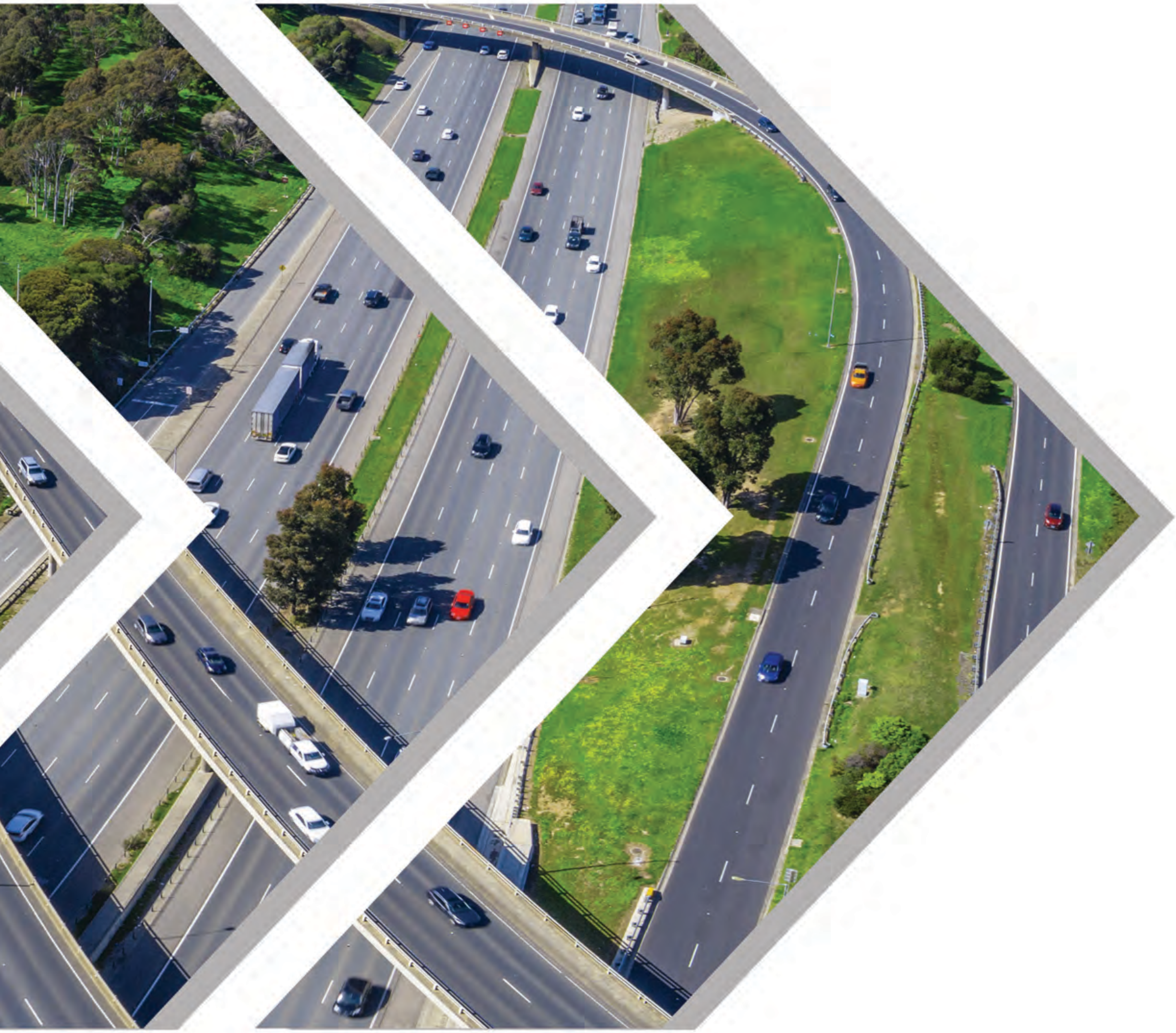
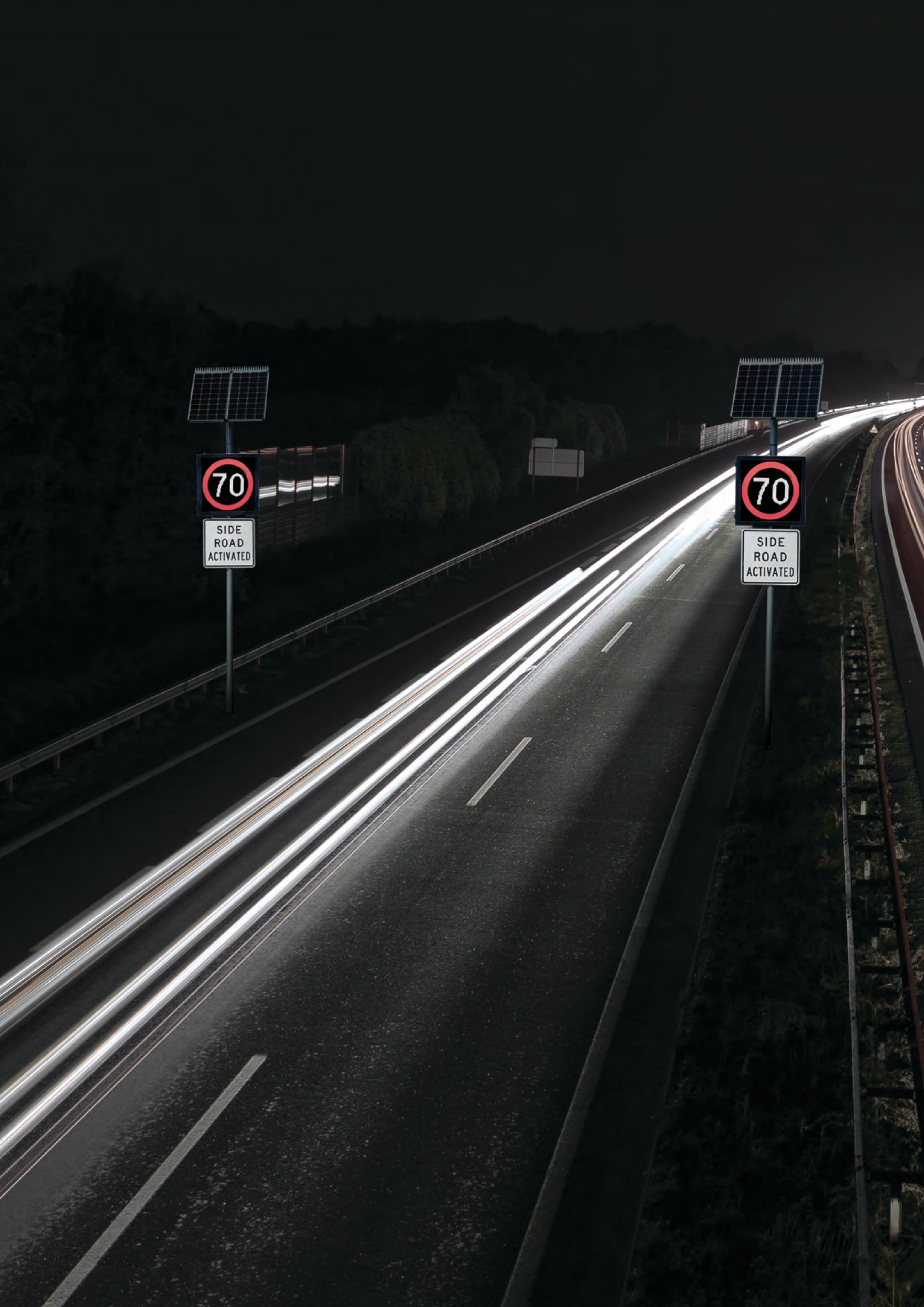
TRAFFIC TECHNOLOGIES



ANNUAL REPORT 2020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TRAFFIC TECHNOLOGIES LTD
ABN 21 080 415 407
AND CONTROLLED ENTITIES

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2020

ABN 21 080 415 407
Traffic Technologies Ltd.
address. 31 Brisbane Street, Eltham Victoria 3095 Australia
PO Box 828, Eltham Victoria 3095 Australia
phone. + 61 3 9430 0222   facsimile. + 61 3 9430 0244
web. www.trafficltd.com.au

Traffic Technologies Ltd and Controlled Entities
Chairman's Letter

Dear Shareholder,

I have pleasure in enclosing the Annual Report for Traffic Technologies Ltd for the financial year ended 30 June 2020.

The 2020 financial year has been challenging and we are disappointed to report a loss for the year. The loss included an impairment provision of $10.6m made against goodwill at the half-year. Revenue and EBITDA have been affected by generally weak trading conditions in key markets in which we operate. Despite initial positive signs, issues we have encountered in the past including a slowdown in orders and delays to the approval of several projects were again experienced in the first half. In the second half of the year we were faced with the challenges of Coronavirus (COVID-19).

The Company has been able to continue operating during the coronavirus pandemic and associated lockdowns. Delays in the supply chain have been experienced caused by lockdowns affecting some of the Company's suppliers and freight forwarders, however demand for the Company's products and services has been better than anticipated at the start of the lockdown period and more importantly has increased further as activities have re-opened in states where lockdown restrictions have eased.

The outlook is more promising particularly with the easing of lockdown restrictions and the anticipated growth in government spending on infrastructure. The Company has a strong order book, with several significant orders for its LED street lighting products, including the Ausgrid contract announced in August 2020. The Company's Smart City platform continues to gain acceptance in several states of Australia and we remain confident about the significant growth opportunity it represents for the Company in the years ahead.

As previously advised, the Company has undertaken a strategic review of the Company's activities with a view to identifying opportunities for improving shareholder value. A number of opportunities have been identified and while the disruption of COVID-19 has delayed implementation of some of the recommendations, (particularly as a result of travel restrictions), several aspects related to staffing and integration of activities are well advanced or completed. We are optimistic that we will be able to share further details on this together with growth in long term contractual orders over coming months.

The Company has been addressing the need to re-finance its facility with ADM Capital and to reduce further its cost of finance. We expect to make further announcements on this in due course.

I would like to take this opportunity to thank shareholders for their support of the Group. Along with my fellow Directors, I thank you for your continued support.

Garry Lowrey
Chairman

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Traffic Technologies Ltd and Controlled Entities
Managing Director's Operating and Financial Review

Dear Shareholder,

Operating Result

The Group has reported the following result for the financial year ended 30 June 2020:

	Year to 30 June 2020	Year To 30 June 2019+
	$'m	$'m
Sales revenue	44.5	48.3
Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA)	1.4	4.3
Depreciation Amortisation and Impairment Expense	(12.9)	(1.5)
Earnings before Interest and Tax (EBIT)	(11.4)	2.8
Net (Loss)/Profit After Tax (NPAT)	(14.0)	1.3

+ The FY20 result includes the capitalisation of property leases under AASB 16. Comparative figures for FY19 have not been restated.

Trading revenue was $44.5m, compared to $48.3m in the previous financial year and EBITDA was $1.4m, compared to EBITDA of $4.3m, whilst NPAT was a loss of $14.0m including an impairment of $10.6m made at the half-year, compared to NPAT of $1.3m in 2019. Through this extremely volatile year the Company has experienced weaker trading conditions in the market as reflected in the results.

The 2020 financial year has been challenging and the consolidated entity incurred a net loss for the year. Revenue and EBITDA were affected by generally weak trading conditions. There was a slowdown in orders and delays to the approval of several projects. In the second half of the year the consolidated entity was faced with the challenges of Coronavirus (COVID-19). Consequently, there is material uncertainty that may cast significant doubt whether the Group can continue as a going concern.

The financial statements have been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. Accordingly, the financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern, except for the classification of the ADM Capital loan facility as a current liability.

The Company has however been able to continue operating during the coronavirus (COVID-19) pandemic despite delays in the supply chain caused by lockdowns affecting local and overseas suppliers and freight forwarders.

Encouragingly demand for the Company's products and services has seen an increase in the second half of the 2020 year during the COVID-19 lockdown with an increase of 3% in revenue and almost 90% in EBITDA, where we saw several projects released and customer orders increasing. More encouraging is that the trend has continued as activities have re-opened in most states in the first quarter of the 2021 financial year.

The Company has taken advantage of Federal and State stimulus programs where possible to mitigate the financial impact of COVID-19, but has not been eligible for the Federal Government's JobKeeper program as turnover had not fallen below the required threshold. The Company has continued to review its cost base during the lockdown period and has reduced costs significantly along with increasing manufacturing efficiencies.

