

**VEEM Ltd**  
**ABN: 51 008 944 009**

***APPENDIX 4E: PRELIMINARY FINAL REPORT***

**2019**

**RESULTS FOR ANNOUNCEMENT TO THE MARKET**

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This Preliminary Final Report is provided to the Australian Securities Exchange (ASX) under ASX Listing Rule 4.3A

Current Reporting Period: 30 June 2019

Previous Corresponding Period: 30 June 2018

For and on behalf of the Directors



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**TRACY CAUDWELL**  
COMPANY SECRETARY  
Dated: 29 August 2019

**RESULTS FOR ANNOUNCEMENT TO THE MARKET**

Revenue and Net Profit				AUD \$'000's
Revenue from ordinary activities	up	10.5%	to	44,982
Profit from ordinary activities after tax attributable to members	down	19.1%	to	2,231
Net profit for the period attributable to members	down	19.1%	to	2,231

**COMMENTARY ON RESULTS AND OTHER SIGNIFICANT INFORMATION**

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**COMMENTARY**

The Directors' Report accompanying this Preliminary Final Report contains a review of operations and commentary on the results for the year ended 30 June 2019.

## Dividends

During the year, an interim fully franked ordinary dividend for the financial year ended 30 June 2019 of \$0.0015 per share (\$195,000) was paid on 26 April 2019.

A final fully franked ordinary dividend for the financial year ended 30 June 2018 of \$0.0026 per share (\$338,000) was paid on 28 September 2018.

The directors have declared a final fully franked ordinary dividend of \$0.00365 per share (\$474,500).

Date the dividend is payable	27 September 2019
Record date to determine entitlement to the dividend	13 September 2019
Amount per security	\$0.00365
Total dividend	474,500
Amount per security of foreign sourced dividend or distribution	Nil
Details of any dividend reinvestment plans in operation	Nil

## NET TANGIBLE ASSET BACKING

	30 June 2019 \$'000	30 June 2018 \$'000
Net assets	31,174	29,476
Less intangible assets	12,731	11,923
Net tangible assets of the Company	18,443	17,553
Fully paid ordinary shares on issue at balance date	130,000,000	130,000,000
Net tangible asset backing per issued ordinary share as at balance date	0.142	0.135

## EARNINGS PER SHARE

Basic earnings per share (cents)	1.72	2.12
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## AUDIT DETAILS

The accompanying financial report has been audited.

For personal use only

**VEEM LTD**  
**ABN 51 008 944 009**  
**Financial Statements**  
**30 June 2019**

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## CORPORATE INFORMATION

**ABN 51 008 944 009**

### Directors

Brad Miocevic  
Mark Miocevic  
Ian Barsden  
Peter Torre  
Michael Bailey

Non-Executive Chairman  
Managing Director  
Non-Executive Director  
Independent Non-Executive Director  
Independent Non-Executive Director (appointed 17 July 2018)

### Joint Company Secretaries

Tracy Caudwell  
Peter Torre

### Registered office

22 Baile Road  
Canning Vale WA 6155  
Telephone:  
+ 61 8 9455 9355  
Facsimile:  
+61 8 9455 9333

### Principal place of business

22 Baile Road  
Canning Vale WA 6155  
Telephone:  
+ 61 8 9455 9355  
Facsimile:  
+61 8 9455 9333

### Share registry

Computershare Investor Services Pty Ltd  
Level 11  
172 St Georges Terrace  
PERTH WA 6000  
Telephone:  
+61 8 9323 2000  
Facsimile:  
+ 61 8 9323 2033

### Solicitors

Steinpreis Paganin  
Level 4, the Read Buildings  
16 Milligan Street  
PERTH WA 6000  
Telephone:  
+61 8 9321 4000  
Facsimile:  
+ 61 8 9321 4333

### Bankers

ANZ Banking Corporation  
Level 7, 77 St Georges Terrace  
PERTH WA 6000  
Telephone:  
+61 8 6298 3987

### Auditors

HLB Mann Judd  
Level 4, 130 Stirling Street  
Perth WA 6000  
Telephone:  
+61 8 9227 7500

### Securities Exchange Listing

VEEM Ltd shares are listed on the Australian Securities Exchange (ASX: VEE)

## DIRECTORS' REPORT

The Directors present their report together with the financial statements of the Company for the financial year ended 30 June 2019. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

### Directors

The names of Directors who held office during or since the end of the year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

**Mr John Bradley Mioceвич** B.Comm, FAICD Non-Executive Chairman

Brad has been a Director of VEEM Ltd since 1983. Combining trade qualifications with a Commerce Degree in Finance and Banking, Brad has the unique skills suitable for the management of an engineering company. With a focus on strategic planning, he was a member of the team responsible for the acquisition of several companies over the 21 years including S&S Foundry & Engineering and Timcast Foundry and Engineering. Taking on the role of Director Marine Propulsion in 2000, he has been the driving force in creating VEEM's now very successful international propeller business. Brad provided the vision for VEEM's highly automated manufacturing processes making VEEM the benchmark of propeller manufacturing worldwide. Brad brings to the Board expertise in finance, manufacturing engineering and marketing along with practical knowledge of the Company and its markets.

In the 3 years immediately before the end of the financial year, Brad has not served as a Director of any other listed company.

**Mr Mark David Mioceвич** B.App.Sc (Mech Eng) FIE Aust Managing Director

Mark has been a director and senior manager of VEEM for over 30 years. Commencing as Production Director from 1983 and until 1995 he was responsible for the implementation of the Quality Assurance systems in 1987, the integration of S&S Foundry & Engineering into the company in 1989, and defining the Company management model based on the Australian Business Excellence framework guideline in 1994. From 1995 until present he has been the Managing Director of VEEM and for a period during that time, the Managing Director of GA Perry and a Director of Thomassen Services Australia. He was responsible for the integration of Timcast Engineering into VEEM during 2002. He brings to the Board intimate knowledge of the Company, its systems and strategic plan.

