,367
Credited to profit or loss	1,044,753	37,154
Balance 30 June	3,274,274	2,229,521

9. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

	Consolidated 2021 $	Consolidated 2020 $
Trade receivables	29,442,776	25,935,670
Provision for impairment of receivables (note 3(b))	(309,468)	(409,391)
	29,133,308	25,526,279
Other receivables	2,253,207	2,751,528
Prepayments	1,687,076	1,659,004
	3,940,283	4,410,532
	33,073,591	29,936,811

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

Consolidated	Freehold land $	Freehold buildings $	Plant and equipment and fixtures and fittings $	Motor vehicles $	Total $
1 July 2019					
Cost	43,899,191	33,184,589	29,878,849	36,338,400	143,301,029
Accumulated depreciation	-	(5,470,782)	(20,331,711)	(19,466,895)	(45,269,388)
Net book amount	43,899,191	27,713,807	9,547,138	16,871,505	98,031,641
Year ended 30 June 2020					
Opening net book amount	43,899,191	27,713,807	9,547,138	16,871,505	98,031,641
Additions	-	720,823	1,455,717	3,685,433	5,861,973
Disposals	-	-	(43,771)	(454,611)	(498,382)
Impairment (note 14)	(5,771,500)	-	-	-	(5,771,500)
Depreciation charge	-	(1,210,972)	(2,579,055)	(3,832,170)	(7,622,197)
Closing net book amount	38,127,691	27,223,658	8,380,029	16,270,157	90,001,535
At 30 June 2020					
Cost	43,899,191	33,903,003	31,044,069	38,563,485	147,409,748
Accumulated depreciation*	(5,771,500)	(6,679,345)	(22,664,040)	(22,293,328)	(57,408,213)
Net book amount	38,127,691	27,223,658	8,380,029	16,270,157	90,001,535
Year ended 30 June 2021					
Opening net book amount	38,127,691	27,223,658	8,380,029	16,270,157	90,001,535
Additions	-	360,032	1,427,300	4,496,695	6,284,027
Disposals	-	(15,500)	(82,869)	(592,330)	(690,699)
Depreciation charge	-	(1,268,996)	(2,367,125)	(3,856,962)	(7,493,083)
Closing net book amount	38,127,691	26,299,194	7,357,335	16,317,560	88,101,780
At 30 June 2021					
Cost	43,899,191	34,247,535	31,701,349	39,981,994	149,830,069
Accumulated depreciation*	(5,771,500)	(7,948,341)	(24,344,014)	(23,664,434)	(61,728,289)
Net book amount	38,127,691	26,299,194	7,357,335	16,317,560	88,101,780

* includes depreciation and impairment charges

(a) Non-current assets pledged as security

Refer to note 16(b) for information on non-current assets pledged as security.

11. NON-CURRENT ASSETS – RIGHT-OF-USE ASSETS

A. Leases as lessee

The Group leases warehouse and transport depot facilities. These leases typically run for a period of 5 years, however range from 1 year to 12 years, generally with an option to renew the lease after that date. Lease payments increase with CPI or fixed percentages based on the underlying lease, with market reviews generally coming into effect at the time of renewal.

These property leases provide for the payment of outgoings in addition to rent payments. These payments are determined to be variable in nature and have not been included within the calculation of the lease liability.

The Group also leases plant and equipment.

Information about leases for which the Group is a lessee is presented below.

i. Right-of-use assets

	Land and buildings $	Plant and equipment $	Total $
Year ended 30 June 2020			
Balance at 1 July 2019	52,213,271	1,317,362	53,530,633
Depreciation for the period	(11,114,012)	(872,265)	(11,986,277)
Additions to right-of-use assets	451,389	1,310,273	1,761,662
Disposal of right-of-use assets	-	(72,430)	(72,430)
Balance at 30 June 2020	41,550,648	1,682,940	43,233,588
Year ended 30 June 2021			
Balance at 1 July 2020	41,550,648	1,682,940	43,233,588
Depreciation for the period	(12,140,303)	(1,061,546)	(13,201,849)
Additions to right-of-use assets	14,524,982	793,280	15,318,262
Balance at 30 June 2021	43,935,327	1,414,674	45,350,001