The result for the year includes the $10.6m impairment made against the value of goodwill in the financial statements and a bad debt provision of $0.7m.

Depreciation and amortisation expenses were $2.3m (2019 $1.5m), mainly comprising amortisation of intangible assets. Finance costs were $2.4m (2019: $1.4m).

Financial Position

Net assets were $7.1m at 30 June 2020 compared to $21.2m at 30 June 2019, reflecting the net loss for the year, including the impairment. In October 2019, the Company partially refinanced the debt facility managed by Asia Debt Management Hong Kong Limited (ADM Capital). The refinancing involved a repayment by the Company of AUD $7.5m to ADM Capital funded by entering into a secured debtor and trade finance facility with Octet Finance Pty Ltd (Octet) and a secured note facility with First Samuel Limited. This has reduced finance costs by 13%. Net debt, excluding liabilities associated with capitalised property leases, was $7.9m at 30 June 2020 a reduction of 22%, compared to $10.1m at 30 June 2019.

The Group has capitalised certain property leases as "right of use assets" in accordance with AASB 16 and the assets relating to such leases have been included in property plant and equipment ($1.1m) and the liability in interest-bearing loans and borrowings ($1.2m). The introduction of AASB 16 has also affected occupancy costs, depreciation expense and finance costs.

Cash Flow

Net operating cash inflows were $5.3m for the year (2019: inflow $1.5m), reflecting the Group's trading operations during the year. The introduction of the debtor finance facility in October 2019 has enabled the Company to access funds from its trade receivables more quickly than was previously the case. Net investing cash outflow was $2.1m (2019: outflow $2.3m), including investment in R&D to further expand and develop the Group's "Smart City Software" and product portfolio. Net financing cash outflow was $2.6m (2019: outflow $0.1m), after taking into account the refinancing of debt in October 2019.

Review of Operations

The 2020 financial year has been challenging. The Group has been affected by delays in decisions on a number of government projects and term contracts which were expected to have been awarded in the 2019 and 2020. We understand however that a number of these projects are now likely to commence later in 2020 and beyond.

Despite initial uncertainty around the coronavirus and government lockdown measures, the Group was able to continue to trade throughout the lockdown period and all factories and offices have remained open, although supply chain delays have been experienced which has affected the Group's trading result.

The Group has continued to develop and roll-out its proprietary "Smart City" software "TST", enabling road authorities, councils and power companies to fully utilise and manage critical assets in real time where possible.

The continuing roll-out of LED street lights across the country has led the Group's lighting products to be well positioned for further growth, having secured approvals, long term supply contracts and orders from state and local government agencies, power companies and contractors. The year provided the Group with the opportunity to increase its lighting activities from 2019 and expectations are, with term contracts in place and the increase in infrastructure programs, the trend will continue especially with the newly developed LED street lights with a lower carbon footprint meeting demanding government requirements.

The Group continues to be a major supplier of traffic signals and road signs to all states and territories in the domestic market, with the ability to service the requirements of state road authorities, local government and the largest road projects. With the next generation of LED traffic signals being available, the Group anticipates increasing activity in the years ahead with large scale infrastructure programs commenced by State and Federal governments.

Export Markets

The Group's export markets include the UK, New Zealand, Asia, the Middle East and South America, with "TST", our "Smart City" platform, and the Group's traffic controllers continuing to enjoying success. Significant export orders have recently come from New Zealand, Singapore, China, Vietnam and Qatar. The Group has identified opportunities to supply its state-of-the-art lighting control systems and "Smart City" software to overseas markets in England, Ireland, Hong Kong and Peru and, whilst there have been some project delays due to lockdowns and international travel restrictions, demand has continued despite these restrictions and the outlook is promising when government restrictions ease.

Business Strategies and Prospects

We have continued to invest in research and development with the major focus of development being the roll-out of our "Smart City" platform "TST". Significantly, we have first mover advantage in various aspects of this technology as our "Smart City" platform has multiple applications which are of significant benefit to users. Major customers include road authorities in Australia and overseas and local councils as well as operators of large networks of assets.

Our "Smart City" platform enables users to monitor and control thousands of assets linked through a secure private network to a central control system. Applications include control of traffic management assets such as street lights, as well as detection of traffic flows, parking availability, environmental and waste management. The Group's "Smart City" software "TST" is attractive to road authorities, councils and power companies due to its ability to fully utilise and maintain critical assets in real time in a significantly more cost-effective manner, driving financial savings and higher utilisation of assets as well as reduction of greenhouse gases.

With our system "TST", activated and functioning in Victoria, New South Wales, South Australia and Queensland, governments are realising the cost-benefit of "Smart City" systems and the power it delivers. The base structure today has enabled the Group to explore and trial the system on a global scale with an anticipated annuity revenue stream for years to come.

The Group's LED, "Smart City"-ready lighting products are well positioned for further growth, having secured approvals, long term supply contracts and orders from state and local government agencies, power companies and contractors. We continue to win significant contracts in this area and, and subject to COVID, we anticipate that these contract wins will underpin our growth moving forward.

The newest addition by acquisition to the Group, L&M, will enable the Group to further develop its maintenance business across Victoria and strengthen the Group's relationships with local councils serviced by L&M. Strategic benefits include vertical integration of the Group's current portfolio and more importantly to integrate our proprietary "Smart City Solution" TST into L&M's existing maintenance contracts giving councils real time information in order to make informed decisions on their assets enabling comprehensive Smart City capability.

Outlook

We believe the outlook for the Group, despite COVID, is positive taking into consideration government focus on infrastructure. We expect governments to invest in infrastructure programs to assist economic recovery following the coronavirus crisis and this was quite evident from the recently announced Federal budget. The Group is also expected to benefit in the years ahead from its diversification program into "Smart Cities" technology with IoT, new state-of-the-art products introduced and from significant long-term customer supply contracts with government authorities and power companies.

I would like to thank all shareholders for their ongoing support, staff for the relentless commitment to the Company and our financiers who have supported the Company and in particular ADM who have extended their facility during these turbulent times.

Con Liosatos

Managing Director

CORPORATE INFORMATION

This annual report covers both Traffic Technologies Ltd (ABN 21 080 415 407) and its subsidiaries. The Group's functional and presentation currency is AUD ($).

A description of the Group's operations and of its principal activities is included in the operating and financial review in the Directors' Report.

Directors

Mr. Garry Lowrey
Mr. Con Liosatos
Mr. Mark Hardgrave

Company Secretary & Chief Financial Officer

Mr. Peter Crafter

Registered Office & Principal Place of Business
Traffic Technologies Ltd
31 Brisbane Street
Eltham VIC 3095

Share Register

Computershare Investor Services Pty Limited
Yarra Falls, 452 Johnston Street
Abbotsford VIC 3067
Tel: 1300 850 505

Traffic Technologies Ltd shares are listed on the Australian Securities Exchange (stock code: "TTI").

Lawyers

K&L Gates
Level 25
525 Collins Street
Melbourne VIC 3000

Bankers

Westpac Banking Corporation
Level 6
150 Collins Street
Melbourne VIC 3000

Auditors

ShineWing Australia
Level 10
530 Collins Street
Melbourne VIC 3000

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Your Directors submit their report for the year ended 30 June 2020.

DIRECTORS

The names and details of the Company's Directors in office during the financial year and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

Mr. Garry P Lowrey (Age 58) BBus MAppFin CA

Independent Non-Executive Chairman. Appointed November 2015.

Mr. Lowrey has over 30 years of experience in a variety of advisory, management and director roles for both private and public companies. Earlier in his career, he was a Director of Potter Warburg's Corporate Finance team, specialising in providing capital markets and mergers and acquisitions advice to small and mid-market companies. Mr. Lowrey was the Managing Director of Wilson Investment Group, an ASX listed wealth management and investment group. Mr. Lowrey served as an Executive Director of Shaw and Partners Limited and was Chairman of Oaktree Group a private retirement village developer and operator. He is presently a Non-Executive Director of Greenwich Capital Partners, a non-Executive Director of Argus Property Partners Pty Ltd and Chairman of Credit Repair Pty Ltd. Mr. Lowrey holds a Bachelor of Business degree from the University of Technology, Sydney and a Masters of Applied Finance from Macquarie University. He is a chartered accountant. Mr. Lowrey is a member of the Audit, Risk, Nomination & Remuneration and Corporate Governance committees. Mr. Lowrey has not served as a Director of any other listed companies during the three years to June 2020.

Mr. Con L Liosatos (Age 58) MAICD

Managing Director. Appointed April 2003.

Mr. Liosatos has over 30 years' experience in the construction industry, including over 25 years in the lighting industry specialising in research and design. He also has 15 years' experience in the traffic industry. He has been involved with major design and manufacturing projects for clients such as MCG Lighting, Etihad Stadium, the Melbourne Sport and Aquatic Centre and the Vodafone Arena. He led the VicRoads LED Signals Upgrade, Hong Kong Highways Department (Bus and Roadway Interchange) Upgrade and the WA Main Roads LED Signals Upgrade. Mr. Liosatos has owned and managed a multinational project lighting company, Moonlighting Pty Ltd. Mr. Liosatos has qualifications in Mechanical Design and Lighting Engineering. Mr. Liosatos was Chairman of the ITS World Congress 2016 Sponsorship Committee and is active on Australian Standards AS 2144 and AS 1158. Mr. Liosatos is the Managing Director of Traffic Technologies Ltd. Mr. Liosatos was appointed a Director of Traffic Technologies Ltd in April 2003. Mr. Liosatos is a member of the Risk and Corporate Governance committees. Mr. Liosatos has not served as a Director of any other listed companies during the three years to June 2020.

Mr. Mark W Hardgrave (Age 62) B Com ACA MAICD

Independent Non-Executive Director. Appointed January 2013.

Mr. Hardgrave has a corporate advisory and investment management background. He is also a Non-Executive Director of ASX listed companies Forbidden Foods Limited and Pental Limited. He was co-founder and former Joint Managing Director of M&A Partner. Mr. Hardgrave was also previously Chief Executive Officer of Bennelong Group, which specialises in listed equities, property and private equity. Earlier in his career he worked in senior roles in a number of investment groups including Brencorp Group, Merrill Lynch and Thorney Investment Group. Mr. Hardgrave holds a Bachelor of Commerce degree from the University of Queensland. He is a chartered accountant and a member of the Australian Institute of Company Directors. Mr. Hardgrave is Chairman of the Audit, Risk, Nomination & Remuneration and Corporate Governance committees.

Skills and Experience

The following table shows the skills sets of each of the Board members:

	Garry Lowrey	Con Liosatos	Mark Hardgrave
Corporate Governance	▪	▪	▪
Traffic Management & Infrastructure	▪	▪	
ASX Listed Companies	▪	▪	▪
Human Resources	▪	▪	▪
Legal	▪	▪	▪
Finance	▪	▪	▪
Commercial	▪	▪	▪
Manufacture/assembly		▪	
Government Contracts		▪	
Information Technology		▪	▪

Company Secretary

Mr. Peter K Crafter (Age 63) LL.B (Hons.) MBA FCA CA MCT FAICD FCIS FGIA

Company Secretary and Chief Financial Officer. Appointed Company Secretary March 2004; appointed Chief Financial Officer October 2007.

Mr. Crafter is a Chartered Accountant in both Australia and the UK and qualified Corporate Treasurer with extensive experience in financial management including several years with KPMG and Touche Ross in the United Kingdom. He holds an honours degree in Law from the University of London and an MBA from Heriot-Watt University, Scotland. He was appointed Chief Financial Officer and Company Secretary of Traffic Technologies Ltd in March 2004 and retired as Chief Financial Officer in February 2006. He was reappointed Chief Financial Officer of Traffic Technologies Ltd in October 2007.

INTEREST IN SHARES

Directors' interests in the shares of the Company were:

	Balance at 1 July 2019	Acquired through On-Market Trades	Other	Balance at 30 June 2020
Directors				
Mr. Garry Lowrey	7,166,667	-	-	7,166,667
Mr. Con Liosatos	32,056,923	1,670,000	-	33,726,923
Mr. Mark Hardgrave	3,215,054	-	-	3,215,054
Executive				
Mr. Peter Crafter	10,000	-	-	10,000
Total	**42,448,644**	**1,670,000**	-	**44,118,644**

DIVIDENDS

The Directors do not recommend the payment of a dividend for the financial year ended 30 June 2020 (2019: Nil).

