



CTI Logistics Limited

ACN 008 778 925

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Directory

DIRECTORS

David Robert Watson
(Executive Chairman)

Jonathan David Elbery
(Executive)

David Anderson Mellor
(Executive)

Bruce Edmond Saxild
(Executive)

Peter James Leonhardt
(Non-Executive)

SECRETARY

David Anderson Mellor

AUDITORS

PricewaterhouseCoopers
QV1, Level 19
250 St. George's Terrace
Perth
Western Australia 6000

SHARE REGISTRY

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

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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West Perth
Western Australia 6005
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CTI Logistics Limited is a company limited by shares incorporated and domiciled in Australia

Chairman's Statement

In our Preliminary Final Report to the Australian Stock Exchange for the year ended June 2004, the Company noted that it was in the process of reviewing the impact of tax consolidation legislation on the consolidated group. On the basis of the review the Company and controlled entities have decided to implement the tax consolidation legislation as from 1 July 2003. The review was completed on 29 September and reported to the Australian Stock Exchange.

The implementation of the tax consolidation legislation results in an uplift in the tax cost bases of the consolidated group and has given rise to a deferred income tax credit of \$1,136,000 being recognised in the financial results for the year ended 30 June 2004. As a result the net profit for the year has increased from \$1,711,000 reported in August, to \$2,847,000. This one-off adjustment has no effect on the group's operations and does not affect cash flows in the year under review. It simply represents a possible future benefit.

The year on year profit increase, from \$215,000 reported in 2003 to \$2,847,000 in 2004, is obviously pleasing, but it needs to be noted that the 2003 result was adversely affected by two non-operating, non-cash, abnormal asset value adjustments made in accordance with Australian Accounting Standards, and the 2004 result was positively affected by the deferred income tax credit, also made in accordance with Australian Accounting Standards, and one-off profits on the sales of businesses and property.

During the year under review we sold the property at Rous Head near the Fremantle wharf; we sold the wharf-related cartage operations; and we sold the Eastern States transport businesses. One consequence of these sales was a reduction in overall sales revenue for the year, by 18.8%, to \$74,302,000.

In September 2004 the Company introduced an on-market share buy-back of up to 10% of the issued shares over a twelve month period. Within the first month the Company has stood in the market and been offered over 7% of the issued shares, at up to 60 cents per share. While this price is below the Company's stated net tangible asset backing, some shareholders are obviously taking advantage of the opportunity to exit their stock at a firm price which is close to its high for the last three years.

Finally, I would like to extend the board's thanks and appreciation to all members of staff and sub-contractors for their efforts and commitment over the past year. I would also like to record the board's thanks to Trevor Kennedy for his contribution over many years as Deputy Chairman. Trevor resigned from the board in November 2003.



DAVID WATSON
Executive Chairman

Directors' Report

YOUR DIRECTORS PRESENT THEIR REPORT ON THE CONSOLIDATED ENTITY CONSISTING OF CTI LOGISTICS LIMITED AND THE ENTITIES IT CONTROLLED AT THE END OF, OR DURING, THE YEAR ENDED 30 JUNE 2004.

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

David Robert Watson

Mr Watson is the founder and executive chairman of the consolidated entity. Mr Watson is a member of the remuneration committee.

Trevor John Kennedy (resigned 17 November 2003)

Mr Kennedy was the non-executive deputy chairman of CTI Logistics Limited. He resigned from the board on 17 November 2003.

Jonathan David Elbery

Mr Elbery is a Chartered Accountant who has been with the consolidated entity since 1992. He is responsible for the consolidated entity's security operations. Mr Elbery is a member of the audit committee.

Peter James Leonhardt

Mr Leonhardt is a non-executive director of CTI Logistics Limited and has been with the consolidated entity since 1999. He is also chairman of Voyager Energy Limited, a director of Alliance Finance Corporation Limited and a former managing partner of Coopers & Lybrand. Mr Leonhardt is the chairman of the audit committee and the remuneration committee.

David Anderson Mellor

Mr Mellor is a Chartered Accountant who has been with the consolidated entity since 1978. He is responsible for the consolidated entity's finances and accounts.

Bruce Edmond Saxild

Mr Saxild has been with the consolidated entity since 1977. He is responsible for the consolidated entity's logistics and transport operations.

Principal activities of the consolidated entity

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

Dividends

The directors have declared a fully franked final dividend of 1 cent per ordinary share subsequent to the end of the financial year. This dividend is not recognised as a liability at year end. During the financial year a 1 cent fully franked dividend for the year ended 30 June 2003 and a 1 cent fully franked interim dividend for the year ended 30 June 2004 were paid to members.

Review of operations and results

During the period the consolidated entity sold its entire eastern states logistics and transport operations and certain wharf related assets. The effect of this sale on the results for the period under review is set out in note 26(v). In the year under review consolidated revenue from ordinary activities was \$74,301,761, down 18.8% on the previous year. Net profit after tax attributable to members of the Company was \$2,847,367, up from \$214,802 on the previous year.

Changes in the state of affairs

Income tax credits of \$1,136,291 arose from the re-measurement of the tax balances of the consolidated entity on the implementation of the tax consolidation regime to reflect the impact of a resetting of the tax values of its assets with identified timing differences.

No other significant changes in the state of affairs of the consolidated entity have occurred other than those matters referred to elsewhere in this Annual Report.

Events subsequent to balance date

On 20 September 2004 the Company commenced an on-market buy-back of its issued shares. In accordance with the relevant legislation and Australian Stock Exchange Listing Rules, the Company can buy back up to 10% of its shares within the 12 months ending 19 September 2005 at prices not exceeding 5% above the average market price paid in the 5 trading days immediately preceding a purchase.

The directors are not aware of any other matter or circumstance not otherwise dealt with in this Annual Report or the financial statements that has significantly or may significantly affect the operations of the consolidated entity, the results of those operations, or the affairs of the consolidated entity in subsequent financial years.

Likely developments

The major objectives encompassed in the Business Plan of the consolidated entity 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 consolidated entity's existing core operations; and
- (iii) to maximise the profits and returns to shareholders by constant review of existing operations.

Directors' Report

Directors' benefits

No director of the Company has, since the end of the previous financial year, received or become entitled to receive a benefit (other than a benefit included in the aggregate amount of emoluments received by directors as shown in the consolidated entity's accounts) by reason of a contract made by the Company or a controlled entity or a related body corporate with the director or with an entity of which the director is a member, or with an entity in which the director has a substantial financial interest other than those transactions detailed in Note 23.

Directors' meetings

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

Board of Directors

	Number held	Number attended
J D Elbery	5	5
T J Kennedy (resigned)	1	-
P J Leonhardt	5	5
D A Mellor	5	5
B E Saxild	5	5
D R Watson	5	5

Audit committee

	Number held	Number attended
J D Elbery	5	5
P J Leonhardt	5	5

Remuneration committee

	Number held	Number attended
T J Kennedy (resigned)	-	-
P J Leonhardt	1	1
D R Watson	1	1

Directors' and executives' emoluments

The remuneration committee makes specific recommendations on remuneration packages and other terms of employment for executive directors. No element of the remuneration is based upon the Company's performance. Remuneration of non-executive directors is determined by the board within the maximum amount approved by shareholders, from time to time. Details of the nature and amount of each element of the emoluments of each director of the Company and the consolidated entity is set out in Note 23 of the financial statements.

Having regard to the size and structure of the consolidated entity, the nature of its operations, and the close involvement of the four executive directors, it is the opinion of the directors that there are no executive officers of the Company or the consolidated entity apart from the four executive directors.

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

	Direct Holdings	Indirect Holdings
J D Elbery	162,526	309,210
P J Leonhardt	-	53,086
D A Mellor	69,545	914,756
B E Saxild	63,626	710,221
D R Watson	3,406,290	1,964,861

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 premium paid in respect of this policy was \$15,235 (2003 - \$14,069).

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.

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



JONATHAN ELBERY
Director

Perth, 30 September 2004

Statements of Financial Performance for the Year Ended 30 June 2004

	Notes	CONSOLIDATED		COMPANY	
		2004 \$	2003 \$	2004 \$	2003 \$
Revenue from ordinary activities	2	74,301,761	91,521,359	6,678,371	8,141,601
Borrowing costs expense		1,091,792	1,952,889	365,267	1,930,082
Other expenses from ordinary activities	3	71,199,860	89,114,228	5,754,187	6,187,013
Profit from ordinary activities before income tax expense	3	2,010,109	454,242	558,917	24,506
Income tax expense/(benefit)	4	(837,258)	239,440	(343,284)	83,078
Net profit/(loss) attributable to members of the Company	17	2,847,367	214,802	902,201	(58,572)
Total changes in equity other than those resulting in transactions with owners as owners		2,847,367	214,802	902,201	(58,572)
		Cents	Cents		
Basic earnings per share	25	11.24	0.85		
Diluted earnings per share	25	11.24	0.85		

The accompanying notes form an integral part of these financial statements.