In the 3 years immediately before the end of the financial year, Mark has not served as a Director of any other listed company.

**Mr Ian Henry Barsden** CA  
Non- Executive Director

Ian is a member of the Chartered Accountants Australia and New Zealand and is a former partner of a mid-tier accounting firm. Ian brings over 31 years' experience in the accounting profession, advising and consulting to a wide variety of businesses and industries as to business structuring, taxation and financial management. Ian has provided advisory services to VEEM as a consultant since 1980.

In the 3 years immediately before the end of the financial year, Ian has not served as a Director of any other listed company.

**Mr Peter Patrick Torre** B.Bus (Accounting), CA, AGIA  
Independent Non-Executive Director - Joint Company Secretary

Peter was appointed Company Secretary of the Company in September 2016 and as a Director of the Company on 12 April 2018. He is a Chartered Accountant, a Chartered Secretary and a member of the Australian institute of Company Directors. He was previously a partner of an internationally affiliated firm of Chartered Accountants. Peter is the Company Secretary of several ASX listed companies. Peter is the principal of Torre Corporate, a specialist corporate advisory firm providing corporate secretarial services to a range of listed companies.

In the 3 years immediately before the end of the financial year, Peter has served as a Director of Mineral Commodities Ltd, Volt Power Group Limited and Zenith Energy Limited.

**Mr Michael Robert Bailey** MSc; CEng; MRINA  
Independent Non-Executive Director – Appointed 17 July 2018

Mike brings 45 years experience in areas of naval architecture, marine engineering, and project and company management. He has operated in the defence and offshore oil and gas sectors in Europe, Asia and Australia with multinational and private companies and as a consultant. Mike also held the Business Development role in VEEM Engineering in the 1990's. He has, since 2000, been instrumental in the establishment and operations of the highly successful Australian Marine Complex - Common User Facility.

In the 3 years immediately before the end of the financials year, Mike has not served as a Director of any listed company. Mike has served as a director of AMC Management (WA) Pty Ltd, Facility Manager of the Australian Marine Complex - Common User Facility.

**Mrs Tracy Pauline Caudwell** Cert.Bus.Stud, Assoc Dip Acct, B.Acct, AGIA  
Joint Company Secretary

Tracy joined VEEM in June 2005. Tracy has over 31 years experience in the finance field and is responsible for managing the administration, accounting and finance department providing the management team and Board of Directors with accurate Key Performance Indicators and financial performance.

## DIRECTORS' REPORT (continued)

### INTERESTS IN THE SHARES OF THE COMPANY AND RELATED BODIES CORPORATE

The following relevant interests in shares of the Company or a related body corporate were held by the Directors as at the date of this report.

Fully paid ordinary shares	
Directors	Number
John Bradley Miocevic	80,000,000
Mark David Miocevic	80,000,000
Ian Henry Barsden	50,000
Peter Patrick Torre	60,000
Michael Robert Bailey	75,000

(i) Mr Brad Miocevic and Mr Mark Miocevic have a relevant interest in VEEM Corporation Pty Ltd ATF the Miocevic Family Trust which holds 80,000,000 fully paid ordinary shares in the Company.

### SHARES UNDER OPTION OR ISSUED ON EXERCISE OF OPTIONS

At the date of this report there were no unissued ordinary shares or interests of the Company under option.

### PRINCIPAL ACTIVITIES

The principal activities of the Company during the course of the year were:

- Production of propulsion and stabilization systems; and
- Manufacturing bespoke products and services for the marine, defence and mining industries.

### OVERVIEW

The financial results of the Company for the 2019 financial year demonstrate another consistent performance from the Company's operations. The results are underpinned by the Company's core engineering services which will provide a consistent base for the years to come.

The most pleasing outcome of the financial year, whilst not yet reflected in the Company's financial performance, was the acceptance of the Company's Gyrostabilizers by some of the World's leading shipyards. This acceptance followed a strong marketing push throughout the year, with the relocation of the VEEM Viking vessel to Europe, to allow the representatives of the leading shipyards to see first-hand the VEEM Gyrostabilizer at work. The costs of this exercise were born in this financial year, and the benefits will flow in the years to come.

The vindication of the performance of the VEEM Gyros by Damen Shipyards as announced immediately following the year end, sets the turning point in the drive to establish VEEM Gyros as the dominate player in the gyro stabilization market. This followed with news of VEEM Gyro orders by the world's leading super yacht builders. These, along with further marketing efforts will see sales on VEEM Gyros significantly lift in the 2019 financial year and into the future.

### CORPORATE

The Company's governance framework was bolstered during the year with the appointment of an additional independent non-executive director to the Board of the Company.

Mr Mike Bailey was appointed as a director in July 2018. Mike, a naval architect, has extensive experience in managing highly-complex projects across the defence, oil and gas, and mining sectors. He is well respected in the industry.

With this new appointment, the Board will continue to assess its governance framework to further comply with the ASX Corporate Governance Principles and Recommendations at the appropriate time.

The Company maintained its dividend policy throughout the year with the payment of a final dividend for FY 2018 and an interim FY2019 dividend.



## DIRECTORS' REPORT (continued)

### FINANCIAL AND OPERATING PERFORMANCE

The Company is pleased to report the following key metrics for the financial year 2019:

	FY19 \$	FY18 \$
Operating Revenue	44,982,829	40,712,292
EBITDA	4,390,600	4,924,321
Statutory NPAT	2,230,796	2,756,918
EPS (cents)	1.72	2.12

The Company reported a Profit After Tax (PAT) for the year of \$2,230,796 (2018: \$2,756,918) underpinned by revenue of \$44,982,829 (2018: \$40,712,292).

Net assets increased to \$31.1 million with a build up in inventory related to work in progress and stock for the increase in activity of production. Gyro inventories remained stable.

As indicated at the half year, the result includes approximately \$950,000 in marketing and travel costs mostly associated with the promotion of the Company's Gyro range within the global ship building industry, including one-off costs associated with the Company's test vessel.