OPERATING AND FINANCIAL REVIEW

Review of Operations

Traffic Technologies is Australia's premier traffic solutions company. Established in 2004 and listed on ASX in 2005, the Company's head office is in Eltham, Victoria with offices in all States of Australia and an office in England.

The Group specialises in the design, manufacture and installation of traffic signals, traffic controllers, pedestrian countdown timers, electronic road signs, emergency telephones, road lighting products and "Smart City" control systems. The Group also supplies a wide range of directional and regulatory traffic signs and traffic control products to road traffic authorities, municipal councils and construction companies.

The Group's proprietary "Traffic SmartCity Technology" (TST) platform, developed for the road industry, councils and power authorities, enables the integration of street lights and other traffic management equipment to a central control/management system via remote "Internet of Things" (IoT) sensors.

The Group, through its subsidiary, Aldridge Traffic Systems, has been the major participant in the traffic signals market in Australia for over 50 years where customers are mainly state road authorities or contractors building or maintaining traffic intersections for state road authorities.

The Group, through its subsidiary, Quick Turn Circuits Pty Ltd (QTC), is involved in the manufacture of traffic controllers. A traffic controller is an automated device that regulates the sequencing and timing of traffic signals by monitoring vehicular and pedestrian demands and adjusting to meet these requirements. The controller has the ability to allow co-ordination of traffic flows between adjacent intersections when connected to a coordinated adaptive traffic system.

In October 2019, the Group entered into an agreement to acquire the business and assets of L&M Traffic Signals Pty Ltd (L&M). L&M is an accredited provider and installer for Vic Roads involving traffic signal installation and maintenance and fully approved for installation work by the Department of Transport in Victoria and holds a number of term maintenance contracts with local councils across Victoria. The acquisition was completed on 28 August 2020.

The Group is a key supplier to the road signage market across Australia, with customers including state road authorities, local councils and construction companies. The Group's signage products are distributed from depots around Australia with manufacturing focused in Victoria, Western Australia and the Northern Territory.

The Group exports its traffic controllers, traffic signals and associated products such as pedestrian countdown timers and emergency telephones to an increasing number of international customers.

Material Business Risks

- The material business risks faced by the Group that could have a significant impact on the financial prospects of the Group and how the Group manages these risks include:
- Changes or delays in Federal or State government expenditure on road infrastructure – the Group maintains regular contact with state road authorities to ensure that it can plan the resources required for major projects as far ahead as possible or allow for the deferral of major projects in times of economic slowdown.
- Adverse change in economic conditions affecting demand for the Group's products or services – the Group plans as far ahead as possible to adjust its cost base in times of economic uncertainty.

OPERATING AND FINANCIAL REVIEW (continued)

- Technological obsolescence – the Group works closely with road traffic authorities and incurs significant research and development expenditure to ensure that its products are state-of-the-art and competitive.
- Foreign exchange risk - a decrease in the Australian dollar exchange rate can affect import prices: the Group purchases components from a number of Asian countries denominated in US dollars. Conversely, an increase in the Australian dollar exchange rate can affect export opportunities as the Group sells its products to a number of countries around the world. The Group has a foreign exchange exposure through its term loan which is denominated in US dollars and a forward exchange contract has been taken out to hedge its currency exposure.
- General inflation risk, including labour costs – the Group constantly monitors its cost base and implements cost savings and operating efficiencies where possible.
- Availability of financing facilities – the Group is reliant on the continued availability of its financing facilities in order to conduct its operations. The Group ensures compliance with its facility agreements and negotiates extensions to its financing facilities when required.
- Competition – the Group maintains its competitive position by investing in research and development to ensure its products are state-of the-art and by ensuring its products are priced competitively.
- Cyber security – the Group has been addressing cyber security as part of its risk management strategy in the light of recent well-publicised breaches and increased risk in this area.
- Climate change – the Group is not significantly exposed to climate change issues unless a carbon tax is reintroduced. A significant number of the Group's products use LED technology which is energy saving and reduces greenhouse gas emissions.
- COVID-19 – the Group's response to the coronavirus has been a significant issue in 2020. The Group has been able to continue trading during the pandemic having implemented a variety of measures including enhanced hygiene, social distancing and a COVID Safe plan.

Significant Changes in State of Affairs

There were no significant changes in the nature of the Group's activities during the year.

Significant Events After Balance Date

The acquisition of the L&M Traffic Signals business was completed on 28 August 2020. The term of the ADM loan facility has been extended to 2 July 2021 (see Note 12).

Environmental Regulation and Performance

The Group's operations are not regulated by any significant environmental regulations under a law of the Commonwealth or of a state or territory. There have been no significant known breaches of the Group's compliance with environmental regulations.

Share Options

As at the date of this report, there were no unissued ordinary shares of the Company under option.

Indemnification and Insurance of Directors, Officers and auditors

During the financial year ended 30 June 2020, the Group paid premiums of $118,736 in respect of a Directors' and Officers' insurance policy insuring Directors and Officers in respect of claims which may be brought against them. The contract of insurance prohibits disclosure of the nature of the liability. The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or any related body corporate against a liability incurred as such by an officer or auditor.

REMUNERATION REPORT (AUDITED)

This Remuneration Report for the financial year ended 30 June 2020 outlines non-executive director and executive remuneration arrangements for Traffic Technologies Ltd (Company) in accordance with the requirements of the Corporations Act 2001 (Cth) (Corporations Act) and its Regulations.

For the purposes of this report, Key Management Personnel (KMP) of the Company are defined as those persons having authority and responsibility for planning, directing and controlling all activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company.

For the purposes of this report, the term 'executive' includes the Managing Director and the Chief Financial Officer.

The disclosures in this Remuneration Report have been audited.

1. Persons covered by this Remuneration Report

This Remuneration Report applies to the following persons.

Non-executive director	
Mr. Garry Lowrey	Independent Non-executive Chairman
Mr. Mark Hardgrave	Independent Non-executive Director
Executives	
Mr. Con Liosatos	Managing Director
Mr. Peter Crafter	Chief Financial Officer and Company Secretary

2. Overview of the Company's remuneration policy

The Company seeks to attract, retain and motivate skilled non-executive directors and executives of the highest calibre. The Company aims to ensure that the remuneration packages of non-executive directors and executives are appropriate and reflect a person's duties and responsibilities.

In this regard, the Company has put in place a Nomination & Remuneration Committee which supports and advises the Board in fulfilling its responsibilities to shareholders. The Nomination & Remuneration Committee is responsible for ensuring that the Board is appropriately remunerated, structured and comprised of individuals who are best able to discharge the responsibilities of directors.

The remuneration policy of the Company has been designed to align KMP objectives with shareholder and business objectives by providing a fixed remuneration component and offering incentives to reward sustainable long-term performance and shareholder value creation.

KMP or closely related parties of KMP are prohibited from entering into hedge arrangements that would have the effect of limiting the risk exposure relating to their remuneration.

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

3. Details of executive remuneration structure

3.1. Objective

The Company's objective is to ensure that executive remuneration is designed to promote sustainable long-term performance and shareholder value creation. In this regard, the Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company so as to:

a) reward executives for the Company's and individual performance;

b) align the interests of executives with those of shareholders;

c) link reward with the strategic goals and performance of the Company; and

d) ensure total remuneration is competitive by market standards.

3.2. Approach to setting remuneration

Remuneration levels are determined annually through a remuneration review that considers market data, remuneration trends, performance of the Company, individual responsibilities, individual performance and the broader economic environment.

a) Fixed remuneration

The objective of fixed remuneration is to provide a base level of remuneration which is appropriate and reasonable given the executive's experience, qualifications, core duties and responsibilities. Additionally, an executive's remuneration is determined with reference to remuneration paid by similar sized companies in similar industry sectors.

Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash, superannuation contributions and non-monetary benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

An executive's remuneration is reviewed annually by the Nomination & Remuneration Committee.

b) Variable remuneration

Performance based components of an executive's remuneration seek to align the executive's reward with the achievement of the Company's long-term objectives and the creation of shareholder value over the short and long term. The relevant performance-based components are STI and LTI (as described below).

3.3. The current structure of executive remuneration

The executive remuneration structure, including performance hurdles and performance targets, is outlined below:

a) Combination of fixed and variable remuneration

Remuneration	Components	Purpose	Link to Performance
Total Fixed Remuneration (TFR)	Comprises base salary, non-monetary benefits, and superannuation contributions.	To provide competitive fixed remuneration taking account of the role, market, experience and performance.	Company and individual performance are assessed during the annual remuneration review.
Short term incentives (STIs)	The Company operates an STI at the discretion of the Board which is accessed based on the Company's performance above budget plan. Bonuses are paid in cash.	To reward executives for their contribution to achievement of Company outcomes according to specified KPI's.	Linked to achievement of operational targets and KPI's. Where actual financial performance exceeds budget plan by up to 100%, the Company makes payment of an STI bonus up to 20%.
Long term incentives (LTIs)	The Company operates an LTI at the discretion of the Board. Options are allotted in accordance with our LTI plan.	To reward executives for their contribution to the creation of shareholder value over the longer term.	The grant by the Company of the options will be dependent on the share price performance of the Company relative to the ASX 300 small ordinaries index. If the Company's share price performance exceeds the ASX 300 small ordinaries index for the relevant period, the LTI may be awarded for that financial year. Subsequent to being granted, the LTI options will only vest if the executive does not resign or is not terminated for cause within a two-year period (after the end of the relevant financial year in which the options are granted). The exercise price of the options will be equivalent to the Company's share price on the last day of the relevant financial year.

b) Performance hurdles

Performance hurdles are thresholds which are required to be met for an executive's remuneration to vest.

(i) The following performance hurdles are used to determine whether variable remuneration vests for executives:

	STI Targets	LTI Targets
Managing Director	10% of base salary if targeted EBIT is exceeded by 50%. 20% of base salary if targeted EBIT is exceeded by 100%. Targets are based on achievement of KPI's set annually by the Nomination & Remuneration Committee. A summary of the KPIs are outlined below.	10% of base salary if the Company's share price performance exceeds the ASX 300 small ordinaries index by 10% for the relevant financial year. 20% of base salary if the Company's share price performance exceeds the ASX 300 small ordinaries index by 25% for the relevant financial year. 40% of base salary if the Company's share price performance exceeds the ASX 300 small ordinaries index by 50% for the relevant financial year.
Chief Financial Officer	5% of base salary if targeted EBIT is exceeded by 50%. 10% of base salary if targeted EBIT is exceeded by 100%. Targets are based on achievement of KPI's set annually by the Nomination & Remuneration Committee. A summary of the KPIs are outlined below. 10% of base salary paid according to KPI's set by the Board.	5% of base salary if the Company's share price performance exceeds the ASX 300 small ordinaries index by 10% for the relevant financial year. 10% of base salary if the Company's share price performance exceeds the ASX 300 small ordinaries index by 25% for the relevant financial year. 20% of base salary if the Company's share price performance exceeds the ASX 300 small ordinaries index by 50% for the relevant financial year.

(ii) What are the KPIs and why were they chosen?

STIs

The Company has chosen Earnings before Interest and Tax (EBIT) as its STI performance measure. EBIT is a common operational performance measure used by many companies. The Board considers this financial measure to be appropriate as it is reflective of the performance of the Company and aligns the Company's objective of delivering profitable growth and, ultimately, improved shareholder returns.

LTIs

The Company has chosen its share price performance relative to the ASX 300 small ordinaries index as its LTI performance measure. This is an external, relative, market-based performance measure against competing companies. It provides a direct link between senior executive reward and returns to shareholders.

(iii) What is the performance period?

The performance hurdle for STI's are measured over a 12-month period. There will be no re-testing of performance hurdles.

The performance hurdle for LTI targets are measured over three years, being the relevant 12-month period and a requirement for the executive to remain with the Company for a further two years. There will be no re-testing of performance hurdles.

(iv) When are performance hurdles not considered to be met?

Performance hurdles will not be considered to be met where an executive achieves the performance hurdle as a result of an acquisition by the Company.

c) Claw back

The Company has the ability to reduce, cancel or claw back performance-based remuneration in the event of serious misconduct or material financial misstatement.

4. Details of Non-Executive remuneration structure

4.1 Objective

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

4.2 Approach to setting remuneration

Each non-executive director receives a fixed fee for being a director and a fee for the additional time commitment made when serving as Chair. Non-executive Directors do not receive retirement benefits, other than statutory superannuation, nor do they participate in any incentive programs.