Statements of Financial Position as at 30 June 2004

	Notes	CONSOLIDATED		COMPANY	
		2004 \$	2003 \$	2004 \$	2003 \$
CURRENT ASSETS					
Cash assets	26	453,526	-	453,526	-
Receivables	5	13,609,942	14,957,818	10,476,021	18,031,587
Inventories	7	1,453,157	1,354,737	-	59,121
Other assets	11	2,560,614	4,798,039	311,540	80,100
Total Current Assets		18,077,239	21,110,594	11,241,087	18,170,808
NON-CURRENT ASSETS					
Receivables	5	1,578,895	1,837,155	466,155	487,155
Other financial assets	6	257,185	327,753	8,439,981	8,439,981
Property, plant and equipment	8	20,944,563	25,734,877	2,562,852	2,798,976
Tax assets	9	717,690	1,433,844	717,690	424,641
Intangible assets	10	404,172	3,357,114	-	-
Other assets	11	2,148	4,952	-	-
Total Non-current Assets		23,904,653	32,695,695	12,186,678	12,150,753
TOTAL ASSETS		41,981,892	53,806,289	23,427,765	30,321,561
CURRENT LIABILITIES					
Payables	12	6,769,761	8,817,301	978,579	1,373,680
Interest bearing liabilities	13	2,828,504	10,752,685	148,255	5,084,703
Provisions	15	1,213,811	1,923,109	668,841	612,261
Total Current Liabilities		10,812,076	21,493,095	1,795,675	7,070,644
NON-CURRENT LIABILITIES					
Payables	12	83,333	416,668	-	-
Interest bearing liabilities	13	6,474,524	8,180,761	128,428	2,821,479
Tax liabilities	14	680,913	2,152,168	680,913	2,602
Provisions	15	536,469	509,789	111,765	111,455
Total Non-current Liabilities		7,775,239	11,259,386	921,106	2,935,536
TOTAL LIABILITIES		18,587,315	32,752,481	2,716,781	10,006,180
NET ASSETS		23,394,577	21,053,808	20,710,984	20,315,381
EQUITY					
Contributed equity	16	20,044,219	20,044,219	20,044,219	20,044,219
Retained profits	17	3,350,358	1,009,589	666,765	271,162
TOTAL EQUITY		23,394,577	21,053,808	20,710,984	20,315,381

The accompanying notes form an integral part of these financial statements.

Statements of Cash Flows for the Year Ended 30 June 2004

	Notes	CONSOLIDATED		COMPANY	
		2004 \$	2003 \$	2004 \$	2003 \$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from trade and other debtors (inclusive of goods and services tax)		75,526,944	108,812,105	5,814,693	4,509,524
Payments of accounts payable and to other suppliers and creditors and employees (inclusive of goods and services tax)		(67,743,056)	(101,343,066)	(6,719,453)	(4,200,159)
Interest received		114,769	79,626	107,981	2,025,409
Borrowing costs		(1,091,792)	(1,952,889)	(365,267)	(1,930,082)
Dividends received		3,450	3,588	2,003,450	225,255
Income taxes paid		(1,264,643)	(437,843)	-	-
Income tax refunds received		372,463	386,801	-	-
Net cash flows from operating activities	26(i)	5,918,135	5,548,322	841,404	629,947
CASH FLOWS FROM INVESTING ACTIVITIES					
Loan repayments received		21,000	6,000	7,817,840	5,001,531
Payments for property, plant and equipment		(1,987,011)	(1,261,865)	(118,683)	(78,409)
Deferred payment for purchase of business		(333,333)	(52,000)	-	-
Proceeds from sale of businesses, property, plant & equipment		8,576,200	5,455,958	97,273	171,909
Net cash flows from investing activities		6,276,856	4,148,093	7,796,430	5,095,031
CASH FLOWS FROM FINANCING ACTIVITIES					
Repayment of borrowings		(11,166,132)	(10,272,673)	(7,608,975)	(6,301,236)
Dividends paid		(506,598)	(248,799)	(506,598)	(248,799)
Net cash flows from financing activities		(11,672,730)	(10,521,472)	(8,115,573)	(6,550,035)
NET INCREASE/(DECREASE) IN CASH HELD		522,261	(825,057)	522,261	(825,057)
Cash at the beginning of the financial year		(68,735)	756,322	(68,735)	756,322
CASH AT THE END OF THE FINANCIAL YEAR	26(ii)	453,526	(68,735)	453,526	(68,735)

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001.

The financial statements have been prepared on the basis of historical costs and, except where stated, do not take into account current valuations of non-current assets. Where the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to its recoverable amount. The recoverable amount of an asset is assessed as the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal or via appropriate market indices. Except where stated recoverable amounts are not determined using discounted cash flows.

The accounting policies adopted in preparing the financial statements have been consistently applied by entities in the consolidated entity except as otherwise indicated. Unless otherwise stated, the accounting policies are consistent with those of the previous year.

a. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by CTI Logistics Limited ("Company" or "parent entity") as at 30 June 2004 and the results of all controlled entities for the year then ended. CTI Logistics Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full.

Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of financial performance from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed.

b. ACQUISITION OF ASSETS

The cost method of accounting is used for all acquisitions of assets regardless of whether shares or other assets are acquired. Cost is determined as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs incidental to the acquisition. Where shares are issued in an acquisition, the value of the shares is determined having reference to the fair value of the assets or net assets acquired, including goodwill or discount on acquisition where applicable.

Goodwill is brought to account on the basis described in Note 1(h).

c. REVENUE RECOGNITION

Sales revenue represents revenue earned from the sale of the consolidated entity's products and services, net of returns, trade allowances and duties and taxes paid. Revenue from services includes amounts charged to customers in relation to sales, excise and other duties paid on behalf of customers. Other revenue includes interest income on short term investments, dividends received from other corporations, rent, proceeds from the sale of assets and, in the case of the Company, dividends and management fees received from controlled entities.

d. INVESTMENTS

The Company's interests in companies and the consolidated entity's interests in companies which are not controlled are brought to account at cost and dividends are recognised in the statement of financial performance when receivable. Subsequently, the carrying amount of investments is the lower of cost or market value, the later resulting in a provision for diminution.

e. INVENTORIES

Finished goods, raw materials and stores and work in progress are stated at the lower of cost and net realisable value. Costs have been assigned to inventory quantities on hand at balance date using the first in first out basis. Cost comprises material, labour and an appropriate proportion of fixed and variable overheads.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, other than freehold land, are recorded at cost and are depreciated over their estimated useful lives to the consolidated entity using the straight line method. The expected useful lives are as follows:

Buildings	21-40 years
Plant and equipment	5-15 years
Motor vehicles	5-10 years

g. LEASED ASSETS

Where property, plant and equipment is acquired by means of finance leases, the present value of the minimum lease payments is recognised as an asset at the beginning of the lease term and amortised on a straight line basis over the expected useful life of the leased asset. A corresponding liability is also established and each lease payment is allocated between the liability and finance charge. Other operating lease payments are charged to the statement of financial performance in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

h. GOODWILL

On acquisition of some, or all, of the assets of another entity or, in the case of an investment in a controlled entity, on acquisition of some, or all, of the equity of that controlled entity, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired, including any liability for restructuring costs, is brought to account as goodwill and amortised on a straight line basis over the period of expected benefit, which has been assessed as up to 20 years from the date of gaining control of the entities for substantially all of the goodwill.

i. BORROWING COSTS

Borrowing costs are recognised as expenses in the period in which they are incurred. Borrowing costs include interest on bank overdrafts, short-term and long-term borrowings, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with the arrangement of borrowings, and finance lease charges. Certain ancillary costs incurred in connection with the arrangement of borrowings have been capitalised and are being amortised over the period of expected benefit.

j. AMORTISATION PERIODS

Intangible assets and other significant items of expenditure having a future benefit are amortised over their anticipated useful lives or the periods to which they relate.

k. RECEIVABLES

A sale is recorded when goods have been despatched to a customer or services have been provided.

All trade debtors are recognised at the amounts receivable as they are due for settlement no more than 30 days from the date of recognition.

A provision is raised for any doubtful debts based on a review of all outstanding amounts at balance date. Bad debts are written off in the period in which they are identified.

l. TRADE AND OTHER CREDITORS

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

m. INTEREST BEARING LIABILITIES

Loans are carried at their principal amounts and interest is accrued over the period it becomes due.

Bills of exchange have been sold in the market at a discount to face value. The bills are recorded at face value. The discount is recorded as a prepayment and taken to interest expense over the term of the bill.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n. EMPLOYEE ENTITLEMENTS

Liabilities for wages and salaries, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date, and are measured as the amounts expected to be paid when liabilities are settled.

A liability for long service leave expected to be settled more than 12 months from the reporting date is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Contributions to employee superannuation plans are charged as an expense as the contributions are paid or become payable.

Employee Share and Option Plan

Under the Employee Share and Option Plan, the Company at the directors' discretion and with shareholder approval, may offer eligible employees the opportunity to purchase ordinary shares with the assistance of an interest free loan. The issue price of the shares is determined under the terms of the Employee Share and Option Plan (refer note 16(iv)). The loan is for a term of 10 years and is repayable by dividends. The shares are recorded at the issue price in equity and the related loan is recorded as a non-current receivable.

Options to acquire ordinary shares may also be offered to employees. The exercise price is determined under the terms of the Employee Share and Option Plan (refer Note 16(iv)). The options are not recorded in the financial statements until they are exercised.

o. FOREIGN CURRENCY

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency receivables and payables at balance date are translated at exchange rates at balance date. Exchange gains and losses are brought to account in determining the profit or loss for the year.

p. INCOME TAX

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit account at the rates which are expected to apply when those timing differences reverse.

Tax consolidation legislation

The economic entity has decided to implement the tax consolidation legislation as of 1 July 2003. The Australian Tax Office has not yet been notified of this decision.

As a consequence, CTI Logistics Limited, as the head entity in the tax consolidated group, recognises current and deferred tax amounts relating to transactions, events and balances of the entities in the group (being wholly-owned controlled entities) as if those transactions, events and balances were its own, in addition to the current and deferred tax amounts arising in relation to its own transactions, events and balances. Amounts receivable or payable under an accounting tax sharing agreement with the tax consolidated entities are recognised separately as tax-related amounts receivable or payable. Expenses and revenues arising under the tax sharing agreement are recognised as a component of income tax expense (revenue).