The Company also indicated that it expected to see an increase in sales across all aspects of the business in the second half and the Company is pleased to report a 20% increase in sales on December 2018 half year.

Continued pressure on gross profit margins contributed to the lower profit as compared to 2018 due to the nature of the work undertaken, albeit with small gains made in the second half over that of December 2018 half year.

The level of interest in the Company's Gyro's continues to grow. The deliveries of Gyros for FY2019 resulted in sales of \$1.6m, lower than the earlier anticipated \$2.8M, purely due to delays in shipments.

### GYRO MARKET ACCEPTANCE

FY19 was focused around completing the design phase and establishing the VEEM Gyro range in the global market place. The VEEM test vessel, Powerplay, worked its way around Europe visiting many boat builders and demonstrating at boat shows such as Monaco and Cannes. It also spent time in the Netherlands, where the first order for the VG1000SD was won from Damen Ships. Further visits included the countries of Italy, Malta, Croatia and Spain where VEEM's larger markets are. Powerplay was brought back to Perth in November 2018.

During FY19 VEEM delivered \$1.6m of VEEM Gyros. In addition VEEM holds orders in hand to be delivered in FY20 of \$4.6m to date. VEEM is receiving an inquiry per working day for information or quotations for VEEM Gyros and it would appear that the market has accepted the new technology and order levels should continue to increase. FY19 has seen a swing within VEEM from a huge push in marketing to gain customer acceptance, to a focus on closing sales on inquiries received.

The newly leased assembly hall of 4,000 sqm primarily designed for gyro assembly was handed over to VEEM on 1 July 2019. This new facility will enable the assembly and test of the entire VEEM gyro range including the range topping VG1000SD. The new facility will include the ability to fully test the VG1000SD operating at its full torque of 1,000Knm (1 Mega Newton Metre).

Assembly and test of 100 units per year can be comfortably accommodated in this new building. The new facility will also house some of VEEM's existing military contracts that involve service and storage, that were consolidated from other leased facilities around Canning Vale.

### PROPELLING FORWARD

Propeller sales rose to \$16m for 2019 (\$14m: 2018) which is further indication that VEEM propellers are continuing to penetrate global markets with the VEEM and Conquest range of propellers. Conquest propellers were increased in range by diameter and blade area ratio to meet the needs of the replacement market.

The new VEEM shaft line software has been in test all year and we have won several shaft lines in Europe and Australia. Pricing expectations in the market have been met with a focus on shaft lines in the 75mm to 200mm diameter range which most closely matches VEEM's propeller range.

Designs were developed for the range of VEEM shaft line products and global sources of some components has commenced. This will be a focus for VEEM going forward.

FY19 saw the development of the new VEEM Propeller Scanner which enables our dealer network to accurately measure all propellers and be able to prove to customers what level of superiority VEEM and Conquest propellers represents. This is a major marketing tool for VEEM and helps position VEEM as the industry authority on fixed pitch propellers.

## **DIRECTORS' REPORT (continued)**

### **DEFENCE**

Defence work has been busy throughout the year primarily through the volume of stabilizer manufacturing for Austal Ships, one of VEEM's important local clients. These items are exported and are expected to continue into the future. There have been additional contracts executed and some test manufacturing for prime subcontractors working on the new SEA 1000, 1180 and 5000 naval defence programs.

These programs are gathering momentum and inquiry levels to gain the critical Australian manufacturing content are growing. VEEM expects to gain a substantial benefit from all of the programs in this space.

Unusually, the Australian Submarine Corporation refit program has been delayed and the order for the next refit of Collins did not materialize during FY19 as expected, however is expected during FY20. VEEM is a regular recipient of substantial contracts for the submarine refit program.

### **ANZAC BELL**

FY19 saw the installation of the ANZAC Bell with the first official sounding of the bell being on Remembrance Day 11<sup>th</sup> November at 11am. This was a big day for all Australians none less than the founding family of VEEM Ltd, the Miocevic family, as they lost a family loved one during the terrible time that was World War 1.

Reports from the Whitechapel Bells Company are that the VEEM ANZAC Bell casting was the most accurate casting they had ever seen. Large accurate casting is a specialty of VEEM and has been honed by working with Austal Ships and the Australian Submarine Corporation, over many years, to meet their demanding manufacturing standards.

### **OUTLOOK**

As indicated, VEEM Gyro sales will again rise in FY20 as further enquiries and orders increase.

The Australian Submarine Corporation refit is expected to occur in FY20 along with the continual flow of work in the defence industry.

VEEM's underlying business will continue to produce consistent results with FY20 expected to see an improvement in the margins which were impacted during FY19.

### **SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

Other than disclosed elsewhere in this report, there have been no significant changes in the state of affairs of the Company to the date of this report.

### **SIGNIFICANT EVENTS AFTER BALANCE DATE**

Subsequent to the end of year an ordinary dividend of \$474,500 franked to 27.5% has been declared.

Other than the above, no matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the operating of the Company, the results of those operations, or state of affairs of the Company in future financial years.

### **LIKELY DEVELOPMENTS AND EXPECTED RESULTS**

The Company will continue with its strategy as set out in its Prospectus lodged with the ASX on 24 October 2016. The commercialisation of the Company's Gyro Stabilizing will be a key priority during the 2019 financial year.

### **ENVIRONMENTAL LEGISLATION**

The Company is not subject to any significant environmental legislation.

### **DIVIDENDS**

Dividends paid to members during the financial year were as follows:

- A final ordinary dividend of \$338,000 was paid on 28 September 2018.
- An interim ordinary dividend of \$195,000 was paid on 26 April 2019.

Since the end of the financial year the Directors have recommended the payment of a final fully franked ordinary dividend of \$474,500 to be paid on or around 27 September 2019.