The Company's Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive Directors shall be determined from time to time by a general meeting. The notice convening a general meeting at which it is proposed to seek approval to increase that maximum aggregate sum must specify the proposed new maximum aggregate sum and the amount of the proposed increase. The latest determination was at the AGM held in 2005 when shareholders approved an aggregate remuneration of $400,000 per year. The amount of remuneration paid to non-executive directors is reviewed annually against remuneration paid to non-executive directors of comparable companies. The board did not use external consultants during the financial year ended 30 June 2020.

It is considered good governance for Directors to have a stake in the Company on whose Board they sit. Non-executive Directors are encouraged to hold shares in the Company (purchased by the Director on market).

4.3 Non-executive Director Agreements

The non-executive Directors have entered into non-executive Director Agreements with the Company. The non-executive Director agreements:

a) entrench a Director's rights to be indemnified by the Company to the maximum extent permitted by law;

b) require the Company to take out an appropriate Directors' and officers' insurance policy to protect the Director from liability (to the extent permitted by law); and

c) provides the non-executive Director with access to the Company's books and records relating to the period the Director acted as a Director of the Company. After resignation as a Director, the Director can only use this information for the purposes of defending a claim.

5. Performance outcomes

5.1 Executives

a) Managing Director – Mr. Con Liosatos

The Managing Director, Mr. Liosatos, is employed under a rolling employment contract. A summary of Mr. Liosatos' entitlements for the financial year ended 30 June 2020 is as follows:

- TFR for the financial year ended 30 June 2020 was $530,935.
- No STI was awarded to Mr. Liosatos for the 2020 financial year.
- No LTI was awarded to Mr. Liosatos for the 2020 financial year.
- Employment may be terminated by the giving, by either party, of twelve months' notice, or by the payment or forfeiture of an equivalent amount of pay in lieu of notice from any monies owing. The Company retains the right to terminate the contract at any time without notice in the case of serious misconduct.
- Further details of the executives' remuneration for the financial years ended 30 June 2019 and 30 June 2020 are included in the table below.

b) Chief Financial Officer – Mr. Peter Crafter

The Company Secretary and Chief Financial Officer, Mr. Peter Crafter, is employed under a rolling employment contract. A summary of Mr. Crafter's entitlements is as follows:

- TFR for the financial year ended 30 June 2020 was $290,495.
- No STI was awarded to Mr. Crafter for the 2020 financial year.
- No LTI was awarded to Mr. Crafter for the 2020 financial year.
- Employment may be terminated by the giving, by either party, of twelve months' notice, or by the payment or forfeiture of an equivalent amount of pay in lieu of notice from any monies owing. The Company retains the right to terminate the contract at any time without notice in the case of serious misconduct.
- Further details of the executives' remuneration for the financial years ended 30 June 2019 and 30 June 2020 are set out in the table below.

c) Performance against targets

- No STI's were awarded for the 2020 financial year.
- No LTI's were awarded for the 2020 financial year.

5.2 Non-executive Directors

Details of non-executive Directors' remuneration for the financial years ended 30 June 2019 and 30 June 2020 are set out in the table below. The Company considers the non-executive Directors' remuneration to be reasonable taking into account their duties, responsibilities, market, experience and performance.

5.3 Company Performance and Shareholder Returns

	2020	2019	2018	2017	2016
Net profit/(loss) $'000)	($13,985)	$1,263	$6,072	$1,011	($22,250)
EPS (cents)	(2.90)	0.26	1.88	0.37	(8.07)
Share price (cents)	1.8	2.4	3.3	3.6	2.6

Management remuneration is not related to the Company's performance and shareholder returns except to the extent disclosed above.

REMUNERATION OF KEY MANAGEMENT PERSONNEL

	Short-term benefits			Post-employment benefits	Termination Benefits	Long-term benefits	Share based payments	Total	
	Salary & fees $	Non-monetary $	Cash Bonus $	Superannuation $	$	Long service leave $	Options $	$	% performance related
Year to 30 June 2019									
Non-executive Directors									
Mr. Garry Lowrey	108,674	-	-	10,324	-	-	-	118,998	-
Mr. Mark Hardgrave	57,750	-	-	5,486	-	-	-	63,236	-
Executives									
Mr. Con Liosatos	492,962	11,815	-	25,000	-	14,176	-	543,953	-
Mr. Peter Crafter	247,921	16,551	-	23,552	-	15,032	-	303,056	-
Total	907,307	28,366	-	64,362	-	29,208	-	1,029,243	-
Year to 30 June 2020									
Non-executive Directors									
Mr. Garry Lowrey	108,674	-	-	10,324	-	-	-	118,998	-
Mr. Mark Hardgrave	57,750	-	-	5,486	-	-	-	63,236	-
Executives									
Mr. Con Liosatos	492,962	12,973	-	25,000	-	9,111	-	540,046	-
Mr. Peter Crafter	247,921	19,022	-	23,552	-	4,781	-	295,276	-
Total	907,307	31,995	-	64,362	-	13,892	-	1,017,556	-

END OF AUDITED REMUNERATION REPORT

DIRECTORS' MEETINGS

The number of meetings of Directors (including meetings of committees of Directors) held during the financial year and the number of meetings attended by each Director was as follows:

	Directors' Meetings		Audit Committee		Risk Committee		Nomination & Remuneration Committee		Corporate Governance Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Mr. Garry Lowrey	13	13	2	2	4	4	1	1	1	1
Mr. Con Liosatos	13	13	2	2	4	4	1	1	1	1
Mr. Mark Hardgrave	13	13	2	2	4	4	1	1	1	1

BOARD COMMITTEES

As at the date of this report the Company had an Audit Committee, a Nomination & Remuneration Committee, a Corporate Governance Committee and a Risk Committee of the Board of Directors. The eligibility and attendance of each of the Directors is disclosed in the table above. The chairman of each committee was:

- Audit – Mr. Mark Hardgrave
- Nomination & Remuneration – Mr. Mark Hardgrave
- Corporate Governance – Mr. Mark Hardgrave
- Risk - Mr. Mark Hardgrave

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (unless otherwise stated) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2018/191. The Company is an entity to which the Instrument applies.

AUDITOR'S INDEPENDENCE AND NON-AUDIT SERVICES

A copy of the auditor's independence declaration in relation to the audit for the financial year is provided immediately following this report.

Signed in accordance with a resolution of the Directors.

Mr. Garry Lowrey
Independent Non-Executive Chairman
14 October 2020
Melbourne

ShineWing AUSTRALIA
Advisors & Accountants

Take the lead

Auditor's Independence Declaration under Section 307C of the *Corporations Act 2001* to the directors of Traffic Technologies Ltd

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2020 there have been:

i. No contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit, and

ii. No contraventions of any applicable code of professional conduct in relation to the audit.

ShineWing Australia

ShineWing Australia
Chartered Accountants

Rami Eltchelebi
Partner

Melbourne, 14 October 2020

The Board and management of Traffic Technologies Ltd are committed to conducting the Group's business in an ethical manner and in accordance with the highest standards of corporate governance. The Company has adopted and has substantially complied with the ASX Corporate Governance Principles and Recommendations (Fourth Edition) **(Recommendations)** to the extent appropriate to the size and nature of the Group's operations.

The Company has prepared a statement which sets out the corporate governance practices that were in operation throughout the financial year for the Company, identifies any Recommendations that have not been followed and provides reasons for not following such Recommendations **(Corporate Governance Statement).**

The Corporate Governance Statement is accurate and up to date as at 14 October 2020 and has been approved by the Board.

In accordance with ASX Listing Rules 4.10.3 and 4.7.4, the Corporate Governance Statement is available for review on the Company's website (www.trafficltd.com.au) and will be lodged together with an Appendix 4G at the same time that this Annual Report is lodged with ASX.

Appendix 4G identifies each Recommendation that needs to be reported against by the Company and provides shareholders with information as to where relevant governance disclosures can be found.

The Company's corporate governance policies and charters are all available on the Company's website (www.trafficltd.com.au).

Traffic Technologies Ltd and Controlled Entities
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2020

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000
Revenue	2	**44,522**	48,321
Other income	2	**66**	125
Changes in inventories of finished goods and work in progress		**(2,480)**	2,433
Raw materials and consumables used		**(23,126)**	(28,986)
Employee benefits expense	3	**(13,749)**	(13,661)
Occupancy costs		**(1,161)**	(1,907)
Advertising and marketing expense		**(72)**	(123)
Other expenses	3	**(2,593)**	(1,879)
Depreciation and amortisation expense		**(2,297)**	(1,474)
Impairment expense		**(10,554)**	-
Earnings before interest and tax (EBIT)		**(11,444)**	2,849
Finance costs	3	**(2,381)**	(1,380)
Net (loss)/profit for the year before income tax		**(13,825)**	1,469
Income tax expense	4	**(160)**	(206)
Net (loss)/profit for the year		**(13,985)**	1,263
Other comprehensive income		**-**	-
Total comprehensive (loss)/income for the year		**(13,985)**	1,263
(Loss)/earnings per share		**Cents**	Cents
- Basic (cents per share)	5	**(2.90)**	0.26
- Diluted (cents per share)	5	**(2.90)**	0.26

The accompanying notes form part of these financial statements.

	Note	Consolidated 2020 $'000	Consolidated 2019 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	18	**3,636**	3,107
Trade and other receivables	6	**7,863**	8,803
Inventories	7	**10,117**	12,597
Derivative financial instrument	14	**-**	251
Total Current Assets		**21,616**	24,758
Non-Current Assets			
Property, plant and equipment	8	**2,319**	1,224
Goodwill	9	**-**	10,554
Intangible assets	10	**9,177**	8,929
Total Non-Current Assets		**11,496**	20,707
TOTAL ASSETS		**33,112**	45,465
LIABILITIES			
Current Liabilities			
Trade and other payables	11	**8,752**	7,341
Interest bearing loans and borrowings	12	**8,598**	142
Provisions	15	**2,730**	2,685
Deferred tax liability	4	**1,001**	861
Derivative financial instrument	14	**525**	-
Total Current Liabilities		**21,606**	11,029
Non-Current Liabilities			
Interest bearing loans and borrowings	12	**4,165**	13,073
Provisions	15	**203**	203
Total Non-Current Liabilities		**4,368**	13,276
TOTAL LIABILITIES		**25,974**	24,305
NET ASSETS		**7,138**	21,160
EQUITY			
Contributed equity	16	**54,755**	54,755
Accumulated losses		**(47,617)**	(33,595)
TOTAL EQUITY		**7,138**	21,160

The accompanying notes form part of these financial statements.

Traffic Technologies Ltd and Controlled Entities
Consolidated Statement of Changes in Equity
For the year ended 30 June 2020

	Contributed Equity $'000	Accumulated Losses $'000	Total $'000
Consolidated			
At 1 July 2018	54,755	(34,858)	19,897
Profit for the year	-	1,263	1,263
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	1,263	1,263
At 30 June 2019	**54,755**	**(33,595)**	**21,160**
Adjustment from the adoption of AASB 16	**-**	**(37)**	**(37)**
Loss for the year	**-**	**(13,985)**	**(13,985)**
Other comprehensive income	**-**	**-**	**-**
Total comprehensive income for the year	**-**	**(13,985)**	**(13,985)**
At 30 June 2020	**54,755**	**(47,617)**	**7,138**

The accompanying notes form part of these financial statements.

	Consolidated 2020 $'000	Consolidated 2019 $'000
Cash flows from operating activities		
Receipts from customers	50,512	54,659
Payments to suppliers and employees	(43,813)	(51,950)
Interest received	16	48
Interest paid	(1,459)	(1,267)
Income tax paid	(4)	(4)
Net cash from operating activities	5,252	1,486
Cash flows from investing activities		
Proceeds from sale of plant and equipment	44	5
Purchase of property, plant and equipment	(406)	(180)
Purchase of intangible assets	(1,638)	(2,159)
Acquisition Costs	(82)	-
Net cash from investing activities	(2,082)	(2,334)
Cash flows from financing activities		
Proceeds from borrowings	7,500	-
Repayment of borrowings	(10,052)	(89)
Payment of borrowing costs	(89)	-
Net cash from financing activities	(2,641)	(89)
Net increase/(decrease) in cash and cash equivalents	529	(937)
Cash and cash equivalents at beginning of the financial year	3,107	4,044
Cash and cash equivalents at end of the financial year	3,636	3,107

The accompanying notes form part of these financial statements.