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p. INCOME TAX (continued)

The deferred tax balances recognised by the parent entity in relation to the wholly-owned entities joining the tax consolidated group are measured based on their carrying amounts at the level of the tax consolidated group before the implementation of the tax consolidation regime, with one exception. The deferred tax balances relating to assets that had their tax values reset on joining the tax consolidated group, have been re-measured based on the carrying amount of those assets at the tax-consolidated group level and their reset tax values. The re-measurement adjustments of these deferred tax balances are also recognised in the consolidated financial statements as income tax expense or revenue. The impact on the income tax expense for the year is disclosed in Note 4.

q. CASH FLOWS

For the purpose of the statements of cash flows, cash includes cash on hand, deposits held at call with banks and investments in money market instruments, net of bank overdrafts.

r. EARNINGS PER SHARE

(i) Basic earnings per share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

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

s. SEGMENT INFORMATION

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

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 financial year but not distributed at balance date.

u. PROPERTY HELD FOR RESALE

Property which is intended to be sold within twelve months of the balance date is classified as property held for resale. Property held for resale is stated at the lower of cost less accumulated depreciation and net realisable value.

v. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Australian Accounting Standards Board (AASB) is adopting IFRS for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group will issue abstracts corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. The adoption of Australian equivalents to IFRS will be first reflected in the consolidated entity's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

v. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (continued)

Entities complying with Australian equivalents to IFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of IFRS to that comparative period. Most adjustments required on transition to IFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

CTI Logistics has conducted a high level review of the likely impact of transition to Australian equivalents to IFRS. A more detailed review will be conducted in the next financial year.

Major changes identified to date that will be required to the consolidated entity's existing accounting policies include the following:

(i) *Income tax*

Under the AASB112 *Income Taxes*, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

This will result in a change to the current accounting policy, under which deferred tax balances are determined using the income statement method, items are only tax-effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes cannot be recognised directly in equity.

(ii) *Intangible assets – goodwill*

Under the AASB 3 *Business Combinations*, certain intangible assets which would currently be included in goodwill will be separately recognised and amortised on a systematic basis over their useful life. Amortisation of goodwill will be prohibited, and will be replaced by annual impairment testing focusing on the cash flows of the related cash generating unit.

This will result in a change to the current accounting policy, under which goodwill is amortised on a straight line basis over the period during which the benefits are expected to arise and not exceeding 20 years.

(iii) *Impairment of non-current assets*

AASB 136 *Impairment of Assets* defines recoverable amount as the higher of an asset's (or a cash generating unit's) fair value less cost to sell and its value in use. Value in use is the present value of estimated future cash flows expected to arise from an asset or cash generating unit. The discount rate used must be an asset specific risk adjusted rate. Recoverable amount is determined whenever there is any indication that an asset may be impaired.

This will result in a change to the current accounting policy under which the estimated future cash flows used to determine recoverable amounts of non-current assets on an annual basis are not discounted to their present values.

(iv) *Share-based payments*

Employee Share and Option Plan

On adoption of IFRS, it is expected that the Employee Share and Option Plan will be within the scope of AASB 2 *Share-based Payment* and treated as equity settled, share based remuneration.

For new limited recourse loans issued to employees after adoption of IFRS, it is expected that the Company will be required to recognise within the statement of financial performance a remuneration expense measured at the fair value of the 'share option' inherent in the limited recourse loans issued to employees. Any shares acquired on market to fulfil a future obligation to provide shares to employees will be accounted for as a separate class of equity. A loan receivable will not be recognised. Loans to employees to acquire shares that were made prior to 1 January 2005 will not be required to be accounted for under AASB 2. However, the outstanding balance of any such loans is not expected to meet the obligation criteria for an asset under AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards* and will need to be de-recognised on transition to IFRS through an adjustment to contributed equity.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

v. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (continued)

(v) *Financial instruments*

Under AASB 139 *Financial Instruments: Recognition and Measurement* there may be impacts as a result of financial assets held by the Company being subject to classification as either held for trading, held-to-maturity, available for resale or loans and receivables and, depending upon classification, measured at fair value or amortised cost. The most likely accounting change is that investments in equity securities will be classified as available for sale and measured at fair value, with changes in fair value recognised directly in equity until the underlying asset is derecognised.

The above should not be regarded as a complete listing of changes in accounting policies that will result from the transition to Australian equivalents to IFRS, as not all standards have been analysed as yet, and some decisions have not yet been made where choices of accounting policies are available. For these reasons it is not yet possible to quantify the impact of the transition to Australian equivalents to IFRS on the consolidated entity's financial position and reported results.

Notes to the Financial Statements

2. REVENUE

	CONSOLIDATED		COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$
Revenue from operating activities				
Sale of goods	18,661,248	18,719,923	259,032	238,396
Sale of services	42,514,870	77,536,445	-	-
Deduct excise and other duties	-	(8,601,142)	-	-
Management fees	-	-	2,353,370	3,360,224
Services provided to related companies	-	-	1,399,558	1,219,481
Interest charged to related companies	-	-	72,658	2,449,194
Rent charged to related companies	-	-	293,226	266,280
	<u>61,176,118</u>	<u>87,655,226</u>	<u>4,377,844</u>	<u>7,533,575</u>
Revenue from outside the operating activities				
Interest	114,769	79,626	35,323	10,551
Dividends	3,450	3,588	3,450	225,255
Dividend from a related company	-	-	2,000,000	-
Rent	320,431	66,382	-	-
Grant	25,507	229,568	-	-
Proceeds from sale of				
Business property, plant and equipment	11,254,840	2,759,046	97,273	171,909
Other investments	-	800	-	-
Other	1,406,646	727,123	164,481	200,311
	<u>13,125,643</u>	<u>3,866,133</u>	<u>2,300,527</u>	<u>608,026</u>
Total revenue from ordinary activities	<u>74,301,761</u>	<u>91,521,359</u>	<u>6,678,371</u>	<u>8,141,601</u>

3. OPERATING PROFIT

(i) OPERATING EXPENSES

a) Other expenses from ordinary activities

Other expenses from operating activities				
Changes in inventories of finished goods and work in progress	98,420	(79,011)	-	-
Raw materials and consumables used	9,497,820	10,044,839	182,791	247,602
Employee benefits expense	19,514,105	26,332,365	4,311,075	4,055,672
Subcontractor expense	16,886,009	35,119,916	-	-
Depreciation of non-current assets (refer Note 8)	3,298,874	3,756,819	340,435	420,407
Depreciation of property held for resale	56,079	84,210	-	-
Amortisation of non-current assets	146,657	457,543	-	-
Motor vehicle and transportation costs	5,671,291	5,776,632	94,227	66,751
Property costs	942,601	1,539,975	55,273	63,758
Insurance costs	723,561	1,195,635	246,466	382,578
Provision for diminution of investment	70,625	461,580	-	-
Provision for restricted recovery of share scheme loans	-	381,000	-	381,000
Other expenses from operating activities	4,813,843	1,825,059	461,333	417,229
	<u>61,719,885</u>	<u>86,896,562</u>	<u>5,691,600</u>	<u>6,034,997</u>

Notes to the Financial Statements

3. OPERATING PROFIT (Continued)

	CONSOLIDATED		COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$
Other expenses from outside the operating activities				
Property costs	-	79,955	-	-
Carrying value of businesses, property, plant and equipment sold	9,479,975	2,137,711	62,587	152,016
	<u>9,479,975</u>	<u>2,217,666</u>	<u>62,587</u>	<u>152,016</u>
Expenses from ordinary activities, excluding borrowing costs expense	71,199,860	89,114,228	5,754,187	6,187,013
	<u><u>71,199,860</u></u>	<u><u>89,114,228</u></u>	<u><u>5,754,187</u></u>	<u><u>6,187,013</u></u>
b) Profit from ordinary activities before income tax expense for the year includes the following specific net gains and expenses:				
Cost of sale of goods	14,118,492	13,174,000	182,791	247,602
Amortisation of goodwill	146,657	404,070	-	-
Net gain on disposal				
- investments	-	800	-	-
- businesses, property, plant and equipment	1,774,865	621,335	34,686	19,892
Bad and doubtful debts expense				
- trade debtors	363,470	418,728	-	-
- share scheme loans	-	381,000	-	381,000
Provision for diminution of investment	70,625	461,580	-	-
Rental expense relating to operating leases				
- minimum lease payments	838,895	1,587,548	-	-
	<u><u>838,895</u></u>	<u><u>1,587,548</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
(ii) AUDITORS' REMUNERATION				
Amounts received, or due and receivable, by:				
The auditor of the Company for auditing and reviewing the financial statements	89,140	77,000	80,140	58,400
Other services - taxation (2003 - training)	9,250	900	-	900
	<u><u>9,250</u></u>	<u><u>900</u></u>	<u><u>-</u></u>	<u><u>900</u></u>