## **DIRECTORS' REPORT (continued)**

### **INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS**

The Company has agreed to indemnify all the Directors of the Company for any liabilities to another person (other than the Company or related body corporate) that may arise from their position as Directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith.

During the financial year the Company paid a premium in respect of a contract insuring the Directors and officers of the Company and its controlled entities against any liability incurred in the course of their duties to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

### **REMUNERATION REPORT**

This report, which forms part of the Directors' report, outlines the remuneration arrangements in place for the key management personnel ("KMP") of VEEM Ltd for the financial year ended 30 June 2019. The information provided in this remuneration report has been audited as required by Section 308(3C) of the Corporations Act 2001.

The remuneration report details the remuneration arrangements for KMP who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, including any Director (whether executive or otherwise) of the Company.

### **KEY MANAGEMENT PERSONNEL**

The Directors set out below were the only key management personnel of the Company during or since the end of the financial year.

#### **Directors**

John Bradley Miocevic	Chairman (Non-Executive)
Mark David Miocevic	Managing Director
Ian Henry Barsden	Non-Executive Director
Peter Patrick Torre	Independent Non-Executive Director
Michael Robert Bailey	Independent Non-Executive Director (appointed 17 July 2018)

Except as noted, the named persons held their current positions for the whole of the financial year and to the date of this report.

### **REMUNERATION PHILOSOPHY**

The performance of the Company depends upon the quality of the Directors and executives. The philosophy of the Company in determining remuneration levels is to set competitive remuneration packages to attract and retain high calibre employees.

### **REMUNERATION COMMITTEE**

The Company did not have a separate Remuneration and Nomination Committee during the year. The full Board fulfilled the role typically undertaken by a Remuneration Committee and was responsible for determining and reviewing compensation arrangements for the Directors.

The Board assesses the appropriateness of the nature and amount of remuneration of Directors and executives on a periodic basis by reference to relevant employment market conditions with an overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

### **REMUNERATION STRUCTURE**

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

### **USE OF REMUNERATION CONSULTANTS**

The Board has not used any independent remuneration consultants during the year ended 30 June 2019.

### **NON-EXECUTIVE DIRECTOR REMUNERATION**

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.

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 Constitution of the Company as at the time of listing in October 2016 provides that the aggregate remuneration of non-executive Directors be set at \$400,000.

## DIRECTORS' REPORT (continued)

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst Directors is reviewed annually leading up to the Company's Annual General Meeting. The Board considers advice from external shareholders as well as the fees paid to non-executive Directors of comparable companies when undertaking the annual review process.

Each Director receives a fee for being a Director of the Company. Given there are no committees currently in place, no additional fees are paid.

### SENIOR MANAGER AND EXECUTIVE DIRECTOR REMUNERATION

Remuneration consists of reasonable fixed remuneration only.

### FIXED REMUNERATION

Fixed remuneration is reviewed annually by the Board. The process consists of a review of relevant comparative remuneration in the market and internally and, where appropriate, external advice on policies and practices. The Board has access to external, independent advice where necessary.

Senior managers are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company. The fixed remuneration component is detailed in Key Management Personnel remuneration for the years ended 30 June 2019 and 30 June 2018 tables.

### 2019 ANNUAL GENERAL MEETING

The Remuneration Report for the year ended 30 June 2018 was approved by in excess of 75% of shareholders at the Annual General Meeting.

### PERFORMANCE ON SHAREHOLDER WEALTH

In considering the Group's performance and benefits for shareholder wealth, the Board have regarded the following indices in respect of the current and previous four financial years:

	2019	2018	2017
EPS (cents per share)	1.72	2.12	3.21
Dividends (cents per share)	0.41	1.61	3.08
Net profit (\$)	2,230,796	2,756,918	3,848,750
Share price (\$)	0.53	0.47	0.64

### EMPLOYMENT CONTRACTS

Details of employment contracts with executive KMP:

Agreement with M. Miocevic (date of commencement 1 September 2016)

NAME	TERM OF AGREEMENT AND TERMINATION PROVISIONS	BASE SALARY INCLUDING SUPERANNUATION	TERMINATION BENEFIT
M. Miocevic	This agreement has no set term.  Termination of the agreement is 1 month's notice by the Executive or 3 months' notice by the Company and includes a 6 month restraint of trade.	Base: \$385,000 per annum plus \$25,000 superannuation	3 Months salary

Executive remuneration at this stage consists only of fixed remuneration which has been set at moderate levels for the managing director. This is cognisant of the stage of development as a listed company and as the Company moves to establish itself into new markets. The Company will continue to assess the executive remuneration and appropriately incentivise key management with variable remuneration aligned to shareholder wealth in the periods to come.

## DIRECTORS' REPORT (continued)

### REMUNERATION OF KEY MANAGEMENT PERSONNEL

Key Management Personnel remuneration for the years ended 30 June 2019 and 30 June 2018

	Short-term employee benefits				Post-employment benefits	Long term benefits	Share based payments	Relative proportions of remuneration of KMP that are linked to performance		
	Salary & fees	Bonus	Non-monetary benefits	Other	Superannuation	Long service leave	Share options	Total	Fixed remuneration	Remuneration linked to performance
	\$	\$	\$	\$	\$	\$	\$	\$	%	%
30 June 2019										
Directors										
Bradley Mioceovich	111,696	-	-	5,636	10,611	-	-	127,943	100%	-
Mark Mioceovich	391,268	-	-	-	24,618	6,520	-	422,406	100%	-
Ian Barsden	55,848	-	-	-	5,306	-	-	61,154	100%	-
Peter Torre	60,000	-	-	-	-	-	-	60,000	100%	-
Michael Bailey	60,000	-	-	-	-	-	-	60,000	100%	-
Total	678,812	-	-	5,636	40,535	6,520	-	731,503		

	Short-term employee benefits				Post-employment benefits	Long term benefits	Share based payments	Relative proportions of remuneration of KMP that are linked to performance		
	Salary & fees	Bonus	Non-monetary benefits	Other	Superannuation	Long service leave	Share options	Total	Fixed remuneration	Remuneration linked to performance
	\$	\$	\$	\$	\$	\$	\$	\$	%	%
30 June 2018										
Directors										
Bradley Mioceovich	109,589	-	-	50,000	10,411	-	-	170,000	100%	-
Mark Mioceovich	381,520	-	-	-	24,759	6,358	-	412,637	100%	-
Ian Barsden	54,794	-	-	-	5,206	-	-	60,000	100%	-
Peter Torre	38,266	-	-	-	-	-	-	38,266	100%	-
Michael Bailey	-	-	-	-	-	-	-	-	-	-
Total	584,169	-	-	50,000	40,376	6,358	-	680,903		

No member of key management personnel appointed during the period received a payment as part of his or her consideration for agreeing to hold the position.  
No cash bonuses were granted during 2019 or 2018.