The financial report of Traffic Technologies Ltd (the Company) for the year ended 30 June 2020 was authorised for issue in accordance with a resolution of the Directors on 14 October 2020. The Company is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. The nature of the operations and principal activities of the Group are described in the Directors' Report.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Preparation

This financial report is a general purpose financial report that has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and AASB Interpretations. The consolidated financial statements of Traffic Technologies Ltd and its subsidiaries also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The financial report has been prepared on an accruals basis and under the historical cost convention. The financial report covers Traffic Technologies Ltd and its subsidiaries (the Group). Traffic Technologies Ltd is a for profit Australian listed public company limited by shares, incorporated and domiciled in Australia. The nature and operations and principal activities of the Group are described in the Directors' Report. The following is a summary of material accounting policies adopted by the Group in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Rounding

The amounts contained in the financial report have been rounded to the nearest thousand dollars ($'000) (unless otherwise stated) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2018/191. The Company is an entity to which the Instrument applies.

b) New Standards Adopted by the Group

AASB 16: Leases.

AASB 16 has replaced the accounting requirements applicable to leases in AASB 117: Leases and related Interpretations. AASB 16 has introduced a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases. On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the previous standard AASB 117. These liabilities have been measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate applicable to debt of similar characteristics with the same underlying security as at 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 15%.

The adoption of AASB 16 resulted in the Group recognising a right-of-use asset of $1.5m and related lease liability of $1.5m in connection with all former operating leases except for those identified as low value or having a remaining lease term of less than 12 months from the date of initial application.

AASB 16 has been applied using the modified retrospective approach, with the cumulative effect of adopting AASB 16 being recognised in equity as a reduction to the opening balance of retained earnings of $37,000 for the current period. Prior periods have not been restated. For contracts in place at the date of initial application, the Group has elected to apply the definition of a lease from AASB 117 and has not applied AASB 16 to arrangements that were previously not identified as a lease under AASB 117. On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low value assets, the Group has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Going concern

The financial statements have been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The 2020 financial year has been challenging and the consolidated entity incurred a net loss for the year. Revenue and EBITDA were affected by generally weak trading conditions. There was a slowdown in orders and delays to the approval of several projects. In the second half of the year the consolidated entity was faced with the challenges of Coronavirus (COVID-19). Consequently, there is material uncertainty that may cast significant doubt whether the Group can continue as a going concern.

However, although the consolidated entity incurred a loss for the financial year ended 30 June 2020, in assessing the appropriateness of the going concern concept the following factors have been taken into consideration by the Directors:

- The consolidated entity has been able to continue trading throughout the COVID-19 lockdown period.
- The Directors are of the view that the consolidated entity is expected to continue to generate positive earnings before interest, tax, depreciation and amortisation (EBITDA) in the 2021 financial year.
- A significant part of the loss in the financial year ended 30 June 2020 related to the non-cash impairment provision against goodwill.
- The consolidated entity is expected to continue generate positive operating cash flows in the 2021 financial year.
- The Directors are working on a strategy to refinance the debt facility with ADM Capital.

The Directors note that after the reporting date the term of the loan facility from ADM Capital of $5,139,000 (2019: $12,931,000) has been extended to 2 July 2021.

The financial statements have been prepared on the going concern basis for the above reasons. Accordingly, the financial statements do not include any adjustments relating to the recoverability and classification of recorded assets or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern, except for the classification of the ADM Capital loan facility as a current liability.

d) Basis of consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent (Traffic Technologies Ltd) and all of the subsidiaries. Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are consolidated from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group. Changes in the ownership interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions and do not affect the carrying amounts of goodwill.

Business combinations are accounted for using the acquisition method. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values. When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through the statement of comprehensive income. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in the statement of comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured.

All transaction costs incurred in relation to business combinations, other than those associated with the issue of a financial instrument, are recognised as expenses in profit or loss when incurred. The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

e) Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and other factors it believes to be reasonable under the circumstances. Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

f) Significant accounting judgements

Impairment testing of non-financial assets

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product and manufacturing performance, technology, economic and political environments and future product and service delivery expectations. If an impairment trigger exists the recoverable amount of the asset is determined. This involves value in use calculations, which incorporate a number of key estimates and assumptions.

Capitalised development costs

Development costs are only capitalised by the Group when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Taxation

The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised in the statement of financial position. Deferred tax assets, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. Judgements are also required about the application of income tax legislation.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Significant accounting estimates and assumptions

Long service leave provision

The liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at balance date. In determining the present value of the liability, attrition rates and pay increases through inflation and promotion have been taken into account. The Group's obligations towards long service leave liabilities are presented as non-current provisions in its statement of financial position, except where the Group does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

Allowance for impairment loss on receivables

Where receivables are outstanding beyond the normal trading terms, the likelihood of recovery of these receivables is assessed by management. Debts that are considered to be uncollectible are written off when identified.

Estimation of useful lives of assets

The estimation of useful lives of assets has been based on historical experience (for plant and equipment), lease terms (for leased equipment) and turnover policies (for motor vehicles). In addition, the condition of assets is assessed at least once a year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary. Any change in the useful life or residual lives is treated as a change in accounting estimate and recognised in the statement of comprehensive income.

Maintenance warranties

In determining the level of the provision required for warranties, the Group has made judgements in7 respect of the expected performance of the products and any liability resulting from installation works. Historical experience and current knowledge of the performance of products has been used in determining this provision.

Finance costs

In assessing the amount of finance costs charged in the year, the Group has taken into account the increase in interest costs over the term of the loan facility provided by ADM Capital to the Group and finance costs associated with the partial refinancing of the Group in October 2019.

h) Prior period error

The financial report for the Group for the years ended 30 June 2016 through to 30 June 2019 did not disclose related party transactions between the Group and an entity associated with the Company's Managing Director, Mr. Con Liosatos and a loan from the Group to Mr. Liosatos. Note 22(b) retrospectively restates these related party disclosures for the preceding financial years.

2. REVENUE

	Consolidated 2020 $'000	Consolidated 2019 $'000
Revenue		
Sale of goods	**44,522**	48,321
Other income		
Net profit on disposal of fixed assets	**8**	1
Net exchange gain/(loss) on foreign currency borrowings	**534**	(881)
Net (loss)/gain on derivatives held for trading	**(525)**	862
Other income	**49**	143
Total other income	**66**	125

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Sale of goods

Revenue from sale of goods is recognised when control of the goods is transferred to the customer at an amount that reflects the consideration to which the Group expected to be entitled in exchange for those goods.

Rendering of services

Revenue is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided (performance obligations satisfied over time). When the contract outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Interest income

Interest income is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Finance and other income

Finance and other income is recognised when the right to receive the income is established.

3. EXPENSES

	Consolidated 2020 $'000	Consolidated 2019 $'000
Employee related expenses		
Wages and salaries	**10,151**	10,272
Superannuation (defined contribution)	**1,010**	1,012
Other employee benefits expense	**2,588**	2,377
	13,749	13,661
Other expenses		
Administrative costs	**1,660**	1,559
Bad debts	**723**	120
Public company costs	**210**	200
	2,593	1,879
Finance costs		
Interest on loans	**1,443**	1,059
Lease interest	**215**	4
Amortisation of capitalised transaction costs	**60**	113
Capitalised interest	**663**	204
Total finance costs	**2,381**	1,380
Research and development costs		
Research and development costs charged directly to cost of sales in profit or loss	**24**	35

4. INCOME TAX

	Consolidated 2020 $'000	Consolidated 2019 $'000
Income Tax Expense		
Current tax	4	4
Deferred tax - origination and reversal of temporary differences	156	202
Aggregate income tax expense	160	206
Reconciliation of income tax expense and tax at the statutory tax rate		
Accounting (loss)/profit before income tax	(13,825)	1,469
Tax at the statutory rate of 30% (2019: 30%)	(4,147)	441
Permanent difference	3,233	90
Variance in deferred tax adjustments	(22)	-
Non-refundable foreign tax offset	4	4
Recoupment of R&D tax offset	566	(391)
Prior year under/over	67	62
Initial recognition of borrowing costs and other tax adjustments	85	-
Unrecognised deferred tax asset on tax losses	374	-
Aggregate income tax expense	160	206
Weighted average effective tax rate	1%	14%

Deferred tax	Statement of Financial Position		Statement of Profit or Loss Income	
	Consolidated 2020 $'000	Consolidated 2019 $'000	Consolidated 2020 $'000	Consolidated 2019 $'000
Temporary differences				
Intangible assets	(2,317)	(2,113)	(204)	(289)
Plant and equipment	(163)	(189)	26	187
Inventory	60	60	-	120
Employee provisions	927	936	(9)	34
Warranty provisions	14	12	2	-
Credit notes	5	14	(9)	7
Doubtful debts	209	9	200	(2)
Foreign exchange	(3)	3	(6)	2
Other capital expenditure	209	381	(172)	(206)
Other accruals and provisions	26	26	-	(55)
Right of use assets	32	-	32	-
Deferred tax asset/(liability)	(1,001)	(861)	(140)	(202)

4. INCOME TAX (continued)

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. Current income tax expense charged to profit or loss is the tax payable on taxable income. Current and deferred income tax expense/(income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Deferred income tax assets are recognised for all deductible temporary differences, to the extent that is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits can be utilised. The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance date.

Tax losses	**Consolidated 2020 $'000**	Consolidated 2019 $'000
The following tax losses have not been recognised as a deferred tax asset:		
Tax losses – revenue	**1,247**	-
Tax losses – capital	**-**	-
Carried forward tax offsets	**1,708**	1,096
Total deferred tax assets	**2,955**	1,096

Tax losses are available to carry forward against future revenue-related profits (but not against capital related profits) without expiry.

Tax Consolidation

Traffic Technologies Ltd and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2005 and are therefore taxed as a single entity from that date. The head entity within the tax consolidated group is Traffic Technologies Ltd. Each wholly owned subsidiary of Traffic Technologies Ltd is a member of the tax consolidated group, as identified at note 19.

Tax Funding Arrangements and Tax Sharing Agreements

The Company has entered into a tax funding agreement that sets out its funding obligations of the tax consolidated group in respect of tax amounts. Contributions to fund the current tax liabilities are payable in accordance with the tax funding agreement and reflect the timing of the head entity's obligation to make payments for the tax liabilities to the relevant taxation authority.

5. EARNINGS PER SHARE

Earnings used in calculating earnings per share	Consolidated 2020 $'000	Consolidated 2019 $'000
For basic and diluted earnings per share:		
Net (loss)/profit attributable to ordinary equity holders of the parent	**(13,985)**	1,263

Weighted average number of shares

	Consolidated 2020 Thousands	Consolidated 2019 Thousands
Weighted average number of ordinary shares used in calculating basic earnings per share	**482,225**	482,225
Weighted average number of ordinary shares adjusted for the effect of dilution	**482,225**	482,225

Basic earnings per share is calculated as net profit/loss attributable to members of the parent entity divided by the weighted average number of ordinary shares. Diluted earnings per share is calculated as net profit/loss attributable to members of the parent entity divided by the weighted average number of ordinary shares and dilutive potential ordinary shares. The following reflects the income and share data used in the basic and diluted earnings per share computations:

There are no instruments excluded from the calculation of diluted earnings per share that could potentially dilute earnings per share in the future because they are anti-dilutive for 2020 (2019: nil). There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

6. TRADE AND OTHER RECEIVABLES

	Consolidated 2020 $'000	Consolidated 2019 $'000
Trade receivables	6,825	7,591
Allowance for impairment loss	(727)	(30)
	6,098	7,561
Prepayments	1,092	494
Other receivables	673	748
	7,863	8,803

Ageing of trade receivables not impaired:		
1-30 days	3,852	4,270
31-60 days	1,631	2,482
61 days and over	615	809
	6,098	7,561

Movement in Provision for Impairment Loss:		
Balance at the beginning of the year	30	35
Charge for the year	723	120
Amounts recovered during the year	(2)	(6)
Allowance no longer required	(17)	(38)
Amounts written off as uncollectible	(7)	(81)
Balance at the end of the year	727	30

Trade receivables, which generally have 30-day terms, are recognised initially at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest rate method, less an allowance for any uncollectible amounts. Trade receivables are non-interest bearing. Collectability of trade receivables is reviewed on an ongoing basis. Amounts over 60 days are deemed overdue. Credit is stopped until full payment is made.

An allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. The amount of the allowance for impairment loss has been measured as the difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received from the relevant debtors.