Notes to the Financial Statements

4. INCOME TAX

	CONSOLIDATED		COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$
The income tax on the operating profit differs from the amount prima facie payable on that profit as follows:				
Prima facie income tax on the operating profit at 30%	603,033	136,273	167,675	7,352
Tax effect of permanent differences which				
<i>Reduce tax payable due to:</i>				
Rebatable dividends	(1,035)	(1,076)	(601,035)	(67,576)
Non-assessable profits on sale of businesses, property, plant and equipment	(352,114)	(161,886)	-	-
<i>Increase tax payable due to non-deductible:</i>				
Amortisation	43,970	127,719	-	-
Depreciation	13,442	20,205	8,802	7,131
Expenses	1,703	17,812	932	1,717
Provision	21,188	138,474	-	-
Prima facie tax adjusted for permanent differences	330,187	277,721	(423,626)	(51,376)
Tax losses transferred to controlled entities	-	-	79,601	126,576
Under/(over) provision in prior year	(31,154)	(38,281)	741	7,878
Aggregate income tax expense/(benefit) before impact of tax consolidations	299,033	239,440	(343,284)	83,078
Prima facie income tax on the operating profit of the tax consolidated group (excluding parent entity) at 30%			435,358	-
Tax effect of permanent differences which				
<i>Reduce tax payable due to:</i>				
Non-assessable profits on sale of businesses, property, plant and equipment			(352,114)	-
<i>Increase tax payable due to non-deductible:</i>				
Elimination of intercompany dividend			600,000	-
Amortisation			43,970	-
Depreciation			4,640	-
Expenses			771	-
Provision			21,188	-
Prima facie tax adjusted for permanent differences			753,813	-
Eliminate tax losses transferred to controlled entities			(79,601)	-
Over provision in prior year			(31,895)	-
Aggregate income tax expense – tax consolidated group (excluding parent entity)			642,317	-
			299,033	-
Net deferred tax liabilities of the tax consolidated group entities assumed on implementation of tax consolidation	-	-	(888,109)	-
Adjustment to deferred tax balances on implementation of tax consolidation	(1,136,291)	-	-	-
Compensation paid to tax consolidated group entities	-	-	245,792	-
Aggregate income tax expense/(benefit)	(837,258)	239,440	(343,284)	83,078

Notes to the Financial Statements

4. INCOME TAX (continued)

Tax consolidation legislation

CTI Logistics Limited and the controlled entities have decided to implement the tax consolidation legislation as of 1 July 2003. The Australian Taxation Office has not yet been notified of this decision. The accounting policy on implementation of the legislation is set out in Note 1(p). The impact on the income tax expense for the year is disclosed in the tax reconciliation above.

The controlled entities have agreed to compensate the Company for deferred tax liabilities assumed by the Company on the date of implementing this legislation and will be fully compensated for any deferred tax assets transferred to the Company, as such a current tax related payable has been recognised by the Company.

The entities also intend to enter 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 at the same time as the associated income tax liabilities falls due and have therefore been recognised as a current tax related payable by the Company. In the opinion of the directors, the tax sharing agreements are also valid agreements under the tax consolidated legislation and will limit the joint and several liability of the controlled entities in the case of default by the Company.

5. RECEIVABLES

	CONSOLIDATED		COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$
Current				
Trade debtors	9,098,848	13,203,715	165,921	795,576
Deduct provision for doubtful debts	440,371	596,966	-	-
	<u>8,658,477</u>	<u>12,606,749</u>	<u>165,921</u>	<u>795,576</u>
Loans to controlled entities	-	-	9,335,763	17,236,011
Income tax refund receivable	974,337	-	974,337	-
Deferred consideration for sale of businesses	3,380,782	450,000	-	-
Other	596,346	1,901,069	-	-
	<u>13,609,942</u>	<u>14,957,818</u>	<u>10,476,021</u>	<u>18,031,587</u>
Non-current				
Loans to directors (issued pursuant to the Company's Employee Share and Option Plan and secured by a lien over shares). (refer to Note 23.)	847,155	868,155	847,155	868,155
Deduct provision for restricted recovery	381,000	381,000	381,000	381,000
	<u>466,155</u>	<u>487,155</u>	<u>466,155</u>	<u>487,155</u>
Deferred consideration for sale of a business	1,112,740	1,350,000	-	-
	<u>1,578,895</u>	<u>1,837,155</u>	<u>466,155</u>	<u>487,155</u>

Notes to the Financial Statements

6. OTHER FINANCIAL ASSETS

	CONSOLIDATED		COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$
Non-current				
Traded securities (at cost)				
Shares and other equity securities	718,765	718,708	105,840	105,840
Deduct provision for diminution	461,580	461,580	-	-
	257,185	257,128	105,840	105,840
Other investments				
Shares in controlled entities (refer Note 21)				
At cost	-	-	8,334,141	8,334,141
Shares - at cost	70,625	70,625	-	-
Deduct provision for diminution	70,625	-	-	-
	-	70,625	8,334,141	8,334,141
	257,185	327,753	8,439,981	8,439,981

NET FAIR VALUES

Traded securities are listed. The aggregate net fair values of these securities are:

Non-current	395,105	236,733	74,614	61,970
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7. INVENTORIES

Current				
Raw materials and stores (at cost)	383,687	492,360	-	59,121
Work in progress (at cost)	244,265	192,004	-	-
Finished goods (at cost)	825,205	670,373	-	-
	1,453,157	1,354,737	-	59,121

8. PROPERTY, PLANT AND EQUIPMENT

	COST		ACCUMULATED DEPRECIATION/AMORTISATION		WRITTEN DOWN VALUE	
	2004	2003	2004	2003	2004	2003
	\$	\$	\$	\$	\$	\$
Consolidated						
Freehold land						
At cost	2,488,982	2,488,982	-	-	2,488,982	2,488,982
Buildings						
At cost	8,726,155	8,798,470	2,038,932	1,891,209	6,687,223	6,907,261
Plant and equipment						
At cost	23,880,682	22,841,369	15,263,145	14,526,173	8,617,537	8,315,196
Motor vehicles						
At cost	6,274,819	14,515,590	3,123,998	6,517,223	3,150,821	7,998,367
Under finance lease	-	33,759	-	8,688	-	25,071
	6,274,819	14,549,349	3,123,998	6,525,911	3,150,821	8,023,438
	41,370,638	48,678,170	20,426,075	22,943,293	20,944,563	25,734,877

Notes to the Financial Statements

8. PROPERTY, PLANT AND EQUIPMENT (continued)

	COST		ACCUMULATED DEPRECIATION/AMORTISATION		WRITTEN DOWN VALUE	
	2004	2003	2004	2003	2004	2003
	\$	\$	\$	\$	\$	\$
Company						
Freehold land						
At cost	560,973	560,973	-	-	560,973	560,973
Buildings						
At cost	1,945,838	1,945,838	495,606	435,853	1,450,232	1,509,985
Plant and equipment						
At cost	1,859,891	1,826,871	1,734,873	1,573,833	125,018	253,038
Motor vehicles						
At cost	796,188	872,641	369,559	397,661	426,629	474,980
	5,162,890	5,206,323	2,600,038	2,407,347	2,562,852	2,798,976

	CONSOLIDATED		COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$
Recent valuations of land and buildings				
Aggregate recent valuations of freehold land and buildings based on:				
Directors' valuation - 2004	12,059,000	12,059,000	2,550,000	2,550,000

In determining their valuation, the directors have utilised independent valuations conducted in May 2003. The basis of the valuation of land and buildings is market value, being the amounts for which the asset should exchange on the date of valuation between a willing buyer and a willing seller in an "arm's-length" transaction, wherein the parties had each acted knowledgeably, prudently and without compulsion.

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below.

	FREEHOLD LAND	BUILDINGS	PLANT AND EQUIPMENT	MOTOR VEHICLES	TOTAL
	\$	\$	AT COST \$	AT COST \$	FINANCE LEASE \$
Consolidated					
Carrying amount at 1 July 2003	2,488,982	6,907,261	8,315,196	7,998,367	25,734,877
Additions	-	10,694	2,925,358	652,896	3,588,948
Disposals	-	(25,091)	(491,233)	(4,538,993)	(5,080,388)
Depreciation/ amortisation expense	-	(205,641)	(2,131,784)	(961,449)	(3,298,874)
Carrying amount at 30 June 2004	2,488,982	6,687,223	8,617,537	3,150,821	20,944,563

Notes to the Financial Statements

8. PROPERTY, PLANT AND EQUIPMENT (continued)

	FREEHOLD LAND	BUILDINGS	PLANT AND EQUIPMENT AT COST	MOTOR VEHICLES AT COST	FINANCE LEASE	TOTAL
	\$	\$	\$	\$	\$	\$
Company						
Carrying amount at 1 July 2003	560,973	1,509,985	253,038	474,980	-	2,798,976
Additions	-	-	33,020	133,876	-	166,896
Disposals	-	-	-	(62,585)	-	(62,585)
Depreciation/ amortisation expense	-	(59,753)	(161,040)	(119,642)	-	(340,435)
Carrying amount at 30 June 2004	560,973	1,450,232	125,018	426,629	-	2,562,852

9. TAX ASSETS

	CONSOLIDATED		COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$
Non-current				
Future income tax benefit	717,690	1,433,844	717,690	424,641

The consolidated future income tax benefit for the year ended 30 June 2004 includes \$nil attributable to tax losses (2003 - \$266,357).

10. INTANGIBLE ASSETS

Goodwill (at cost)	1,144,196	5,065,075	-	-
Deduct accumulated amortisation	740,024	1,707,961	-	-
	404,172	3,357,114	-	-

11. OTHER ASSETS

Current				
Prepayments	636,287	1,252,962	311,540	80,100
Property held for resale	1,924,327	3,545,077	-	-
	2,560,614	4,798,039	311,540	80,100
Recent valuation of property held for resale				
Recent valuations of land and buildings based on directors' valuation - 2004	2,495,000	3,875,000	-	-

Notes to the Financial Statements

11. OTHER ASSETS (continued)

In determining their valuation, the directors have utilised independent valuations conducted in May 2003. The basis of the valuation of land and buildings is market value, being the amounts for which the asset should exchange on the date of valuation between a willing buyer and a willing seller in an "arm's-length" transaction, wherein the parties had each acted knowledgeably, prudently and without compulsion.