### EMPLOYEE SHARE OPTION PLAN

There were no employee share options granted as compensation in the current or prior financial year.

### FULLY PAID ORDINARY SHARES

	Balance at beginning of year	Granted as compensation	Received on exercise of options	Net change other	Balance at end of year	Balance held nominally
	Number	Number	Number	Number	Number	Number
30 June 2019						
Directors						
Bradley Mioceovich	80,000,000 <sup>1</sup>	-	-	-	80,000,000 <sup>1</sup>	-
Mark Mioceovich	80,000,000 <sup>1</sup>	-	-	-	80,000,000 <sup>1</sup>	-
Ian Barsden	50,000	-	-	-	50,000	-
Peter Torre	60,000	-	-	-	60,000	-
Michael Bailey	-	-	-	75,000	75,000	-
30 June 2018						
Directors						
Bradley Mioceovich	80,000,000 <sup>1</sup>	-	-	-	80,000,000 <sup>1</sup>	-
Mark Mioceovich	80,000,000 <sup>1</sup>	-	-	-	80,000,000 <sup>1</sup>	-
Ian Barsden	50,000	-	-	-	50,000	-
Peter Torre	-	-	-	60,000	60,000	-
Michael Bailey	-	-	-	-	-	-

## DIRECTORS' REPORT (continued)

1. Mr Brad Miocevic and Mr Mark Miocevic have a relevant interest in VEEM Corporation Pty Ltd ATF the Miocevic Family Trust which holds 80,000,000 fully paid ordinary shares in the Company.

The Company has entered into a lease agreement with Voyka Pty Ltd, an entity controlled by an entity related to Mr Mark Miocevic and Mr Brad Miocevic. The Company paid Voyka Pty Ltd monthly rent of \$115,307 from July 2018 to March 2019 and \$110,000 from April 2019 to June 2019 including GST, totalling \$1,367,763 for the twelve months to June 2019. The rent is exclusive of any outgoings including rates, taxes, insurance premiums and maintenance costs. The lease was made on commercial terms. During the year, the Company extended this lease for a further ten years with rent charged at \$110,000 a month including GST. During the year, the Company signed a new lease with Voyka Pty Ltd for new premises for a period of ten years with rent charged of \$43,035 a month, including GST.

### END OF REMUNERATION REPORT

#### DIRECTORS' MEETINGS

The number of meetings of Directors held during the year and the number of meetings attended by each Director were as follows:

	Meetings Held	Eligible to Attend	Meetings Attended
Number of meetings held:	12		
Number of meetings attended:			
John Bradley Miocevic		12	12
Mark David Miocevic		12	12
Ian Henry Barsden		12	11
Peter Patrick Torre		12	12
Michael Robert Bailey		12	10

#### PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

#### NON-AUDIT SERVICES

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 20 to the financial statements. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services do not compromise the auditor's independence as all non-audit services have been reviewed to ensure that they do not impact the impartiality and objectivity of the auditor and none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110: *Code of Ethics for Professional Accountants* issued by the Accounting Professional & Ethical Standards Board.

#### AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the Directors of the Company with Independence Declaration in relation to the audit of the annual report. This Independence Declaration is set out on page 12 and forms part of this Directors' report for the year ended 30 June 2019.

Signed in accordance with a resolution of the Directors.



Mark David Miocevic  
Managing Director  
Perth, 29 August 2019

**AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the audit of the financial report of VEEM Ltd for the year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) any applicable code of professional conduct in relation to the audit.



**Perth, Western Australia**  
**29 August 2019**

**N G Neill**  
**Partner**

**hlb.com.au**

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HLB Mann Judd (WA Partnership) is a member of HLB International, the global advisory and accounting network.



## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2019

		2019 (\$)	2018 (\$)
	Notes		
<b>Continuing operations</b>			
Revenue	2	44,982,829	40,712,292
Other income	2	(18,861)	(352,517)
Change in inventories of finished goods and work in progress		3,205,821	1,308,949
Raw materials and consumables		(19,179,742)	(19,622,628)
Employee benefits expense		(18,543,108)	(11,737,682)
Depreciation and amortisation expense		(1,752,992)	(1,607,638)
Repairs and maintenance expenses		(1,332,546)	(829,951)
Occupancy expenses		(2,388,051)	(2,252,722)
Borrowing costs expense		(495,738)	(436,889)
Other expenses	2	(2,335,742)	(2,272,943)
<b>Profit before income tax expense</b>	2	2,141,870	2,908,271
Income tax benefit/(expense)	3	88,926	(151,353)
<b>Net profit for the year</b>		2,230,796	2,756,918
Other comprehensive income, net of income tax		-	-
<b>Total comprehensive income for the year</b>		2,230,796	2,756,918
Basic earnings per share (cents per share)	5	1.72	2.12