Included within the balance sheet caption Property, plant and equipment are right-of-use assets with a carrying value of $7,690,210 at 30 June 2021 (2020 - $7,648,361), these assets have hire purchase liabilities. Additions to these assets during the year totalled $1,552,123 (2020 - $4,029,219) with depreciation of $1,183,013 (2020 - $1,036,331).

ii. Amounts recognised in profit or loss

	2021 $	2020 $
Interest on lease liabilities	3,060,242	3,392,679
Income from sub-leasing right-of-use assets presented in "other income"	(643,740)	(635,930)
Expenses relating to short-term leases	3,432,888	2,542,230
Expenses relating to leases of low-value assets	-	58,847
Variable lease payments excluded from lease liability calculations	2,001,010	1,692,716

iii. Extension options

Some property leases contain certain extension options exercisable by the Group prior to the end of the non-cancellable contract period. Where practicable, the Group seeks to include the extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the Group and not by the lessors. The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

11. NON-CURRENT ASSETS – RIGHT-OF-USE ASSETS (continued)

B. Leases as lessor

The Group leases out its investment property. The Group has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

Rental income recognised by the Group during the period was $174,349 (2020: $161,026).

12. NON-CURRENT ASSETS - INVESTMENT PROPERTIES

(a) Valuations

Investment freehold land and buildings were recorded at cost (net of prior impairments) at 30 June 2021 at $2,207,021, which approximates fair value (2020 - $2,207,021). The basis of the valuation for impairment testing purposes of investment properties is fair value being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases.

(b) Contractual obligations

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

13. NON-CURRENT ASSETS - INTANGIBLE ASSETS

Consolidated	Goodwill $	Trade names $	Customer relationships $	Security lines $	Software $	Consolidated Total $
1 July 2019						
Cost	26,461,029	3,726,914	9,178,756	1,526,092	2,553,746	43,446,537
Accumulated amortisation	-	(1,678,216)	(4,896,373)	(1,497,737)	(1,325,371)	(9,397,697)
Net book amount	26,461,029	2,048,698	4,282,383	28,355	1,228,375	34,048,840
Year ended 30 June 2020						
Opening net book amount	26,461,029	2,048,698	4,282,383	28,355	1,228,375	34,048,840
Additions	-	-	-	71,575	886,150	957,725
Amortisation charge	-	(465,456)	(805,330)	(15,855)	(922,512)	(2,209,153)
Closing net book amount	26,461,029	1,583,242	3,477,053	84,075	1,192,013	32,797,412
At 30 June 2020						
Cost	26,461,029	3,726,914	9,178,756	1,597,667	2,812,041	43,776,407
Accumulated amortisation	-	(2,143,672)	(5,701,703)	(1,513,592)	(1,620,028)	(10,978,995)
Net book amount	26,461,029	1,583,242	3,477,053	84,075	1,192,013	32,797,412
Year ended 30 June 2021						
Opening net book amount	26,461,029	1,583,242	3,477,053	84,075	1,192,013	32,797,412
Additions	-	-	-	28,173	104,136	132,309
Amortisation charge	-	(457,871)	(805,330)	(24,600)	(523,292)	(1,811,093)
Closing net book amount	26,461,029	1,125,371	2,671,723	87,648	772,857	31,118,628
At 30 June 2021						
Cost	26,461,029	3,726,914	9,178,756	1,625,840	2,916,177	43,908,716
Accumulated amortisation	-	(2,601,543)	(6,507,033)	(1,538,192)	(2,143,320)	(12,790,088)
Net book amount	26,461,029	1,125,371	2,671,723	87,648	772,857	31,118,628

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

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

	Transport $	Logistics $	Other $	Total $
2020	8,548,942	17,868,016	44,071	26,461,029
2021	8,548,942	17,868,016	44,071	26,461,029

14. IMPAIRMENT

The Group annually tests whether cash-generating units (CGUs) that include goodwill has suffered any impairment. At year end the Group identified an impairment indicator for the Group as a whole due to the ongoing deficit between the Group's market capitalisation as well as the ongoing uncertainty within the national economy due to the COVID 19 pandemic. CGUs within the transport, logistics and other segments were tested for impairment utilising value-in-use calculations whilst vacant land within the property segment was tested against market valuations. Cash flows from value-in-use models indicate that the carrying amounts of the CGUs do not exceed their recoverable amounts and that there is no impairment. At the prior year end an impairment of $5,771,500 was recognised on vacant land within the property segment.