	CONSOLIDATED		COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$
Non-current				
Borrowing costs	266,708	263,333	200,618	200,618
Deduct accumulated amortisation	264,560	260,345	200,618	200,618
	2,148	2,988	-	-
Deferred costs	222,752	222,752	-	-
Deduct accumulated amortisation	222,752	220,788	-	-
	-	1,964	-	-
	2,148	4,952	-	-

12. PAYABLES

Current				
Trade (unsecured)	6,769,761	8,817,301	732,787	1,373,680
Tax related amounts payable to controlled entities	-	-	245,792	-
	6,769,761	8,817,301	978,579	1,373,680
Non-current				
Trade (unsecured)	83,333	416,668	-	-

13. INTEREST BEARING LIABILITIES

Current (secured)				
Bank overdrafts	-	68,735	-	68,735
Bank loans	-	5,225,000	-	4,855,000
Other loans	-	3,073,921	-	-
Lease liabilities	-	14,297	-	-
Hire purchase creditors	2,828,504	2,370,732	148,255	160,968
	2,828,504	10,752,685	148,255	5,084,703
Non-current (secured)				
Bank loans	-	2,575,000	-	2,575,000
Other loans	4,256,000	1,316,623	-	-
Hire purchase creditors	2,218,524	4,289,138	128,428	246,479
	6,474,524	8,180,761	128,428	2,821,479

Notes to the Financial Statements

13. INTEREST BEARING LIABILITIES (continued)

Other loans

Other loans comprises of two interest only mortgages over freehold land and buildings. The mortgages have expiry dates of August 2006 and February 2006. The interest rates are subject to review on a three monthly basis and calculated with reference to the 90 day bank bill bid rate. An interest and principal mortgage was repaid during the financial year ended 30 June 2004.

Security provided

The bank overdrafts, loans, lease liabilities and hire purchase creditors are secured by mortgages over the consolidated entity's freehold land and buildings, rights to assets under lease or hire purchase which revert to the lessor in event of default and a fixed and floating charge over the remaining assets of the consolidated entity.

The carrying amounts of assets pledged as security are:

	CONSOLIDATED		COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$
Current				
Property held for resale	1,924,327	3,545,077	-	-
Non-current				
Receivables	1,578,895	1,837,155	466,155	487,155
Other financial assets	257,185	327,753	8,439,981	8,439,981
Property, plant and equipment	20,944,563	25,734,877	2,562,852	2,798,976
Intangible assets	404,172	3,357,114	-	-
14. TAX LIABILITIES				
Non-current				
Provision for deferred income tax	680,913	2,152,168	680,913	2,602
15. PROVISIONS				
Current				
Employee entitlements	1,213,811	1,923,109	668,841	612,261
Non-current				
Employee entitlements	536,469	509,789	111,765	111,455
Employee entitlement liabilities				
Current	1,213,811	1,923,109	668,841	612,261
Non-current	536,489	509,789	111,765	111,455
Total	1,750,300	2,432,898	780,606	723,716
Employee numbers				
Number of employees at balance date	274	499	31	36

Notes to the Financial Statements

16. CONTRIBUTED EQUITY

	CONSOLIDATED		COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$
(i) SHARE CAPITAL				
25,329,931 (2003 – 25,329,931) fully paid ordinary shares	20,044,219	20,044,219	20,044,219	20,044,219
(ii) MOVEMENTS IN ISSUED SHARE CAPITAL				
			2003	
			NUMBER	AMOUNT
				\$
Balance at 1 July 2002			24,879,931	19,857,064
Issued ordinary shares at 41.59 cents each under the Employee Share and Option Plan (refer Note 16 (iv))			450,000	187,155
Balance at 30 June 2003			25,329,931	20,044,219
			2004	
			NUMBER	AMOUNT
				\$
Balance at 30 June 2004			25,329,931	20,044,219

Ordinary shares 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.

(iii) OPTIONS

750,000 options were granted to employees of CTI Logistics Limited and its controlled entities on 28 February 2001. Each option was convertible into one ordinary share at any time on or before 28 February 2004 at a fixed price of 75 cents per share. All the options expired on 28 February 2004 and were cancelled. The number of unissued ordinary shares under these options at 30 June 2004 is nil (2003 – 600,000).

(iv) EMPLOYEE SHARE AND OPTION PLAN

The Employee Share and Option Plan was approved by the shareholders at the 1998 annual general meeting. Under the plan, employees (including executive directors), that have been employed by the consolidated entity for at least two years, may be offered the opportunity to purchase ordinary fully paid shares or offered options to acquire ordinary fully paid shares at the directors discretion and subject to shareholder approval.

The issue price of the plan shares is determined from the weighted average market price of all CTI Logistics Limited shares sold on the Australian Stock Exchange during the 30 days preceding the offer being extended. The exercise price of the plan options is determined by the last sale price of the Company's shares on the day prior to the offer being extended plus a premium of 15%. No options have been issued under this plan since inception.

The Company, at the time of offering the plan shares, may also offer an interest free loan to assist with the purchase of these shares. The term of the loan is for 10 years. The loan is repayable by dividends earned on the plan shares and is secured by a lien over the plan shares.

Notes to the Financial Statements

17. RETAINED PROFITS AND DIVIDENDS

	CONSOLIDATED		COMPANY	
	2004 \$	2003 \$	2004 \$	2003 \$
(i) RETAINED PROFITS				
Balance at the beginning of year.	1,009,589	794,787	271,162	329,734
Adjustment resulting from change in accounting policy for providing for dividends	-	248,799	-	248,799
Net profit/(loss) for the year	2,847,367	214,802	902,201	(58,572)
Dividends provided for or paid	(506,598)	(248,799)	(506,598)	(248,799)
Balance at the end of the year	<u>3,350,358</u>	<u>1,009,589</u>	<u>666,765</u>	<u>271,162</u>
(ii) DIVIDENDS				
Final 2003 dividend of 1 cent per ordinary share paid on 21 November 2003. - Franked at 30%	253,299	-	253,299	-
Interim dividend of 1 cent per ordinary share paid on 14 May 2004. - Franked at 30%	253,299	-	253,299	-
Total dividends provided for or paid	<u>506,598</u>	<u>-</u>	<u>506,598</u>	<u>-</u>

Dividends were paid in cash.

Dividends not recognised at year end

Since the end of the year the directors have declared a final dividend of 1 cent per ordinary share, fully franked at 30%. The aggregate amount of the dividend payable on 12 November 2004 out of retained profits at 30 June 2004 is \$253,299 (2003 - \$253,299).

Franking credits

Franking credits available at the 30% corporate tax rate.	173,273	471,471	173,273	851
-----------------------------------------------------------	---------	---------	---------	-----

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

- (a) franking credits/debits that will arise from the payment/refund of the current tax liability/receivable;
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date;
- (c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date; and
- (d) franking credits that may be prevented from being distributed in subsequent financial years.

The 2003 consolidated amounts include franking credits that would be available to the parent entity if distributable profits of controlled entities were paid as dividends.

Franking credits of \$470,620 were transferred from wholly-owned entities to the parent entity at the time these entities entered the tax consolidated group on 1 July 2003.

Notes to the Financial Statements

18. CONTINGENT LIABILITIES

	CONSOLIDATED		COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$
Details and estimated maximum amounts of contingent liabilities (for which no amounts are recognised in the financial statements) arising in respect of:				
Company				
Guarantees by the Company in respect of leasing and hire purchase agreements entered into by controlled entities	-	-	4,770,345	8,757,115
Controlled entities				
Guarantees by the Company in respect of creditors and borrowings by controlled entities	-	-	10,376,307	16,072,135
	-	-	15,146,652	24,829,250

Under the terms of a Deed of Cross Guarantee (as detailed in Note 21) the Company has undertaken to meet any shortfall which might arise on the winding up of controlled entities which are party to the deed. The controlled entities are not in liquidation nor is there any indication that the controlled entities will be wound up. Details of controlled entities party to the deed are in Note 21.

A claim for \$235,112 has been lodged against a controlled entity in relation to alleged failure to make good a property on the expiration of a lease agreement. At the time, the property was subject to a sub-lease and the sub-tenant is a co-defendant to the action. In the case that damages are awarded in this matter, a claim can be placed against the sub-tenant under the terms of the sub-lease. The Company has disclaimed liability and is defending the action. It is not practical to estimate the potential effect and end result of this claim but legal advice indicates the net financial impact of the case against the consolidated entity will not be significant.

19. SUPERANNUATION COMMITMENTS

Superannuation contributions are made pursuant to the Government's Superannuation Guarantee Charge and are legally enforceable. Employees contribute various percentages of their gross income. Benefits provided under the Company's Superannuation Plan are based on the accumulated contributions for each employee over the period of employment. Funds are available to satisfy all benefits that are vested under the plan in the event of termination of the plan or termination of an employee's employment.