The accompanying notes form part of these financial statements



# STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

		2019 (\$)	2018 (\$)
	Notes		
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	7	2,874,087	304,708
Trade and other receivables	8	6,857,362	8,873,661
Inventories	9	11,038,548	13,352,264
Other assets	10	1,004,793	892,605
Current tax assets	3	538,515	1,016,048
<b>Total current assets</b>		<b>22,313,305</b>	<b>24,439,286</b>
<b>Non-current assets</b>			
Property, plant and equipment	11	12,944,012	14,313,086
Deferred tax assets	3	1,574,170	1,036,683
Intangible assets	12	12,730,774	11,922,950
<b>Total non-current assets</b>		<b>27,248,956</b>	<b>27,272,719</b>
<b>Total assets</b>		<b>49,562,261</b>	<b>51,712,005</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	13	6,767,045	6,709,914
Borrowings	14	1,798,075	5,259,379
Provisions	15	1,022,878	1,176,569
<b>Total current liabilities</b>		<b>9,587,998</b>	<b>13,145,862</b>
<b>Non-current liabilities</b>			
Borrowings	14	7,415,705	8,111,442
Deferred tax liabilities	3	1,384,555	978,494
<b>Total non-current liabilities</b>		<b>8,800,260</b>	<b>9,089,936</b>
<b>Total liabilities</b>		<b>18,388,258</b>	<b>22,235,798</b>
<b>Net assets</b>		<b>31,174,003</b>	<b>29,476,207</b>
<b>Equity</b>			
Issued capital	16	5,140,616	5,140,616
Retained earnings		26,033,387	24,335,591
<b>Total equity</b>		<b>31,174,003</b>	<b>29,476,207</b>

The accompanying notes form part of these financial statements

# STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2019

		Issued capital (\$)	Retained earnings (\$)	Total equity (\$)
	Notes			
Balance at 1 July 2017		5,140,616	23,665,173	28,805,789
Profit for the year		-	2,756,918	2,756,918
Other comprehensive income, net of income tax		-	-	-
Total comprehensive income for the year		-	2,756,918	2,756,918
Dividend paid or provided for	6	-	(2,086,500)	(2,086,500)
Balance as at 30 June 2018		5,140,616	24,335,591	29,476,207
Profit for the year		-	2,230,796	2,230,796
Other comprehensive income, net of income tax		-	-	-
Total comprehensive income for the year		-	2,230,796	2,230,796
Dividend paid or provided for	6	-	(533,000)	(533,000)
Balance as at 30 June 2019		5,140,616	26,033,387	31,174,003

The accompanying notes form part of these financial statements

# STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

		2019 (\$)	2018 (\$)
Notes			
<b>Cash flows from operating activities</b>			
Receipts from customers		50,168,613	42,720,344
Payments to suppliers and employees		(40,811,130)	(41,830,494)
Interest paid		(495,738)	(408,412)
Income tax refunds received/(paid)		435,033	(1,329,022)
GST paid		(840,812)	(597,379)
<b>Net cash inflow/(outflow) from operating activities</b>	7	8,455,966	(1,444,963)
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(201,524)	(739,780)
Payments for intangible assets		(881,902)	(1,183,940)
Proceeds from sale of property, plant and equipment		18,865	27,309
<b>Net cash (outflow) from investing activities</b>		(1,064,561)	(1,896,411)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings	7	1,000,000	6,000,000
Repayment of borrowings	7	(4,659,577)	(1,120,438)
Dividends paid		(533,000)	(2,086,500)
<b>Net cash (outflow)/inflow from financing activities</b>		(4,192,577)	2,793,062
Net increase/(decrease) in cash and cash equivalents		3,198,828	(548,312)
Cash and cash equivalents at the beginning of the year		(324,741)	344,932
Effect of exchange rate fluctuations on cash held		-	(121,361)
<b>Cash and cash equivalents at the end of the year</b>	7	2,874,087	(324,741)

The accompanying notes form part of these financial statements

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) BASIS OF PREPARATION

These financial statements are general purpose financial statements, which have been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standards and Interpretations and comply with other requirements of the law.

The accounting policies detailed below have been consistently applied to all of the years presented unless otherwise stated. For the purpose of preparing the financial statements, the Company is a for-profit entity.

The financial statements have been prepared on a historical cost basis. Historical cost is based on the fair values of the consideration given in exchange for goods and services.

The Company is a listed public Company, incorporated in Australia and operating in Australia selling into the domestic and global markets. The entity's principal activities are described in the Directors' Report.

#### Going concern

This report has been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlements of liabilities in the ordinary course of business.

#### (b) ADOPTION OF NEW AND REVISED STANDARDS

##### Standards and Interpretations applicable to 30 June 2019

In the year ended 30 June 2019, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Company and effective for the reporting periods beginning on or after 1 July 2018.

As a result of this review, the Directors have determined that there is no material impact of the new and revised Standards and Interpretations in issue and effective for the current annual reporting period and therefore no material change is necessary to Company accounting policies.

AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement and makes changes to a number of areas including classification of financial instruments, measurements, impairment of financial assets and hedge accounting model.

Financial instruments are classified as either held at amortised cost or fair value.

Financial instruments are carried at amortised cost if the business model concept can be satisfied.

All equity instruments are carried at fair value and the cost exemption under AASB 139 which was used where it was not possible to reliably measure the fair value of an unlisted entity has been removed. Equity instruments which are non-derivative and not held for trading may be designated as fair value through other comprehensive income (FVOCI). Previously classified available-for-sale investments, now carried at fair value are exempt from impairment testing and gains or loss on sale are no longer recognised in profit or loss.

The AASB 9 impairment model is based on expected loss at day 1 rather than needing evidence of an incurred loss, this is likely to cause earlier recognition of bad debt expenses. Most financial instruments held at fair value are exempt from impairment testing.

The Company has applied this standard at the date of initial application, being 1 July 2018 and has elected not to restate comparative information accordingly, the information presented for 30 June 2018 has not been restated, and follow the classification and measurement requirements of AASB 139.

There is no material impact to profit or loss or net assets on the adoption of this new standard in the current or comparative years.

Other than the above, there is no material impact of the new and revised Standards and Interpretations on the Company and therefore no material change is necessary to Company accounting policies.