The summary of assets tested for impairment is presented below.

	2021 Total $	2020 Total $
Property, plant and equipment	88,101,780	95,773,035
Right-of-use assets	45,350,001	43,233,588
Intangible asset – Goodwill	26,461,029	26,461,029
Intangible assets – Other	4,657,599	6,336,383
Segment assets subject to testing	164,570,409	171,804,035
Impairment loss recognised	-	(5,771,500)
Segment assets after impairment	164,570,409	166,032,535

Transport, Logistics and other segments - Key assumptions used for value-in-use calculations
Key assumptions utilised in the value-in-use calculations are as follows:

- Cash flows for year 1 are based on the 30 June 2022 budgets. This budget represents the current forecast sustainable earnings of CGUs as approved by the Board. The budget does not forecast any significant improvement in cash flows due to the COVID 19 pandemic, and excludes costs associated with significant events during the 30 June 2021 year end.
- Cash flows for years 2 to 5 are extrapolated based on the budget, adjusted for changing market conditions, with a growth rate between nil% to 2.0% (2020 – nil to 2.0%). Terminal value calculations utilise a long term expected growth rate of 2.5% (2020 – 2.5%).
- Nominal post tax discount rate of 8.5% (2020 – 8.5%) is used to discount the forecast future attributable post-tax cash flows when performing the value-in-use calculations.

Cash flows indicate that the carrying amounts are recoverable and that there is no impairment.

14. IMPAIRMENT (continued)

Management considered reasonably possible changes of assumptions associated with the CGUs as a 1% (2020 - 1%) increase in the discount rate, or a 7.5% (2020 - 7.5%) reduction in EBITDA margins. Management have not identified any reasonably possible change in the key assumptions of the cashflow model that would cause the carrying amount to exceed the recoverable amount of the CGU. Should a combination of these sensitivities occur in the same manner there may be a potential impairment.

Management have determined that there are no other reasonably possible changes that could result in material impairments to the CGUs, however management recognise the uncertainty associated with the national economy due to the COVID 19 pandemic which could result in a significant worsening of the Group's performance should there be a material change in the national economy. These outcomes have not been reflected in management's assessment.

Property segment – fair value less cost to dispose
In the prior year, an independent valuation of the three vacant blocks of land at Hazelmere within the property segment was performed at 30 June 2020. The valuation was based on a price per square metre through comparison to similar sales of land in a comparable area and is considered to be a level 3 valuation in accordance with Accounting Standards. This valuation indicated a combined value of $23,300,000, after adjusting for expected selling costs, the Group had recognised an impairment of $5,771,500 at 30 June 2020.

The independent valuation of property as at 30 June 2020 has noted the heightened risk of material market movements as a result of the COVID-19 environment, which is expected to continue into the foreseeable future. As such there remains inherent uncertainty surrounding the impact that the COVID-19 pandemic will have on the fair value of property in future periods. Management will continue to monitor movements in valuations. At 30 June 2021 management have assessed there have been no material movements in the market, no further impairments or reversal of impairment have been recognised.

Other property that is held within the Property segment is expected to be recovered through value-in-use as the property is utilised within the underlying operations of the business. No impairment has been recognised in relation to other property.

15. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	Consolidated	
	2021	2020
	$	$
Trade payables	8,185,823	8,551,039
Other payables	10,465,172	8,981,207
	18,650,995	17,532,246

16. LEASE LIABILITIES AND LOANS AND BORROWINGS

Lease liabilities - current	17,404,357	14,915,331
Bank loans – non-current	31,905,000	42,770,000
Lease liabilities – non-current	42,505,951	44,157,058
Total interest-bearing borrowings	91,815,308	101,842,389

(a) Total secured liabilities

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

Secured		
Bank loans	31,905,000	42,770,000
Lease liabilities*	4,340,658	5,652,010
Total secured liabilities	36,245,658	48,422,010

*Represents hire purchase liabilities included within the lease liabilities balance.