7. INVENTORIES

	Consolidated 2020 $'000	Consolidated 2019 $'000
Raw materials	3,874	4,299
Work in progress	199	205
Finished goods	6,044	8,093
	10,117	12,597

Inventories including raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- *Raw materials* – purchase cost on a first-in, first-out basis. The cost of purchase comprises the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), transport, handling and other costs directly attributable to the acquisition of raw materials and volume discounts and rebates.

- *Finished goods and work-in-progress* – cost of direct materials and labour and a proportion of variable and fixed manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Inventory write-downs recognised as an expense totaled $56,565 (2019: $Nil).

8. PROPERTY, PLANT AND EQUIPMENT

Consolidated	Right of Use Assets $'000	Plant & Equipment $'000	Total $'000
Movement in Carrying Amounts			
At 1 July 2018 net book value	-	1,253	1,253
Additions	-	260	260
Disposals	-	(4)	(4)
Depreciation expense	-	(285)	(285)
At 30 June 2019 net book value	-	1,224	1,224
Adjustment on transition to AASB 16	1,488	-	1,488
Additions	244	306	550
Disposals	-	(36)	(36)
Depreciation expense	(614)	(293)	(907)
At 30 June 2020 net book value	1,118	1,201	2,319
Carrying Amounts			
At 30 June 2019			
Cost	-	8,647	8,647
Accumulated depreciation	-	(7,423)	(7,423)
Carrying amount at 30 June 2019	-	1,224	1,224
At 30 June 2020			
Cost	2,037	8,886	10,922
Accumulated depreciation	(919)	(7,685)	(8,603)
Carrying amount at 30 June 2020	1,118	1,201	2,319

Property, plant and equipment is stated at historical cost less accumulated depreciation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the specific assets as follows:

	2020	**2019**
Right of use assets	Lease term	-
Plant and equipment	1 to 15 years	1 to 15 years

The Group's property, plant and equipment is pledged as security against the Group's borrowings - see note 12.

Leased assets are pledged as security for the related lease liabilities – see note 13.

9. GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

	Consolidated 2020 $'000	Consolidated 2019 $'000
Carrying amount of goodwill allocated to each cash-generating unit		
Signals	30,535	30,535
Less: Impairment expense	(30,535)	(20,000)
	-	10,535
Controllers	19	19
Less: Impairment expense	(19)	-
Carrying amount	-	10,554

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. The Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

Impairment of Goodwill

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

As at 31 December 2019, the market capitalisation of the Group was below the book value of its equity, indicating a potential impairment of goodwill. The Group calculated the recoverable amount of each CGU at that date and recognised an impairment expense ($10.6m) to write-off the goodwill so that each CGU was measured at its recoverable amount.

10. INTANGIBLE ASSETS

Consolidated	Development Costs $'000	Other Intangible Assets $'000	Total $'000
Movement in Carrying Amounts			
At 1 July 2018 net book value	7,857	99	7,956
Additions	1,886	272	2,158
Amortisation	(907)	(278)	(1,185)
At 30 June 2019 net book value	8,836	93	8,929
Additions	1,453	185	1,638
Amortisation	(1,180)	(210)	(1,390)
At 30 June 2020 net book value	9,109	68	9,177
Carrying Amounts			
At 30 June 2019			
Cost	18,088	2,390	20,478
Accumulated amortisation	(8,852)	(2,297)	(11,149)
Impairment	(400)	-	(400)
Carrying amounts at 30 June 2019	8,836	93	8,929
At 30 June 2020			
Cost	17,316	2,569	19,885
Accumulated amortisation	(8,207)	(2,501)	(10,708)
Carrying amounts at 30 June 2020	9,109	68	9,177

Intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses.

Development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Any expenditure so capitalised is amortised over the period of expected benefit from the related project which is generally 5 years (2019: 5 years). The amortisation is recognised in the statement of comprehensive income in the line item 'depreciation, amortisation and impairment expense'.

Software costs

Software costs are carried at cost less any accumulated amortisation and any accumulated impairment losses. Purchased software development is assessed to have a finite life and is amortised over a period of 1-4 years (2019: 1-4 years).

10. INTANGIBLE ASSETS (continued)

Patents and trademarks

Patents and trademarks acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets that are not yet available for use are not subject to amortisation but are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Assets have been allocated to the signals and controllers cash-generating units.

The recoverable amount of the Signals cash-generating unit, which exceeds the carrying value of $7.7m, has been determined based on a value in use calculation using cash flow projections based on financial budget forecasts prepared by management covering a five-year period, with the following key assumptions:

	2020	**2019**
Growth rate beyond budget period	5%	5%
Growth rate beyond 5 years	3%	3%
Pre-tax discount rate (WACC)	14.3%	14.8%

The key assumptions used in the value in impairment calculations represent management's best estimates at 30 June 2020. Management has considered the sensitivity of the value in use calculations to changes in assumptions. If revenue for the signals cash-generating unit is below budget by $1.7m (8%) the carrying value will equal its recoverable amount, if all other assumptions are unchanged.

The recoverable amount of the Controllers cash-generating unit, which exceeds the carrying value of $1.5m, has been determined based on estimated fair value less costs of disposal. The Group performed impairment testing at 30 June 2020 and 30 June 2019. Management has considered the sensitivity of fair value less costs of disposal calculations to changes in assumptions. There was no impairment of intangible assets at those dates.

11. TRADE AND OTHER PAYABLES

	Consolidated 2020 $'000	Consolidated 2019 $'000
Trade creditors	6,511	6,038
Sundry creditors and accruals	2,241	1,303
	8,752	7,341

Trade and other payables are carried at amortised cost due to their short-term nature and are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 60 days of recognition. Trade payables are non-interest bearing and are normally settled on 30-60 day terms.

12. INTEREST BEARING LOANS AND BORROWINGS

	Consolidated 2020 $'000	Consolidated 2019 $'000
Current borrowings		
Debtor & trade finance facility (Octet Finance)	2,657	-
Term facility (ADM Capital)	5,139	-
Equipment lease liabilities	110	142
Property lease liabilities	692	-
	8,598	142
Non-current borrowings		
Term facility (ADM Capital)	-	12,931
Note facility (First Samuel)	3,500	-
Equipment lease liabilities	164	142
Property lease liabilities	533	-
Capitalised borrowing costs	(32)	-
	4,165	13,073

Loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after balance date.

12. INTEREST BEARING LOANS AND BORROWINGS (continued)

Terms and conditions relating to the above financial instruments

Lender	Octet Finance	ADM Capital	First Samuel
Facility Amount (AUD)	$5.5m	$5.1m	$3.5m
Facility Type	Debtor & trade finance	Term loan	Note deed
Interest	BBSW + 6.25%	7% cash; 10% capitalised	11%
Expiry	18 October 2022	18 April 2021 (extended after reporting date to 2 July 2021)	18 October 2022
Security	Second ranking charge First ranking charge over trade receivables	First ranking charge Second ranking charge over trade receivables	Third ranking charge
Currency of loan	AUD	USD	AUD
Hedging	-	Derivative expiring on 19 October 2020 (see note 14)	-
Contingent liability	-	USD $826,000 margin on derivative	-

Financing facilities available	Consolidated 2020 $'000	Consolidated 2019 $'000
Total facilities at reporting date		
Term debt facility (ADM Capital)	5,139	12,931
Debtor & trade finance facility (Octet)	5,500	-
Note facility (First Samuel)	3,500	-
Bank guarantee facility (Westpac)	265	265
	14,404	13,196
Facilities used at reporting date		
Term debt facility (ADM Capital)	5,139	12,931
Debtor & trade finance facility (Octet)	2,657	-
Note facility (First Samuel)	3,500	-
Bank guarantee facility (Westpac)	133	133
	11,429	13,064
Facilities unused at reporting date		
Term debt facility (ADM Capital)	-	-
Debtor & trade finance facility (Octet)+	2,843	-
Note facility (First Samuel)	-	-
Bank guarantee facility (Westpac)	132	132
	2,975	132

+ The amount of debtor financing available at any point in time is based on the amount of eligible invoicing.

13. LEASE LIABILITIES

	Consolidated 2020 $'000	Consolidated 2019 $'000
Current		
Equipment leases	110	142
Property leases	692	-
	802	142
Non-current		
Equipment leases	164	142
Property leases	533	-
	697	142
Lease liability commitments payable		
Less than one year	946	154
Later than one year but less than five years	763	153
	1,709	307
Less future finance charges	(210)	(23)
Total lease liabilities	1,499	284

Lease payments not recognised as a liability

The Group has elected not to recognise a lease liability for short-term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. The expense relating to payments not included in the measurement of the lease liability is as follows:

	Consolidated 2020 $'000	Consolidated 2019 $'000
Short-term property lease expense	647	1,418
Short-term property lease commitments:		
Less than one year	424	1,364
Later than one year but less than five years	424	1,950
Total	848	3,314

Reconciliation of total operating lease commitments 30 June 2019 to lease liabilities at 1 July 2019	Consolidated 2019 $'000
Total operating lease commitments at 30 June 2019	3,314
Discounted using the Group's incremental borrowing rate of 15%	(327)
Add: finance lease liabilities recognised as at 30 June 2019	284
Less: Short-term leases recognised on straight line basis	(1,445)
Lease liability recognised as at 1 July 2019	1,826

13. LEASE LIABILITIES (continued)

Equipment lease liabilities

Leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Property lease liabilities

The Group leases a number of warehouse, factory and office facilities under operating leases. The leases typically run for periods up to 5 years with an option to renew the lease after that date. The Group leases plant and equipment and motor vehicles with terms up to 4 years. The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment (see note 8).

On adoption of AASB 16, the Group recognised lease liabilities in relation to property leases which had previously been classified as operating leases under the previous standard AASB 117. These liabilities have been measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate applicable to debt of similar characteristics with the same underlying security as at 1 July 2019. The adoption of AASB 16 resulted in the Group recognising a right-of-use asset and related lease liability of in connection with all former operating leases except for those identified as low value or having a remaining lease term of less than 12 months from the date of initial application.

14. DERIVATIVE FINANCIAL INSTRUMENT

	2020	2019
	$'000	$'000
Derivative financial (liability)/asset for foreign currency forward contracts	(525)	251

Derivatives are only used for economic hedging purposes and not speculative instruments. Derivatives are classified as held for trading and accounted for at fair value through profit or loss unless they are designated as hedges. They are presented as current assets or liabilities if they are expected to be settled within 12 months after the end of the reporting year. Because the derivatives used by the Group are not traded in an active market, fair value is determined using valuation techniques which maximise the use of observable market data and do not rely on entity-specific estimates. The fair value of foreign currency forward contracts is determined using forward exchange rates at balance sheet date. The fair value of derivatives is estimated at the amount that the Group would receive or pay to terminate the contract at the end of the reporting period taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties.

15. PROVISIONS

	Consolidated 2020 $'000	Consolidated 2019 $'000
Current		
Employee benefits	2,682	2,645
Warranty provision	48	40
	2,730	2,685
Non-current		
Employee benefits	203	203

Employee benefits

Provision is made for the Group's obligation for short-term employee benefits. Short-term employee benefits are benefits that are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related service. Provision is made for employees' long service leave entitlements not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service; such long-term employee benefits are presented as non-current provisions in its statement of financial position, except where the Group does not have an unconditional right to defer settlement for at least 12 months after the end of the reporting period, in which case the obligations are presented as current provisions.

Warranty provision

A provision has been recognised for expected warranty claims on products supplied by the Group, based on current sales levels, current information available about past returns and repairs and the warranty period for products sold. Based on past experience, the Group does not expect the full balance of the current provision to be settled within 12 months. However, as the Group does not have an unconditional right of deferral, the balance is presented as current.

16. CONTRIBUTED EQUITY

	No. of Shares '000	$'000
Ordinary shares		
At 30 June 2019	482,225	54,755
At 30 June 2020	482,225	54,755

Ordinary shares have the right to receive dividends as declared and, in the event of a winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk management objectives and policies

The Group's principal financial instruments comprise term loan facilities, debtor and trade finance, leases, hire purchase contracts, forward contracts to purchase foreign currency and cash and short-term deposits.