#### Early adoption of Standards

On 1 July 2016, the Company early adopted AASB 15 "Revenue from Contracts with Customers" which is mandatory for years beginning on or after 1 January 2018.

#### AASB 16 Leases

AASB 16 replaces AASB 117 Leases. AASB 16 removes the classification of leases as either operating leases or finance leases – for the lessee – effectively treating all leases as finance leases.

AASB 16 is applicable to annual reporting periods beginning on or after 1 July 2019.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### Impact on operating leases

AASB 16 will change how the Company accounts for leases previously classified as operating leases under AASB 117, which were off-balance sheet. On initial application of AASB 16, for all leases (except as noted below), the Company will:

- Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments.
- Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss.
- Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under AASB 117 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under AASB 16, right-of-use assets will be tested for impairment in accordance with AASB 136 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Company will opt to recognise a lease expense on a straight-line basis as permitted by AASB 16.

The Company has elected not to early adopt AASB 16 but has conducted a preliminary assessment of the impact of the new standard based in the facts and circumstances that existed at that date and have concluded that the initial application of AASB 16 will have the following impact on the Company's leases as regards classification and measurement.

As at 30 June 2019, the Company has non-cancellable operating lease commitments of \$16,394,700 in respect of leases of premises.

The preliminary assessment indicates at balance date the Company would have recognised a right-of-use asset of \$9,230,734 and a corresponding lease liability of \$9,283,749 in respect of all these leases.

The impact on profit or loss would have been to decrease other occupancy expenses by \$300,000, to increase depreciation by \$236,685 and to increase interest expense by \$116,330.

Under AASB 117, all lease payments on operating leases are presented as part of cash flows from operating activities. The impact of the changes under AASB 16 would be to reduce the cash generated by operating activities by \$300,000 and to increase net cash used in financing activities by the same amount.

#### Impact on finance leases

The main differences between AASB 16 and AASB 117 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor.

AASB 16 requires that the Company recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by AASB 117.

On initial application the Company will present equipment previously included in property, plant and equipment within the line item for right-of use assets and the lease liability, previously presented within borrowing, will be presented in a separate line for lease liabilities.

Based on an analysis of the Company's finance leases as at 30 June 2019 on the basis of the facts and circumstances that exist at that date, the directors of the Company have assessed that the impact of this change will not have an impact on the amounts recognised in the Company's consolidated financial statements.

### (c) STATEMENT OF COMPLIANCE

The financial report was authorised for issue by the Board of VEEM Ltd on 29 August 2019.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (d) SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions are recognised in the period in which the estimate is revised if it affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Except as described below, in preparing the full-year financial report, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial report for the year ended 30 June 2018.

##### **Amortisation of product development**

Product development is amortised based on units of production as the Board has determined that this appropriately apportions the costs of development across the units produced to meet customer orders and building of inventory to meet future orders. Product development costs continue to be monitored to ensure there are any indicators that these costs may be impaired or whether the amortisation rate needs to be accelerated.

##### **Recovery of deferred tax assets**

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that sufficient future tax profits will be available to utilise those temporary differences. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits.

##### **Inventories**

Management estimates the net realisable values of inventories, taking into account the most reliable evidence available at each reporting date. The future realisation of these inventories may be affected by future technology or other market-driven changes that may reduce future selling prices.

##### **Capitalisation of internally developed products**

Distinguishing the research and development phases of a new products and determining whether the recognition requirements for the capitalisation of development costs are met requires judgement. After capitalisation, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalised costs may be impaired.

#### (e) SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of VEEM Ltd.

The Board has determined the operating segments based on the reports reviewed by the Board of directors that are used to make strategic decision. The entity does not have any operational segments with discrete financial information.

The Board of Directors review internal management reports on a monthly basis that are consistent with the information provided in the statement of profit or loss and other comprehensive income, statement of financial position and statement of cash flows. As a result no reconciliation is required because the information as presented is what is used by the Board to make strategic decisions.

#### (f) FOREIGN CURRENCY TRANSLATION

Both the functional and presentation currency of VEEM Ltd is Australian dollars.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance date.

All exchange differences in the financial report are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

#### (g) REVENUE RECOGNITION

Revenue from contracts with customers is measured at fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties. Contract liabilities are recognised where applicable in relation to sales.

##### **Point in time recognition - sale of goods – propulsion & stabilization**

Revenue is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

##### **Over time recognition - Sale of goods and rendering of services - mining & industrial engineering, propulsion & stabilization, and defence**

In determining whether performance obligations are satisfied over time the Company considers the following:

- Legal control is often retained by the customer;
- VEEM products and services are highly specialised and often do not have an alternate use; and
- Contracts are established with customers so that VEEM has an enforceable right to payment for performance completed to date, including profit margin.

Revenue is recognised by reference to the stage of completion of the performance obligation. The stage of completion of the performance obligation is determined as follows:

- Contract income is recognised by reference to the total actual costs incurred at the end of the reporting period relative to the proportion of the total costs expected to be incurred over the life of the performance obligation;
- Servicing fees are recognised by reference to the proportion of the total cost of providing the service for the product sold; and
- Revenue from time and material contracts are recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

##### **Interest income**

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be reliably measured. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that assets' net carrying amount on initial recognition.

#### (h) GOVERNMENT GRANTS

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

#### (i) BORROWING COSTS

Borrowing costs are capitalised that are directly attributable to the acquisition, construction or production of qualifying assets where the borrowing cost is added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (j) LEASES

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the general policy on borrowing costs, refer Note 1(i).

Finance lease assets are depreciated on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### (k) INCOME TAX

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary difference and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

Deferred income tax is provided on all temporary differences at the balance date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Deferred income 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.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

#### (l) OTHER TAXES

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

#### (m) IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

The Company assesses at each balance date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each balance date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### (n) CASH AND CASH EQUIVALENTS

Cash comprises cash at bank and in hand. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (o) TRADE AND OTHER RECEIVABLES

Trade receivables are measured on initial recognition at fair value and are subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment. Trade receivables are generally due for settlement within periods ranging from 15 days to 60 days.