Notes to the Financial Statements

16. NON-CURRENT LIABILITIES – LEASE LIABILITIES AND LOANS AND BORROWINGS (continued)

(b) Assets pledged as security

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

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

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

	Consolidated	
	2021	2020
Current	$	$
Floating charge		
Cash and cash equivalents	6,493,618	7,611,064
Receivables	31,386,515	28,277,807
Inventories	297,958	165,359
Total current assets pledged as security	38,178,091	36,054,230
First mortgage		
Freehold land and buildings	37,097,228	37,870,973
Floating charge		
Other investments	52,836	44,144
Plant, equipment and motor vehicles	23,674,895	24,650,186
Freehold land and buildings	27,329,657	27,485,500
Investment properties	2,207,021	2,207,021
Intangible assets	860,505	1,276,088
	54,124,914	55,662,939
Total non-current assets pledged as security	91,222,142	93,533,912
Total assets pledged as security	129,400,233	129,588,142

(c) Financing arrangements

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

	2021	2020
Credit standby arrangements		
Total facilities		
Secured financial guarantee and documentary credit	2,690,930	1,883,000
Secured bill acceptance facility	48,597,070	48,770,000
	51,288,000	50,653,000
Utilised		
Secured bill acceptance facility	31,905,000	42,770,000
Secured financial guarantee and documentary credit facility	2,690,930	1,883,000
	34,595,930	44,653,000
Bank loan facility		
Total facility	51,288,000	50,653,000
Used at balance date	(34,595,930)	(44,653,000)
Unused at balance date	16,692,070	6,000,000

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 0.88% - 2.34% per annum on bill facilities, 4.59% on overdraft (2020 - bill facilities 1.10% - 2.86%, overdraft – 4.59%).

(d) Interest rate risk exposure

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

Notes to the Financial Statements

16. NON-CURRENT LIABILITIES – LEASE LIABILITIES AND LOANS AND BORROWINGS (continued)

(e) Fair value

The carrying amounts of interest-bearing liabilities approximate their fair value at balance date.

17. CONTRIBUTED EQUITY

(a) Share capital

	Consolidated	
Ordinary shares (fully paid)	Number of shares	$
At 30 June 2020		
Opening balance	75,027,420	27,248,025
Closing balance	75,027,420	27,248,025
At 30 June 2021		
Opening balance	75,027,420	27,248,025
Dividend reinvestment plan	152,360	132,553
Bonus share plan	11,889	10,344
Closing balance	75,191,669	27,390,922

At 30 June 2021 there were 2,685,000 contingently issuable shares (2020 – 2,685,000) relating to shares issued under the Company's Employee Share Plan. During the year no contingently issuable shares were issued to any employees under the Company's Employee Share Plan (2020 - nil). There is no expiry on these shares subject to exercise by the employee.

(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.

18. DIVIDENDS

	Parent Entity	
	2021	2020
	$	$
(a) Ordinary shares		
Final dividend for the year ended 30 June 2020 of nil cents (2019 – nil cents) per fully paid share	-	-
Interim dividend for the year ended 30 June 2021 of 2.0 cents (2020 – nil cents) per fully paid share		
Fully franked dividend based on tax paid @ 30% (2020 - 30%)	1,500,548	-
Less – bonus issue of ordinary shares under the Company's Bonus Share Plan.	(10,344)	-
	1,490,204	-
(b) Dividends not recognised at the end of the reporting perio(		
In addition to the above dividends, since year end the directors have declared the payment of a final dividend of 2.0 cents per fully paid ordinary share, (2020 – nil cents) fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 12 November 2021 out of retained profits at 30 June 2021, but not recognised as a liability at year end, is	1,503,833	-

(c) Franked dividends

Franking credits available at 30 June 2021 for subsequent financial years based on a tax rate of 30% - $22,196,361 (2020 - $21,855,582 - 30%).

Notes to the Financial Statements

19. 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	
	2021	2020
	$	$
Key management personnel compensation comprised the following:		
Short-term	1,600,907	1,624,815
Post-employment	74,880	74,880
	1,675,787	1,699,695

20. 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	195,200	177,280

21. COMMITMENTS

Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities comprises of plant and equipment and is payable within one year is $1,820,022 (2020 - $nil).