The totals for each category of financial instruments are as follows:

	Consolidated 2020 $'000	Consolidated 2019 $'000
Financial assets		
Cash and cash equivalents	**3,636**	3,107
Trade and other receivables	**7,863**	8,803
Derivative financial instrument	-	251
Financial liabilities		
Trade and other payables	**(8,752)**	(7,341)
Financial liabilities at amortised cost	**(12,763)**	(13,215)
Derivative financial instrument	**(525)**	-
Net exposure	**(10,541)**	(8,395)

The Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security. The Group has various financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. It is the Group's policy that no trading in financial instruments shall be undertaken. The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective fair values. The main risks arising from the Group's financial instruments are interest rate risk, credit risk, liquidity risk and foreign currency risk.

Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's long-term debt obligations. At balance date the Group had the following financial assets and liabilities exposed to market interest rate risk:

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debt obligations. At 30 June 2020 79% of the Group's borrowings were at a fixed rate of interest (2019: 100%). Details of the Group's debt are disclosed in note 12.

The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing, alternative hedging positions and the mix of fixed and variable interest rates.

17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The Group trades only with recognised, creditworthy third parties and, as such, collateral is not requested nor is it the Group's policy to securitise its trade and other receivables.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation.

Risk limits are set for each individual customer in accordance with parameters set by the Board. These risk limits are regularly monitored.

Receivables balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of senior management.

There are no significant concentrations of credit risk within the Group.

Liquidity risk

The Group’s objective is to maintain a balance between continuity of funding and flexibility through the use of current working capital, term loans and lease liabilities.

17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Maturity analysis of financial liabilities

Year ended 30 June 2020	≤ 6 months $'000	6-12 months $'000	1 – 5 years $'000	> 5 years $'000	Total $'000
Payables	8,752	-	-	-	8,752
Interest bearing loans & borrowings	3,058	5,540	4,165	-	12,763
Bank guarantees	-	-	133	-	133
Total financial liabilities	11,810	5,540	4,298	-	21,648

Year ended 30 June 2019	≤ 6 months $'000	6-12 months $'000	1 – 5 years $'000	> 5 years $'000	Total $'000
Payables	7,341	-	-	-	7,341
Interest bearing loans & borrowings	142	-	13,073	-	13,215
Bank guarantees	-	-	133	-	133
Total financial liabilities	7,483	-	13,206	-	20,689

Foreign exchange risk

Exposure to foreign exchange risk arises where the Group purchases certain components denominated in foreign currency.

The Group's borrowing facility with ADM Capital is denominated in US dollars. To manage the risk associated with the exposure of this balance to exchange rate fluctuations the Group entered into a foreign currency forward contract. This foreign currency forward contract is accounted for as held for trading with gains (losses) recognised in the statement of comprehensive income. The exchange gain or loss on foreign currency transactions is recognised directly in the statement of comprehensive income.

The Group's exposure to foreign currency risk on its foreign currency borrowings and associated forward exchange contracts, expressed in Australian dollars, was as follows:

	2020 AUD $'000	2019 AUD $'000
Loan (USD exposure)	5,139	12,931
Forward exchange contracts (USD exposure)	(525)	251

17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

During the financial year, the following foreign-exchange related amounts were recognised in profit or loss:

	2020 AUD $'000	2019 AUD $'000
Amounts recognised in profit or loss		
Net foreign exchange (loss)/gain on foreign currency derivatives not qualifying as hedges included in other income/other expense	(525)	862
Exchange gain/(loss) on foreign currency borrowing included in other income	534	(881)
Total net foreign exchange gain/(loss) recognised in profit before income tax for the period	9	(19)

Sensitivity Analysis

At 30 June 2020 21% of the Group's borrowings were at a fixed rate of interest (2019: Nil). If interest rates were to increase or decrease by 1%, the net change in finance costs would be approximately $27,000 (2019: Nil).

The Group is primarily exposed to changes in the US dollar exchange rate. The sensitivity of profit or loss to changes in the exchange rates arises mainly from US dollar-denominated financial instruments is illustrated in the table below.

	2020 USD $'000	2019 USD $'000
Impact on post tax profit		
US/$exchange rate – increase 5%	(402)	(994)
US/$exchange rate – decrease 5%	348	861

The Group has taken out a forward exchange contract to hedge its currency exposure (see note 12).

18. NOTES TO THE STATEMENT OF CASH FLOWS

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Reconciliation of cash	Consolidated 2020 $'000	Consolidated 2019 $'000
Cash at bank and on hand	**3,636**	3,107

Reconciliation of net (loss)/profit after tax to net cash flows from operations

	Consolidated 2020 $'000	Consolidated 2019 $'000
Net (loss)/profit	(13,985)	1,263
Adjustments for:		
Depreciation, amortisation of non-current assets	2,297	1,474
Impairment of goodwill	10,554	-
Profit on sale of fixed assets	(8)	(1)
Foreign exchange gain	(12)	(54)
Amortisation of capitalised borrowing costs	57	113
Doubtful debts expense/ (written off)	723	(5)
Changes in assets and liabilities:		
(Increase)/decrease in trade and other receivables	218	1,968
(Increase)/decrease in inventories	2,480	(2,433)
Increase/(decrease) in trade and other payables	2,743	(1,158)
(Increase)/decrease in deferred tax liabilities	140	202
Increase/(decrease) in provisions	45	117
Net cash provided by operating activities	5,252	1,486

Non cash financing and investing activities

During the year the Group acquired property, plant and equipment with an aggregate value of $83,705 (2019: $83,705) by means of leases. These acquisitions are not reflected in the Statement of Cash Flows.

19. BUSINESS COMBINATION

Summary of Acquisition

In October 2019, the Group entered into an agreement to acquire the business and assets of L&M Traffic Signals Pty Ltd (L&M). L&M is an accredited provider and installer for Vic Roads involving traffic signal installation and maintenance and fully approved for installation work by the Department of Transport in Victoria and holds a number of term maintenance contracts with six local councils across Victoria. The acquisition was completed on 28 August 2020 and from this date L&M is a controlled entity of the Group.

Details of the purchase consideration and net assets acquired are as follows:

	$'000
Purchase consideration	
Cash deposit paid on completion	288
Balance payable in instalments	840
Earnout payable if financial targets met	300
Total purchase consideration	1,428

The assets and liabilities to be recognised as a result of the acquisition are estimated to be as follows:

	Fair value $'000
Net tangible assets	2
Intangible assets	1,426
Net assets to be acquired	1,428

Estimated revenue and profit contribution (full year)

L&M had revenue of $5.4m and net profit of $1.2m in the financial year ended 30 June 2020. As L&M was controlled from 28 August 2020, L&M's results have not been consolidated for the Group for the year ended 30 June 2020.

Acquisition-related costs

Acquisition-related costs of $82,000 are included in other expenses in profit and loss and in investing cash flows in the statement of cash flows.

20. CLAIMS AND CONTINGENCIES

Guarantees

The Company is party to a deed of cross guarantee with its wholly-owned subsidiaries. The extent to which an outflow of funds will be required is dependent on the future operations of the entities that are party to the deed of cross guarantee. No liability is expected to arise. The deed of cross guarantee will continue to operate indefinitely. As detailed in note 12, the Company is party to finance facility agreement with its financiers to which the Company's subsidiaries are guarantors. The extent to which an outflow of funds will be required is dependent on the risk of default under the finance facility agreement. The Directors do not expect default to occur.

21. SUBSIDIARIES

The consolidated financial statements include the financial statements of Traffic Technologies Ltd and the subsidiaries listed in the following table.

Name of Subsidiary	Principal Place of Business	Principal Activity	Ownership Held by 2020 %	Interest the Group 2019 %
Traffic Technologies Signal & Hardware Division Pty Ltd	Australia	Non-trading	100	100
Traffic Technologies Traffic Management Division Pty Ltd	Australia	Non-trading	100	100
De Neefe Pty Ltd	Australia	Manufacture signs	100	100
Traffic Technologies Traffic Hire Pty Ltd	Australia	Non-trading	100	100
Sunny Sign Company Pty Ltd	Australia	Manufacture signs	100	100
Pro-Tech Traffic Management Pty Ltd	Australia	Non-trading	100	100
KJ Aldridge Investments Pty Ltd	Australia	Non-trading	100	100
Aldridge Traffic Group Pty Ltd	Australia	Non-trading	100	100
Excelsior Diecasting Pty Limited	Australia	Non-trading	100	100
Aldridge Traffic Systems Pty Ltd	Australia	Manufacture signals, lights etc.	100	100
Aldridge Plastics Pty Ltd	Australia	Non-trading	100	100
Quick Turn Circuits Pty Ltd	Australia	Manufacture controllers	100	100
Traffic Technologies International Limited	Hong Kong	Non-trading	100	100
Telensa Pty Ltd	Australia	Non-trading	100	100
Telensa Australia Pty Ltd	Australia	Non-trading	100	100
L&M Traffic Services Pty Ltd	Australia	Maintenance	100	-

22. RELATED PARTY TRANSACTIONS

a) Transactions with Shareholders

First Samuel Limited (one of the Company's lenders – see note 7) has disclosed that it owns 22,864,297 ordinary shares in the Company.

b) Transactions with Directors or Director-related entities

The Company entered into related party transactions for FY 2020 with an entity associated with the Company's Managing Director, Mr. Con Liosatos.

Inventory was purchased by the related entity and sold to the Company at cost price and a requisite interest charge at normal commercial rates was incurred by the Group. The related party transactions were on arm's length commercial terms and, after the application of foreign exchange and interest costs, no profit was made by the related party. As a result, the related party transactions were within the arm's length exception under Part 2E of the Corporations Act 2001.

Inventory purchases and associated finance charges from the related entity in FY 2020 amounted to $71,000 (2019: $47,000), (2018: $182,000), (2017: $171,000), (2016: $1,134,000) with $130,000 included in trade payables at 30 June 2020 (2019: $52,000), (2018: $180,000), (2017: $1,144,000), (2016: $1,156,000).

The Group paid insurance premiums totaling $73,000 on behalf of Mr. Con Liosatos following an acknowledgement by him to have his remuneration reduced from FY 2016 by the amount of the insurance premiums; this amount remained as a loan to Mr. Liosatos as at the reporting date which has subsequently been repaid in full. Interest has been charged on the loan at the Company's average cost of funds.

The historic omission of those financial transactions (where effectively there was no profit or benefit of the related party, merely a pass through of expenditure) from the relevant financial statements was inadvertent and was disclosed by the Company in preparing the financial statements for FY 2020.

There were no other transactions during the year.

23. SUBSEQUENT EVENTS

The acquisition of the L&M Traffic Signals business was completed on 28 August 2020.

The term of the ADM loan facility has been extended to 2 July 2021 (see Note 12).

24. AUDITOR'S REMUNERATION

Amounts received or due and receivable by:

	Consolidated 2020 $	Consolidated 2019 $
Audit or review of the financial report of the entity and any other entity in the Group		
ShineWing Australia	**173,689**	81,500

25. KEY MANAGEMENT PERSONNEL DISCLOSURES

a) Compensation of Key Management Personnel

Details of the nature and amount of each element of the remuneration of key management personnel are disclosed in the Remuneration Report section of the Directors' Report.

	Consolidated	Consolidated
Compensation by Category:	**2020**	2019
Key Management Personnel	$	$
Short-term employee benefits	**939,302**	935,673
Post-employment benefits	**64,362**	64,362
Other long-term benefits	**13,892**	29,208
	1,017,556	1,029,243

b) Shares issued on exercise of remuneration options

No shares have been issued to key management personnel as a result of the exercise of remuneration options.

c) Option holdings of Key Management Personnel

There were no share options outstanding at 30 June 2020 or at the date of this report (2019: nil). No shares have been issued to key management personnel as a result of the exercise of remuneration options.

d) Loans to Key Management Personnel

Details of a loan to Mr. Con Liosatos are set out in note 22.

26. OPERATING SEGMENTS

The Group has only one business segment: Traffic Products. The Group's chief operating decision maker (the Managing Director) reviews financial information on a consolidated basis and makes strategic decisions based on this consolidated information.

Major customers

Revenue from government agencies accounted for 11% of sales (2019: 9%). Revenue from the largest non-government customer accounted for 7% (2019: 11%) of sales.

Geographical information

The Group operates in one principal geographical location, namely Australia.

Revenue by geographic location:

	Consolidated 2020 $'000	Consolidated 2019 $'000
Australia	39,854	41,923
Overseas	4,668	6,398
Total	44,522	48,321

All the Group's non-current assets are located in Australia.