Notes to the Financial Statements

20. LEASE AND CAPITAL COMMITMENTS

	CONSOLIDATED		COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$
Total lease expenditure contracted for at balance date but not recognised in the financial statements:				
Payable no later than one year	1,021,857	1,418,475	14,423	15,835
Payable later than one, not later than five years	1,271,957	1,464,391	11,164	8,354
Payable later than five years	72,676	349,444	-	-
	<u>2,366,490</u>	<u>3,232,310</u>	<u>25,587</u>	<u>24,189</u>
Representing				
Non-cancellable operating leases	1,873,067	2,490,395	-	-
Future finance charges on finance leases and hire purchase	493,423	741,915	25,587	24,189
Commitments not recognised in the financial statements	<u>2,366,490</u>	<u>3,232,310</u>	<u>25,587</u>	<u>24,189</u>
Analysis of non-cancellable operating lease commitments:				
Payable no later than one year	830,971	998,766	-	-
Payable later than one, not later than five years	1,066,822	1,142,185	-	-
Payable later than five years	72,676	349,444	-	-
	<u>1,970,469</u>	<u>2,490,395</u>	<u>-</u>	<u>-</u>
Deduct provision for surplus lease space	97,402	-	-	-
Commitments not recognised in the financial statements	<u>1,873,067</u>	<u>2,490,395</u>	<u>-</u>	<u>-</u>
Analysis of finance lease and hire purchase commitments:				
Payable no later than one year	3,116,792	3,023,606	162,678	176,803
Payable later than one, not later than five years	2,423,659	4,392,476	139,592	254,833
	<u>5,540,451</u>	<u>7,416,082</u>	<u>302,270</u>	<u>431,636</u>
Deduct future finance charges on finance leases and hire purchase	493,423	741,915	25,587	24,189
Recognised as a liability	<u>5,047,028</u>	<u>6,674,167</u>	<u>276,683</u>	<u>407,447</u>
Representing lease and hire purchase liabilities				
Current	2,828,504	2,385,029	148,255	160,968
Non-current	2,218,524	4,289,138	128,428	246,479
	<u>5,047,028</u>	<u>6,674,167</u>	<u>276,683</u>	<u>407,447</u>

Notes to the Financial Statements

21. INVESTMENTS IN CONTROLLED ENTITIES

Name of entity	COUNTRY OF INCORPORATION	INTEREST OF COMPANY (ORDINARY SHARES)	
		2004 %	2003 %
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 Fleet Management Pty	Australia	100	100
CTI Freight Management Pty Ltd	Australia	100	100
CTI Business Investment Company Pty Ltd	Australia	100	100
CTI Freight Systems Pty Ltd	Australia	100	100
CTI Couriers Pty Ltd	Australia	100	100
CTI Swinglift Services Pty Ltd	Australia	100	100
CTI Xpress Systems Pty Ltd	Australia	100	100
CTI Investments Pty Ltd	Australia	100	100
Consolidated Transport Industries Pty Ltd	Australia	100	100
Other controlled entities			
Directly controlled by CTI Investments Pty Ltd			
Advance Press Pty Ltd	Australia	100	100
LCL Cargo Services Pty Ltd	Australia	100	100
Blackwood Industries Pty Ltd	Australia	100	100
Australian Fulfilment Services Pty Ltd (formerly CTI Fulfilment Services Pty Ltd)	Australia	100	100
Directly controlled by Blackwood Industries Pty Ltd			
Efal Pty Ltd	Australia	100	100
Ausplastics Pty Ltd	Australia	100	100
CTI Records Management Pty Ltd (formerly CTI Management Pty Ltd)	Australia	100	100
CTI Waste Management Pty Ltd (formerly CTI (NSW) Pty Ltd)	Australia	100	100
Directly controlled by Consolidated Transport Industries Pty Ltd			
CTI Distribution Group Pty Ltd	Australia	100	100

All of the above companies are relieved from the requirement to prepare audited financial statements under the ASIC Class Order 98/1418 (as amended by Class Orders 98/2017, 00/0321 and 01/1087) as they and the Company are party to a Deed of Cross Guarantee under which each company guarantees the debts of the others. Entities acquired or established during the financial year are added by an Assumption Deed contemplated by the Deed of Guarantee. 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.

Notes to the Financial Statements

22. SEGMENT INFORMATION

The consolidated entity operates predominantly in Australia and is involved in the production and sale of the following products and services:

- Logistics and transport services - includes the provision of courier, taxi truck, and warehousing.
- Manufacturing, security and other services - includes the provision of printing, paper converting, manufacturing of plastic products and security services.

	LOGISTICS AND TRANSPORT	MANUFACTURING, SECURITY AND OTHER	INTERSEGMENT ELIMINATIONS	CONSOLIDATED
	2004	2004	2004	2004
	\$	\$	\$	\$
Sales to customers outside the consolidated entity	50,353,933	23,372,066		73,725,999
Intersegment sales	141,181	18,860	(160,041)	-
Total segment revenue	50,495,114	23,390,926	(160,041)	
Unallocated other revenue				575,762
Consolidated revenue from ordinary activities				74,301,761
Segment result	2,568,361	2,817,116	(181,267)	5,204,210
Unallocated result				
Interest expense				(687,468)
Other				(2,506,633)
Consolidated profit from ordinary activities before income tax				2,010,109
Income tax benefit				837,258
Net profit				2,847,367
Segment assets	17,889,945	24,186,457	(5,962,367)	36,114,035
Unallocated assets				5,867,857
Total assets				41,981,892
Segment liabilities	3,409,906	4,826,859	(1,342,261)	6,894,504
Unallocated liabilities				11,692,811
Total liabilities				18,587,315
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	515,212	2,906,838	-	3,422,050
Unallocated acquisitions				166,898
Total acquisitions				3,588,948
Depreciation and amortisation expense	1,305,059	1,856,113	-	3,161,172
Unallocated				340,438
Total depreciation and amortisation expense				3,501,610
Other non-cash expenses	208,932	225,163	-	434,095
Unallocated				187,402
Total other non-cash expenses				621,497

Notes to the Financial Statements

22. SEGMENT INFORMATION (continued)

	LOGISTICS AND TRANSPORT	MANUFACTURING, SECURITY AND OTHER	INTERSEGMENT ELIMINATIONS	CONSOLIDATED
	2003	2003	2003	2003
	\$	\$	\$	\$
Sales to customers outside the consolidated entity	67,950,492	22,996,537	-	90,947,029
Intersegment sales	161,680	57,164	(218,844)	-
Total segment revenue	68,112,172	23,053,701	(218,844)	
Unallocated other revenue				574,330
Consolidated revenue from ordinary activities				91,521,359
Segment result	1,747,300	3,177,084	(151,736)	4,772,648
Unallocated result				
Interest expense				(1,404,613)
Provision for diminution of investments				(461,580)
Provision for restricted recovery of share scheme loans				(381,000)
Other				(2,071,213)
Consolidated profit from ordinary activities before income tax				454,242
Income tax expense				239,440
Net profit				214,802
Segment assets	32,155,512	22,615,313	(6,897,213)	47,873,612
Unallocated assets				5,932,677
Total assets				53,806,289
Segment liabilities	7,483,866	4,500,761	(3,165,157)	8,819,470
Unallocated liabilities				23,933,011
Total liabilities				32,752,481
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	2,621,203	1,607,909	-	4,229,112
Unallocated acquisitions				161,929
Total acquisitions				4,391,041
Depreciation and amortisation expense	2,265,392	1,612,773	-	3,878,165
Unallocated				420,407
Total depreciation and amortisation expense				4,298,572
Other non-cash expenses	260,554	268,174	-	528,728
Unallocated				381,000
Total other non-cash expenses				909,728

Inter-segment transfers

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

Notes to the Financial Statements

23. DIRECTORS' AND EXECUTIVES' REMUNERATION

The following persons were directors of CTI Logistics Limited during the financial year; J D Elbery, T J Kennedy, P J Leonhardt, D A Mellor, B E Saxild and D R Watson. Each held office as a director of the Company during the full year ended 30 June 2004 except Mr Kennedy who resigned from the board of CTI Logistics Limited on 17 November 2003.

Having regard to the size and structure of the consolidated entity, the nature of its operations, and the close involvement of the four executive directors, it is the opinion of the directors that there are no specified executives of the Company or the consolidated entity apart from the four executive directors.

REMUNERATION OF DIRECTORS

Principles used to determine the nature and amount of remuneration

The remuneration committee makes specific recommendations on remuneration packages and other terms of employment for executive directors. No element of the remuneration is based upon the Company's performance. Remuneration of non-executive directors is determined by the board within the maximum amount, approved by shareholders, from time to time.

Details of remuneration

Details of remuneration of each director of CTI Logistics Limited, including their personally-related entities, are set out in the following table.

2004 NAME	PRIMARY			POST-EMPLOYMENT		EQUITY	TOTAL
	CASH SALARY AND FEES	CASH BONUS	NON-MONETARY BENEFITS	SUPERANNUATION	RETIREMENT BENEFITS	OPTIONS	
	\$	\$	\$	\$	\$	\$	\$
J D Elbery	220,538	-	9,184	15,249	-	-	244,971
T J Kennedy <i>(resigned 17 Nov 2003)</i>	9,556	-	-	860	-	-	10,416
P J Leonhardt	-	-	-	29,000	-	-	29,000
D A Mellor	209,456	-	7,841	16,819	-	-	234,116
B E Saxild	198,645	-	8,007	18,630	-	-	225,282
D R Watson	277,117	-	9,982	17,315	-	-	304,414
Total	915,312	-	35,014	97,873	-	-	1,048,199

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 premium paid in respect of this policy was \$15,235 (2003 - \$14,069).

Notes to the Financial Statements

23. DIRECTORS' AND EXECUTIVES' REMUNERATION (continued)

EQUITY INSTRUMENT DISCLOSURES RELATING TO DIRECTORS

Share holdings

The number of shares in the Company held during the financial year by the directors of the Company, including their personally-related entities, is set out below.