Notes to the Financial Statements

22. 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) 2021 %	2020 %
CTI Logistics Limited	Australia		
Directly controlled by CTI Logistics Limited			
Controlled entities			
Bring Transport Industries Pty Ltd	Australia	100	100
Mercury Messengers Pty Ltd	Australia	100	100
CTI Security Services Pty Ltd	Australia	100	100
CTI Transport Systems Pty Ltd	Australia	100	100
CTI Taxi Trucks Pty Ltd	Australia	100	100
CTI Security Systems Pty Ltd	Australia	100	100
CTI Transport Services Pty Ltd	Australia	100	100
CTI Freight Management Pty Ltd	Australia	100	100
Action Logistics (WA) Pty Ltd	Australia	100	100
CTI Freight Systems Pty Ltd	Australia	100	100
CTI Couriers Pty Ltd	Australia	100	100
CTI Swinglift Services Pty Ltd	Australia	100	100
CTI Xpress Systems Pty Ltd	Australia	100	100
CTI Nationwide Logistics Pty Ltd	Australia	100	100
Consolidated Transport Industries Pty Ltd	Australia	100	100
CTI Logistics (NSW) Pty Ltd	Australia	100	100
Australian Fulfilment Services Pty Ltd	Australia	100	100
Other controlled entities			
Directly controlled by CTI Nationwide Logistics Pty Ltd			
Lafe (WA) Pty Ltd	Australia	100	100
CTI Freightlines Pty Ltd	Australia	100	100
Blackwood Industries Pty Ltd	Australia	100	100
Directly controlled by Blackwood Industries Pty Ltd			
CTI Logistics (Vic) Pty Ltd	Australia	100	100
CTI Online Pty Ltd	Australia	100	100
CTI Records Management Pty Ltd	Australia	100	100
CTI Quarantine & Fumigation Services Pty Ltd	Australia	100	100
Directly controlled by Consolidated Transport Industries Pty Ltd			
Foxline Logistics Pty Ltd	Australia	100	100
Directly controlled by CTI Logistics (NSW) Pty Ltd			
G.M. Kane & Sons Pty Ltd	Australia	100	100

These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with Class Order 2016/785 issued by the Australian Securities and Investments Commission. For further information refer to note 23.

23. 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.

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

	Consolidated 2021 $	Consolidated 2020 $
Profit/(loss) for the year	8,168,699	(4,348,839)
Depreciation and amortisation	22,506,025	21,817,627
Impairment	-	5,771,500
Provision for doubtful debts	(99,923)	194,918
Net gain on sale of non-current assets	(243,880)	(194,406)
Share-based payment expense	-	30,997
Change in operating assets and liabilities		
(Increase)/decrease in trade and other debtors	(3,136,780)	1,001,739
Decrease in inventories	(132,599)	(31,014)
Increase in provision for income taxes	1,269,830	642,031
Increase in deferred tax	791,911	3,435,877
Increase/(decrease) in trade creditors, employee benefits and other provisions	1,964,131	(4,988,281)
Net cash inflow from operating activities	31,087,414	23,332,149

25. EARNINGS PER SHARE

	Consolidated 2021	Consolidated 2020
	Cents per share	
(a) Basic earnings per share		
Basic earnings/(loss) per share attributable to the ordinary equity holders of the Company.	10.88	(5.79)
	$	$
Profit/(loss) attributable to ordinary shareholders used in calculating basic earnings per share.	8,168,699	(4,348,839)
	Number	Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share.	75,056,220	75,027,420

	2021	2020
	Cents per share	
(b) Diluted earnings/(loss) per share		
Diluted earnings/(loss) per share attributable to the ordinary equity holders of the Company.	10.88	(5.79)
	$	$
Profit/(loss) attributable to ordinary shareholders used in calculating diluted earnings per share.	8,168,699	(4,348,839)

	2021 Number	2020 Number
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share.		
Weighted average number of shares (basic)	75,056,220	75,027,420
The effect of the vesting of contingently issuable shares	-	-
Weighted average number of shares (diluted)	75,056,220	75,027,420

25. EARNINGS PER SHARE (continued)

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, as at 30 June 2021 these shares are considered anti-dilutive and excluded from the calculation.

26. PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

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

	2021 $	2020 $
Balance sheet		
Current assets	9,715,427	10,563,353
Total assets	45,563,221	47,188,385
Current liabilities	11,401,169	12,753,530
Total liabilities	11,710,627	17,013,397
Net assets	33,852,594	30,174,988
Shareholders' equity		
Issued capital	27,390,922	27,248,025
Reserves	1,932,558	1,926,472
Retained earnings	4,529,114	1,000,491
	33,852,594	30,174,988
Profit/(loss) for the year	5,029,173	(2,238,797)
Total comprehensive income	5,035,259	(2,231,842)

(b) Guarantees entered into by the parent entity

	2021 $	2020 $
Carrying amount included in Group		
- current liabilities	2,451,658	2,642,632
- non-current liabilities	33,794,000	38,779,377
	36,245,658	41,422,009

The parent entity has provided financial guarantees in respect of loans and hire purchase commitments of subsidiaries amounting to $36,245,658 (2020 - $41,422,009). 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 23. No deficiencies of assets exist in any of these entities.

27. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

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

Directors' Declaration

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

(a) the consolidated financial statements and notes that are set out on pages 13 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 2021 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 22 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the Deed of Cross Guarantee between the Company and those Group entities pursuant to ASIC Class Order 2016/785.

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

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

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

DAVID WATSON
Director

Perth, WA
30 August 2021

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 2021 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 the:

- Consolidated statement of financial position as at 30 June 2021.
- 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 (including Independence Standards) (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, right-of-use assets and intangible assets ($164,570,409)

Refer to Note 14 of the Financial Report

The key audit matter

The carrying value of property, plant and equipment, right-of-use assets and intangible assets is a key audit matter due to the:

- Size of property, plant and equipment, right-of-use assets and intangible assets balances which, in aggregate, represent 78% of total assets. The intangible assets also include goodwill acquired in business combinations which is allocated to Cash Generating Units (CGUs) which are required to be tested for impairment annually irrespective of whether there is any indication of impairment.
- Group's market capitalisation was less than the carrying amount of the Group's net assets at year-end. This increases the possibility of property, plant and equipment, right-of-use assets and intangible assets being impaired and, as a result, increased our audit effort in this area.
- There is uncertainty regarding the ongoing impact of COVID-19. This further increases the risk of impairment as well as the risk of inaccurate forecasts or a wider range of possible outcomes for us to consider.
- Group's valuation of vacant land adjacent to one of its operating businesses, based on its fair value less cost of disposal determined through external valuation.

We focused on the significant forward-looking assumptions the Group applied in its value in use models, including:

- Forecast operating cash flows, EBITDA margins, growth rates and terminal growth rates. In addition to the uncertainties described above, the Group's value in use models for certain CGUs are highly sensitive to small changes in EBITDA margins and cash flow improvements associated with new customers and changes to existing customer arrangements, reducing available headroom. This drives additional audit effort specific to their feasibility.
- Discount rate – this is complicated in nature and varies according to the conditions and environment the specific CGUs are subject

How the matter was addressed in our audit

Our procedures included:

- Considering the appropriateness of the value in use method applied by the Group to assess the carrying value of property, plant and equipment, right-of-use assets and intangible assets against the criteria in the accounting standards.
- We considered the Group's determination of their CGUs based on our understanding of the operations of the Group's business, how the identifiable CGUs generate independent cash inflows, 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 EBITDA margins, discount rate and cash flow improvements associated with new customers and changes to existing customer arrangements, within a reasonably possible range. We did this to identify those CGUs at higher risk of impairment and to focus our further procedures.
- We challenged the Group's forecast cash flows, EBITDA margin and growth assumptions considering the uncertainty in business activity. We compared forecasts to Board approved budgets and we assessed forecast EBITDA margins through comparison to historical performance. We applied increased scepticism where previous forecasts were not achieved, using our knowledge of the challenging economic environment.
- 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, its 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.

to from time to time. The Group’s value in use models for certain CGUs are sensitive to changes in discount rate. The Group also has many 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.	– Assessed the integrity of the value in use model used, including the accuracy of the underlying calculation formulas. – Assessed the Group’s analysis of the difference between the market capitalisation and net assets of the Group. We did this by comparing the implicit earnings multiple in the Group’s models to market multiples of comparable entities. • For the vacant land we considered the basis of the valuation and compared the expert’s valuation to carrying amount of the vacant land. • We assessed the disclosures, including those related to most sensitive key assumptions used in the estimation of the recoverable amount, 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.

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

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

KPMG

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 the Financial Report.

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

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of CTI Logistics Limited for the year ended 30 June 2021, 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 on page 6 & 7 for the year ended 30 June 2021.

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

KPMG

KPMG

Jane Bailey

Jane Bailey

Partner

Perth

30 August 2021