27. PARENT ENTITY DISCLOSURES

	2020 $'000	2019 $'000
Current assets	3,222	6,429
Total assets	51,171	54,545
Current liabilities	61,766	57,048
Total liabilities	70,395	69,790
Issued capital	54,755	54,755
Retained earnings	(73,979)	(70,000)
Total shareholders' equity	(19,224)	(15,245)
Profit/(loss) of the parent entity	(3,979)	(2,574)
Total comprehensive income of the parent entity	(3,979)	(2,574)
Guarantees entered into by the parent entity in relation to debts of its subsidiaries	133	133

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The consolidated financial statements and notes of Traffic Technologies Ltd are in accordance with the *Corporations Act 2001* and:

    a) comply with Australian Accounting Standards and the Corporations Regulations 2001; and

    b) give a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the year ended on that date.

2. The Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

3. In the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

4. The Directors have been given the declarations by the Managing Director and Chief Financial Officer required by section 295A of the Corporations Act 2001.

The members of the Closed Group identified in note 21 are parties to the deed of cross guarantee under which each company guarantees the debts of the others. At the date of this declaration there are reasonable grounds to believe that the companies which are parties to this deed of cross guarantee will as a consolidated entity be able to meet any obligations or liabilities to which they are, or may become, subject to, by virtue of the deed of cross guarantee described in note 20.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:

On behalf of the Board

Garry Lowrey
Chairman

Melbourne
14 October 2020

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows. The information is current as at 7 September 2020.

a) Distribution of Shareholdings

	Ordinary Shares	
	Number of Holders	Number of Shares
1 - 1,000	151	21,020
1,001 - 5,000	32	85,931
5,001 - 10,000	45	374,832
10,001 - 100,000	407	18,809,974
100,001 and over	269	462,932,938
	904	482,224,695
Holdings less than a marketable parcel	267	1,023,719

b) Twenty Largest Shareholders

	Name	No. of Shares	% Held
1	RSAM INVESTMENTS PTY LTD <RM INVESTMENT A/C>	50,148,883	10.40%
2	BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD <DRP A/C>	43,103,941	8.94%
3	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	23,104,362	4.79%
4	MR LAMBROU LIOSATOU *	19,844,761	4.12%
5	BANNABY INVESTMENTS PTY LTD <BANNABY SUPER FUND A/C>	17,606,063	3.65%
6	NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	15,878,686	3.29%
7	BROWNLOW PTY LTD	15,064,982	3.12%
8	PETHOL (VIC) PTY LTD <MACDY NO 5 SUPER FUND A/C>	14,137,739	2.93%
9	LIOSATOS SUPERANNUATION PTY LTD <LIOSATOS S/F A/C> *	13,882,162	2.88%
10	GP MANAGEMENT P/L <G&R S/F A/C>	12,000,150	2.49%
11	CLAPSY PTY LTD <BARON SUPER FUND A/C>	11,848,360	2.46%
12	MR ROBERT SCOTT ANTHONY MINNEY	10,644,630	2.21%
13	ANNLEW INVESTMENTS PTY LTD <ANNLEW INVESTMENTS PL SF A/C>	9,729,153	2.02%
14	DOLPHIN CAPITAL PARTNERS PTY LTD	8,250,000	1.71%
15	MR GARRY PATRICK LOWREY *	7,166,667	1.49%
16	MR ALEXANDER DAMIEN BEARD + MRS MARIE PASCALE BEARD <AD & MP BEARD SUPER FUND A/C>	7,040,291	1.46%
17	MR PAUL DAVID NEATE	6,000,000	1.24%
18	NETWEALTH INVESTMENTS LIMITED <SUPER SERVICES A/C>	5,993,675	1.24%
19	HYDRONOMEES PTY LTD <HYDRO-CHEM SUPER FUND A/C>	5,195,377	1.08%
20	TARAKITA PTY LTD <JONES PROPERTY A/C>	5,069,922	1.05%
	Total	**301,709,804**	**62.57%**

* Associated with Directors.

c) Substantial Shareholders (greater than 5%)

Holder Name	Ordinary Shares Number	%
Mr. Con Liosatos	33,726,923	6.99
Mr. Robert Minney	60,793,513	12.61

d) Voting Rights

All ordinary shares carry one vote per share without restriction.

e) Ordinary shares subject to voluntary escrow restrictions

None.

ShineWing AUSTRALIA
Advisors & Accountants

Take the lead

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF TRAFFIC TECHNOLOGIES LTD

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Traffic Technologies Ltd (the Company) and its subsidiaries (the Group) which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year then ended; and

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the financial report, which states that the Group incurred a net loss for the year ended 30 June 2020 and part of the Group's debt is due for repayment in July 2021. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Impairment of Goodwill and other non-financial assets	
Area of focus	**How our audit addressed the area of focus**
Refer to Note 1 (Accounting Policy), Note 9 (Goodwill) and Note 10 (Intangible assets) An impairment expense was recognised during the year ended 30 June 2020 in the amount of $10.6m and was allocated to goodwill acquired through previous business combinations. Australian Accounting Standards require the Group to perform impairment testing in relation to non-financial assets where impairment indicators are identified from internal and external sources of information. In addition, the Directors are required to perform annual impairment testing for Goodwill, intangible assets not yet available for use and intangible assets with an indefinite useful life regardless of whether indicators exist. Non-financial assets of the Group including Goodwill are allocated to appropriate Cash Generating Units (CGUs) for impairment testing. The Directors' impairment assessment process is highly judgemental and is based on assumptions including: • Identifying the Group's CGUs; • Cash flow forecasts; • Growth rates; and • The Discount rate. These assumptions are affected by expected future growth and profitability of product lines (including new products) and the continuing profitability of the core business.	Our procedures included: • Enquired with management in relation to the basis of assumptions applied in the value in use model to obtain an understanding of the key variables impacting the recoverable amount of the Signals CGU; • Enquired with management in relation to the basis of assumptions applied in the fair value less costs of disposal model to obtain an understanding of the key variables impacting the recoverable amount of the controllers CGU; • A detailed evaluation of the group's budgeting procedures upon which the forecasts are based and tested the principles and integrity of the discounted future cash flow models; • Tested the accuracy of the calculation derived from each forecast model and assessing key inputs to the calculations such as revenue growth, discount rates and working capital assumptions. This is carried out with reference to the Board approved forecasts, data external to the group and using our own assessments; • Obtained and evaluated the assumptions and methodology applied in the Directors' fair value less costs of disposal model in in respect of the controllers CGU; • Performed sensitivity analysis on the key assumptions and variables to determine various outcomes of the recoverable amount calculations in assessing whether the CGUs are impaired; and • We also considered the adequacy of the Group's disclosures in relation to the impairment testing.

2. Related party transactions	
Area of focus	**How our audit addressed the area of focus**
Refer to Note 1 (Accounting Policy) and Note 22 (Related party transactions) Related party transactions have been entered into during the year. The financial report sets out a prior period error in relation to previously undisclosed related party transactions. As such, there is a risk that not all related party transactions are disclosed in the financial report. This could result in insufficient information being provided in order to enable understanding of the nature and effect of the various related party relationships and transactions.	Our audit procedures included: • Assessment of the Group's controls to identify and disclose related party transactions and transactions in accordance with the relevant accounting standards and the *Corporations Act 2001*; • Conducted an ASIC search for external directorships held by key management personnel to evaluate whether all related party relationships and transactions had been appropriately identified and disclosed; and • For each class of related party transaction, we compared the financial statement disclosures against the underlying transactions.

3. Capitalised Development Costs	
Area of focus	**How our audit addressed the area of focus**
Refer to Note 1 (Accounting Policy) and Note 10 (Intangible assets) During the year the Group had capitalised development costs relating to traffic product development projects. For internally generated intangible assets, the Australian Accounting Standards require certain conditions to be satisfied prior to development costs being capitalised. Determining the that the requirements could be met was complex and required judgements by the Directors and Group management, specifically in determining that the specific criteria, for capitalisation, stipulated by Australian Accounting Standards had been addressed.	• Reviewed management's internal documentation and policy in respect of development costs; • Reviewed transfers from development assets to amortising intangible assets when available for use to determine whether the transfers were appropriate; • Reviewed development cost spend in the year against the accounting standard criteria; and • Assessed the adequacy of the Group's disclosures in respect of the capitalised development costs.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them, all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 5 to 12 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Traffic Technologies Ltd for the year ended 30 June 2020 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

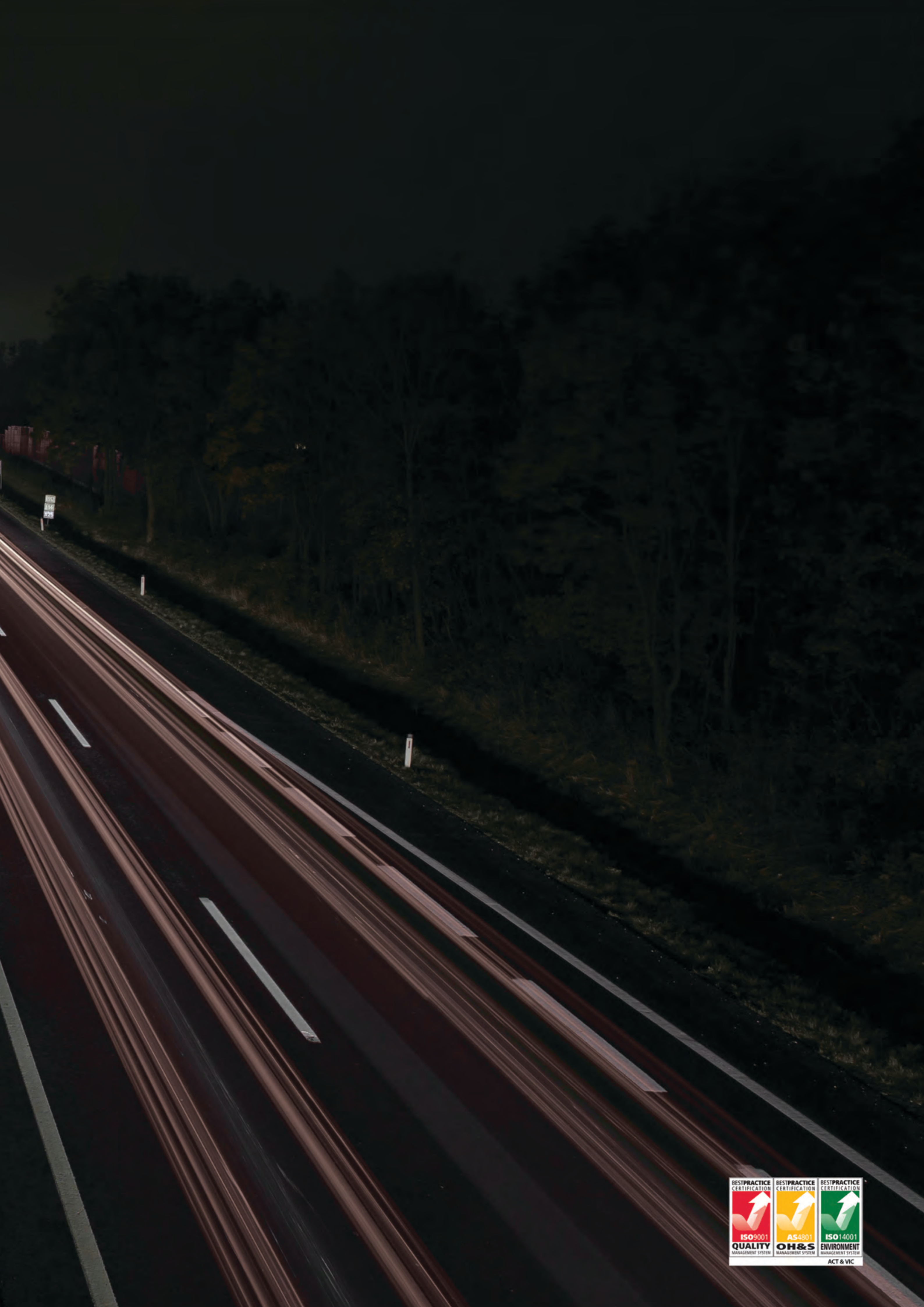
The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

ShineWing Australia

ShineWing Australia
Chartered Accountants

Rami Eltchelebi
Partner

Melbourne, 14 October 2020


BESTPRACTICE CERTIFICATION
ISO9001
QUALITY
MANAGEMENT SYSTEM
BESTPRACTICE CERTIFICATION
AS4801
OH&S
MANAGEMENT SYSTEM
BESTPRACTICE CERTIFICATION
ISO14001
ENVIRONMENT
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