NAME	BALANCE AT THE START OF THE YEAR	RECEIVED DURING THE YEAR ON THE EXERCISE OF OPTIONS	OTHER CHANGES DURING THE YEAR	BALANCE AT THE END OF THE YEAR
J D Elbery	467,626	-	1,100	468,726
T J Kennedy <small>(resigned 17 Nov 2003)</small>	3,602,658	-	-	3,602,658
P J Leonhardt	53,086	-	-	53,086
D A Mellor	975,451	-	8,850	984,301
B E Saxild	766,097	-	7,750	773,847
D R Watson	5,370,051	-	1,100	5,371,151

LOANS TO DIRECTORS

Aggregates for directors

2004	BALANCE AT THE START OF THE YEAR \$	INTEREST PAID OR PAYABLE FOR THE YEAR \$	INTEREST NOT CHARGED \$	BALANCE AT THE END OF THE YEAR \$	NUMBER IN THE GROUP AT THE END THE YEAR
Directors of CTI Logistics Limited	868,155	-	57,293	847,155	4

Individuals with loans above \$100,000 during the financial year

2004	BALANCE AT THE START OF THE YEAR \$	INTEREST PAID OR PAYABLE FOR THE YEAR \$	INTEREST NOT CHARGED \$	BALANCE AT THE END OF THE YEAR \$	HIGHEST INDEBTEDNESS DURING THE YEAR \$
J D Elbery	232,635	-	15,340	226,635	232,635
D A Mellor	232,635	-	15,340	226,635	232,635
B E Saxild	232,635	-	15,340	226,635	232,635
D R Watson	170,250	-	11,273	167,250	170,250

The loans were extended for an original term of 10 years. The first tranche of loans has a remaining term of 4 years, while the second tranche has a remaining term of 8 years. All loans to directors are repayable from dividends and are secured by a lien over the shares. The market value of the underlying shares at 30 June 2004 was \$577,500 (2003 - \$409,500).

In accordance with shareholder approval, these loans are interest free. The amounts for interest not charged in the tables above represent the amount of interest that would have been charged on an arm's-length basis.

In the event of cessation of employment of directors, loans are repayable but the Company cannot claim or demand outstanding moneys other than to the extent of proceeds realised from the disposal of shares secured under the plans. At the reporting date, the possible loss to the consolidated entity in the event of non-realisation of loans was nil (2003 - \$77,655) after a provision of \$381,000. The provision was made during 2003 against restricted recovery.

OTHER TRANSACTIONS WITH DIRECTORS AND SPECIFIED EXECUTIVES

A director, P J Leonhardt, is a director of Alliance Finance Corporation Limited. During the year Alliance Finance Corporation Limited provided the consolidated entity with an insurance premium funding loan under normal commercial terms and conditions.

Notes to the Financial Statements

24. RELATED PARTY INFORMATION

(i) CONTROLLING ENTITY

CTI Logistics Limited is the ultimate Australian parent entity of the consolidated entity.

(ii) DIRECTORS AND DIRECTOR-RELATED ENTITIES

Disclosures relating to the directors of entities in the consolidated entity are disclosed in Note 23.

(iii) TRANSACTIONS WITH ENTITIES IN THE WHOLLY-OWNED GROUP

During the year the Company advanced and repaid loans, received loans, sold goods and provided accounting and administrative services to other entities in the wholly-owned group. These transactions were on commercial terms and conditions, except for certain interest free loans.

	CONSOLIDATED		COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$
(iv) AMOUNTS RECEIVABLE FROM AND PAYABLE TO ENTITIES IN THE WHOLLY-OWNED GROUP AND OTHER RELATED PARTIES				
Aggregate amounts receivable at balance date from:				
Entities in the wholly-owned group				
Loans				
Current	-	-	9,335,763	17,236,011
(v) AMOUNTS ATTRIBUTABLE TO TRANSACTIONS WITH ENTITIES IN THE WHOLLY-OWNED GROUP AND OTHER RELATED PARTIES				
Operating profit before income tax for the financial year includes aggregate amounts attributable to transactions in respect of:				
Entities in the wholly-owned group				
Interest revenue	-	-	72,658	2,014,859
Management revenue	-	-	2,353,370	3,360,224
Services provided	-	-	1,399,558	1,219,481
Rent charged	-	-	293,226	266,280
Dividend revenue	-	-	2,000,000	221,667
Interest expense	-	-	-	1,102,797

(vi) OWNERSHIP INTEREST IN ENTITIES IN THE WHOLLY-OWNED GROUP

Interests held in controlled entities are set out in Note 21.

Notes to the Financial Statements

25. EARNINGS PER SHARE

	CONSOLIDATED	
	2004	2003
	Cents per share	
Basic earnings per share	11.24	0.85
Diluted earnings per share	11.24	0.85
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share and diluted earnings per share	25,329,931	25,143,767
	\$	\$
Earnings used in the calculation of basic and diluted earnings per share	2,847,367	214,802
	Number	Number
Potential shares that are not dilutive and are not used in the calculation of diluted earnings per share:		
Options	-	600,000

26. CASH FLOW INFORMATION

	CONSOLIDATED		COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$
(i) RECONCILIATION OF NET CASH FLOWS FROM OPERATING ACTIVITIES TO OPERATING PROFIT AFTER INCOME TAX				
Operating profit/(loss) after income tax	2,847,367	214,802	902,201	(58,572)
Depreciation and amortisation	3,501,610	4,298,572	340,434	420,407
Provision for doubtful debts	(156,595)	287,708	-	381,000
Net gain on disposal of				
Businesses, property, plant and equipment	(1,774,865)	(621,335)	(34,686)	(19,892)
Investments	-	(800)	-	-
Provision for diminution of investments	70,625	461,580	-	-
Decrease/(increase) in future income tax benefit	716,154	(70,012)	(293,049)	80,477
Increase/(decrease) in deferred taxes payable	(1,471,255)	258,411	678,311	2,602
Changes in assets and liabilities net of effects of acquisitions and disposals of entities				
(Increase)/decrease in trade and other debtors	4,420,381	2,484,445	(241,277)	(687,501)
(Increase)/decrease in inventories	(98,420)	20,709	59,121	6,908
(Increase)/decrease in prepayments	616,675	(309,107)	(231,440)	(16,984)
Increase/(decrease) in accounts payable, employee entitlements and other provisions	(2,753,542)	(1,476,651)	(338,211)	521,502
Net cash inflows from operating activities	5,918,135	5,548,322	841,404	629,947

Notes to the Financial Statements

26. CASH FLOW INFORMATION (continued)

	CONSOLIDATED		COMPANY	
	2004	2003	2004	2003
	\$	\$	\$	\$
(ii) RECONCILIATION OF CASH				
Cash at the end of the financial year (as shown in the consolidated statement of cashflows) is reconciled to the accounts as follows:				
Cash on hand and at bank at the end of the financial year	453,526	-	453,526	-
Less: Bank overdrafts	-	(68,735)	-	(68,735)
Balances per statement of cashflows	453,526	(68,735)	453,526	(68,735)

(iii) STANDBY ARRANGEMENTS AND CREDIT FACILITIES

Entities in the consolidated entity have access to:

Credit standby arrangements

Secured bank overdraft and bill acceptance facilities, totalling

Amount of credit unused

5,920,000	10,694,000	-	-
5,778,320	2,527,923	-	-

The Company does not have separate credit facilities but has access to funds made available by bankers to the consolidated entity as a whole.

(iv) NON-CASH FINANCING AND INVESTING ACTIVITIES

Acquisition of plant and equipment by means of hire purchase

Sale of businesses, plant and equipment for deferred consideration

Issue of shares under the Company's Employee Share and Option Plan

1,601,937	3,076,569	48,213	146,032
2,678,640	1,800,000	-	-
-	187,155	-	187,155

(v) DISPOSAL OF BUSINESSES

During the financial year, the consolidated entity sold its logistics and transport businesses located in the eastern states and certain wharf related assets (In 2003 – the freight forwarding and customs broking businesses were sold).

Proceeds received or receivable:

Cash consideration received

Deferred consideration

Total consideration

	CONSOLIDATED 2004	CONSOLIDATED 2003
	\$	\$
6,281,185	450,000	
2,678,640	1,800,000	
8,959,825	2,250,000	

Carrying value of assets disposed of:

Plant and equipment

Intangible assets

Other assets

4,841,758	205,753
2,886,483	1,435,049
361,552	157,242
8,089,793	1,798,044

Notes to the Financial Statements

27. SUBSEQUENT EVENTS

Subsequent to balance date, the directors have declared a final dividend of 1 cent per ordinary share fully franked.

On 20 September 2004 the Company commenced an on-market buy-back of its issued shares. In accordance with the relevant legislation and Australian Stock Exchange Listing Rules, the Company can buy back up to 10% of its shares within the 12 months ending 19 September 2005 at prices not exceeding 5% above the average market price paid in the 5 trading days immediately preceding a purchase.

Other than disclosed elsewhere in these financial statements no events have occurred since the end of the financial year that provide additional evidence of conditions that existed at the end of the financial year or that reveal for the first time a condition that existed at the end of the financial year.

28. FINANCIAL INSTRUMENTS

CREDIT RISK EXPOSURES

The credit risk on financial assets of the consolidated entity which have been recognised on the balance sheet, other than investments in shares, is generally the carrying amount, net of any provisions for doubtful debts.

Interest Rate Risk Exposures

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out below.

Exposures arise predominantly from assets and liabilities bearing variable interest rates as the consolidated entity intends to hold fixed rate assets and liabilities to maturity.

2004	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %	FLOATING INTEREST RATE \$	FIXED INTEREST MATURING IN:		NON- INTEREST BEARING \$	TOTAL \$
			1 YEAR OR LESS \$	OVER 1 TO 5 YEARS \$		
Financial assets						
Cash	4.09	453,526	-	-	-	453,526
Receivables		-	-	-	15,188,837	15,188,837
Investments		-	-	-	257,185	257,185
		453,526	-	-	15,446,022	15,899,548
Financial liabilities						
Other loans	6.68	-	-	4,256,000	-	4,256,000
Trade and other creditors		-	-	-	6,853,094	6,853,094
Hire purchase liabilities	6.83	-	2,828,504	2,218,524	-	5,047,028
		-	2,828,504	6,474,524	6,853,094	16,156,122
Net financial assets/(liabilities)		453,526	(2,828,504)	(6,474,524)	8,592,928	(256,574)

Notes to the Financial Statements

28. FINANCIAL INSTRUMENTS (continued)

2003	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE %	FIXED INTEREST MATURING IN:			NON- INTEREST BEARING \$	TOTAL \$
		FLOATING INTEREST RATE \$	1 YEAR OR LESS \$	OVER 1 TO 5 YEARS \$		
Financial assets						
Cash		-	-	-	-	-
Receivables		-	-	-	16,794,973	16,794,973
Investments		-	-	-	327,753	327,753
		-	-	-	17,122,726	17,122,726
Financial liabilities						
Bank Overdraft		68,735	-	-	-	68,735
Bank loans	5.05	7,800,000	-	-	-	7,800,000
Other loans	6.37	134,544	2,996,000	1,260,000	-	4,390,544
Trade and other creditors		-	-	-	9,233,969	9,233,969
Lease liabilities	7.50	-	14,297	-	-	14,297
Hire purchase liabilities	6.99	-	2,370,732	4,289,138	-	6,659,870
		8,003,279	5,381,029	5,549,138	9,233,969	28,167,415
Net financial assets/(liabilities)		(8,003,279)	(5,381,029)	(5,549,138)	7,888,757	(11,044,689)

Net fair value of financial assets and liabilities

On-balance sheet

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the consolidated entity approximates their carrying value.

The net fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

Equity investments traded on organised markets have been valued by reference to market prices prevailing at balance date.

The carrying amounts and net fair values of financial assets and liabilities at balance date are:

	2004		2003	
	CARRYING AMOUNT \$	NET FAIR VALUE \$	CARRYING AMOUNT \$	NET FAIR VALUE \$
On-balance sheet financial instruments				
Financial assets				
Cash	453,526	453,526	-	-
Trade and other debtors	15,188,837	15,133,162	16,794,973	16,662,381
Traded investments (note 6)	257,185	395,105	257,128	236,733
Other investments	-	-	70,625	12,826
	15,899,548	15,981,793	17,122,726	16,911,940

Notes to the Financial Statements

28. FINANCIAL INSTRUMENTS (continued)

	2004		2003	
	CARRYING AMOUNT	NET FAIR VALUE	CARRYING AMOUNT	NET FAIR VALUE
	\$	\$	\$	\$
Financial liabilities				
Trade accounts payable	6,853,094	6,853,094	9,233,969	9,233,969
Bank overdraft	-	-	68,735	68,735
Bank loans	-	-	7,800,000	7,800,000
Other loans	4,256,000	4,256,000	4,390,544	4,390,544
Lease liabilities	-	-	14,297	12,506
Hire purchase liabilities	5,047,028	5,047,028	6,659,870	6,796,445
	<u>16,156,122</u>	<u>16,156,122</u>	<u>28,167,415</u>	<u>28,302,199</u>
Off-balance sheet financial instruments				
Financial assets				
Interest rate swaps	-	-	(1,110)	(3,403)
	<u>-</u>	<u>-</u>	<u>(1,110)</u>	<u>(3,403)</u>

Other than those classes of assets and liabilities denoted as "traded", none of the classes of financial assets and liabilities are readily traded on organised markets in standardised form.

Although certain trade and other debtors are carried at an amount above net fair value, the directors have not caused those assets to be written down as it is intended to retain those assets to maturity.

Directors' Declaration

The directors declare that the financial statements and notes set out on pages 6 to 38:

- (a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2004 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the directors' opinion:

- (a) the financial statements and notes are in accordance with the Corporations Act 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; and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in Note 21 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 21.

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



JONATHAN ELBERY
Director

Perth
30 September 2004

Independent Audit Report

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF CTI LOGISTICS LIMITED

Audit opinion

In our opinion, the financial report of CTI Logistics Limited:

- gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of CTI Logistics Limited and the CTI Logistics Group (defined below) as at 30 June 2004, and of their performance for the year ended on that date, and
- is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

This opinion must be read in conjunction with the rest of our audit report.

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both CTI Logistics Limited (the company) and the CTI Logistics Group (the consolidated entity), for the year ended 30 June 2004. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

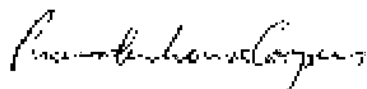
When this audit report is included in an Annual Report, our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

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

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.



PricewaterhouseCoopers



David J Smith
Partner

Perth
30 September 2004

Corporate Governance Statement

The Australian Stock Exchange Corporate Governance Council has published 10 principles and best practice recommendations relating to the direction and management of companies. These guidelines form a corporate governance framework intended to provide a practical guide for listed companies and their investors.

Adoption of the principles and associated best practice recommendations is not mandatory and the Australian Stock Exchange recognises that they may not be applicable to all companies. Under the Australian Stock Exchange Listing Rules companies are required to provide a statement disclosing the extent to which they have followed all the recommendations and identify the recommendations that have not been followed and give reasons for not following them.

Board of Directors

Role of the Board

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

The board's primary objective is to oversee the group business activities and management for the benefit of all stakeholders by:

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

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

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

Board Composition

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

The non-executive director is an independent director.

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

The directors have a broad range of qualifications, experience and expertise and details of individual directors is set out in the Directors' Report. The role of chairman and chief executive officer is filled by the founder of the business who is also a substantial shareholder. His knowledge, experience and understanding of the small businesses comprising the group are considered essential to perform these roles.

Corporate Governance Statement (continued)

The board considers that no value could be added by separating the roles.

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

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

Ethical and Responsible Decision Making

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

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

The practices covered by these policies have been in place informally throughout the reporting period. The policies were formally adopted and published after the end of the reporting period

Integrity in Financial Reporting

The Company has formed an audit committee consisting of independent director Peter Leonhardt (chair) and Jonathan Elbery. Meetings are also attended by David Mellor (finance director) and the chief group accountant. The audit committee has a formal charter which has been approved by the board of directors. The charter is published on the Company's website, www.ctilogistics.com. It is acknowledged that the size and composition of the audit committee does not comply with the guidelines of the Australian Stock Exchange Corporate Governance Council, however it is considered to be appropriate for the size and complexity of the Company.

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

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

Timely and Balanced Disclosure

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

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

The board has determined, that due to the size of the Company, that further disclosure policies and procedures are not required.

Rights of Shareholders

The board of directors encourages direct communication with shareholders.

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

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

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

Corporate Governance Statement (continued)

Risk Recognition and Management

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

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

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

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

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

The chairman and chief executive as well as the finance director sign a letter of representation to the external auditors in relation to the matters contained in the annual accounts. Due to the small size of the board and the number of executive board committee meetings held during the year to discuss and analyse divisional results, it is not considered necessary for the chief executive officer and the chief financial officer to make written representations to the board regarding the financial statements.

Enhanced Performance

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

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

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

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

Remuneration

The Company has established a remuneration committee comprising Peter Leonhardt (chair) and David Watson. This committee reviews and makes recommendations on remuneration policies for the Company including, in particular, those governing the directors. Directors' emoluments are set out in Note 23 of the financial statements.

Interests of Stakeholders

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

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

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

Shareholder Information

THE TWENTY LARGEST SHAREHOLDERS AS AT 30 SEPTEMBER 2004

	NUMBER OF SHARES	PERCENTAGE
Golden Words Pty Ltd	3,452,942	13.63
ANZ Nominees Limited	3,359,593	13.26
David R Watson	3,132,680	12.37
Argo Investments Limited	1,363,883	5.38
Draycott Pty Ltd	1,015,805	4.01
Parmelia Pty Ltd	533,524	2.11
Aberdeen Management Pty Ltd	395,268	1.56
W W Nominees Pty Ltd	363,874	1.44
Catherine Rachel Watson	351,753	1.39
Dixson Trust Pty Ltd	325,354	1.28
Sherene Sriyani Guy	321,802	1.27
Mitchelstown Holdings Limited	311,236	1.23
DAM Nominees Pty Ltd	300,400	1.19
Fortunegreen Pty Ltd	300,000	1.18
Bruce Saxild and Michelle Saxild	300,000	1.18
David J and Elizabeth L Clarke	260,000	1.03
David Watson Nominees Pty Ltd	233,781	0.92
Jonathon E Moore	213,318	0.84
Pinehurst Nominees Pty Ltd	210,000	0.83
Peachtree Pty Ltd	209,835	0.83
	<hr/>	
	16,955,048	66.93

SUBSTANTIAL SHAREHOLDERS AS AT 30 SEPTEMBER 2004

The Company's register of substantial shareholders recorded the following information as at 30 September 2004.

	NUMBER OF SHARES	PERCENTAGE
David R Watson	5,370,051	21.20
Golden Words Pty Ltd	3,602,658	14.48
ANZ Nominees Limited	1,915,469	7.56
Draycott Pty Ltd	1,515,805	6.09
Argo Investments Limited	1,197,094	5.73

DISTRIBUTION OF EQUITY SECURITIES AS AT 30 SEPTEMBER 2004

(i) Distribution schedule of holdings

	NUMBER OF SHAREHOLDERS ORDINARY SHARES
1 - 1,000	200
1,001 - 5,000	180
5,001 - 10,000	93
10,001 - 100,000	150
100,001 and over	37
	<hr/>
	660

(ii) There were 176 shareholders holding less than a marketable parcel of ordinary shares.

(iii) There were a total of 25,329,931 ordinary shares on issue.

VOTING RIGHTS

Ordinary shares carry voting rights of one vote per share.