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Company will not be able to collect all amounts due according to the original contractual terms.

Factors considered by the Company in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Company. The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

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

#### (o) INVENTORIES

##### (i) *Raw material, stores and work in progress*

Raw materials, stores and work in progress are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of stock mainly on the basis of average cost.

##### (ii) *Contract work in progress*

Contract work in progress is stated at cost plus attributable profit to date (based on percentage of completion of each contract) less progress billings. Cost includes all costs directly related to specific contracts and an allocation of overhead expenses incurred in connection with the Company's contract operations. Where a loss on completion is indicated that loss is brought to account in the current year.

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.

#### (p) FINANCIAL ASSETS

##### **Recognition and de-recognition**

Financial assets are recognised when the Company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

##### **Classification and initial measurement of financial assets**

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

For the purpose of subsequent measurement, financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- equity instruments at fair value through other comprehensive income (FVOCI)
- debt instruments at fair value through other comprehensive income (FVOCI).

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### Subsequent measurement of financial assets

##### Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets to collect its contractual cash flows
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method.

Discounting is omitted where the effect of discounting is immaterial. The Company's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments as well as listed bonds that were previously classified as held-to-maturity under IAS 39.

##### Financial assets at fair value through profit or loss (FVTPL)

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

The category also contains an equity investment. The Company accounts for the investment at FVTPL and did not make the irrevocable election to account for the investment in unlisted and listed equity securities at fair value through other comprehensive income (FVOCI). The fair value was determined in line with the requirements of AASB 9, which does not allow for measurement at cost.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss.

The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

##### Equity instruments at fair value through other comprehensive income (Equity FVOCI)

Investments in equity instruments that are not held for trading are eligible for an irrevocable election at inception to be measured at FVOCI.

Under Equity FVOCI, subsequent movements in fair value are recognised in other comprehensive income and are never reclassified to profit or loss.

Dividends from these investments continue to be recorded as other income within the profit or loss unless the dividend clearly represents return of capital.

This category includes unlisted equity securities that were previously classified as 'available-for-sale' under AASB 139.

Any gains or losses recognised in other comprehensive income (OCI) are not recycled upon de-recognition of the asset.

##### Debt instruments at fair value through other comprehensive income (Debt FVOCI)

Financial assets with contractual cash flows representing solely payments of principal and interest and held within a business model of collecting the contractual cash flows and selling the assets are accounted for at debt FVOCI.

The Company accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective it is to "hold to collect" the associated cash flows and sell financial assets; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any gains or losses recognised in other comprehensive income (OCI) will be recycled upon de-recognition of the asset.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (q) DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

##### Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a Company of similar financial assets) is de-recognised when:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either:
  - has transferred substantially all the risks and rewards of the asset, or
  - has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Company could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

##### Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

#### (r) IMPAIRMENT OF FINANCIAL ASSETS

The Company assesses at each balance date whether a financial asset or Group of financial assets is impaired.

##### Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a Group of financial assets with similar credit risk characteristics and that Group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

##### Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset. Such impairment loss shall not be reversed in subsequent periods.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (s) PROPERTY, PLANT AND EQUIPMENT

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

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

Motor vehicles	3-10 years
Plant and equipment	5-30 years
Computer equipment	3-5 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

#### Impairment

The carrying values of plant and equipment are reviewed for impairment at each balance date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to approximate fair value.

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

For plant and equipment, impairment losses are recognised in the statement of profit or loss and other comprehensive income in the cost of sales line item.

#### De-recognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

#### (t) INTANGIBLE ASSETS

##### Intangible assets acquired separately

Intangible assets acquired separately are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period, with any changes in these accounting estimates being accounted for on a prospective basis.

##### Internally generated intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period as incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete development and to use or sell the intangible Asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

The following useful lives are used in the calculation of amortisation:

Patents	10 – 20 years
Product Development Expenditure	Units of production
Software	10 years

#### (u) TRADE AND OTHER PAYABLES

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services. Trade and other payables are presented as current liabilities unless payment is not due within 12 months.

#### (v) BORROWINGS

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

#### (w) PROVISIONS

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

When the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of profit or loss and other comprehensive income net of any reimbursement.

Provisions are measured at the present value or management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

#### Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Company has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

#### Warranties

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products, at the Directors' best estimate of the expenditure required to settle the Company's obligation.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### (x) EMPLOYEE LEAVE BENEFITS

##### Wages, salaries, annual leave and sick leave

Liabilities accruing to employees in respect of wages and salaries, annual leave and sick leave expected to be settled within 12 months of the balance date are recognised in other payables in respect of employees' services up to the balance date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Liabilities accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave not expected to be settled within 12 months of the balance date are recognised in non-current liabilities in respect of employees' services up to the balance date. They are measured as the present value of the estimated future outflows to be made by the Company.

##### Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the balance date. Consideration is given to expected future wage and salary levels, experience of employee departures, and period of service. Expected future payments are discounted using market yields at the balance date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

#### (y) DIVIDENDS

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

#### (z) EARNINGS PER SHARE

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share are calculated, where applicable, as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after-tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

### NOTE 2: REVENUE AND EXPENSES

#### Revenue from contracts with customers

	2019 (\$)	2018 (\$)
Sales revenue		
• Revenue – point in time	2,582,573	1,064,595
• Revenue – over time	42,358,999	39,632,923
Other revenue Government subsidies	18,415	-
• Apprentice subsidies	4,000	5,030
• Commissions received	945	557
• Scrap metal	17,897	9,187
	<u>44,982,829</u>	<u>40,712,292</u>

During the year, the Company recognised revenue of \$5,365,546 (2018: \$9,425,468) in relation to the prior year's work in progress. The Company has progress billings at 30 June 2019 of \$7,417,879 (2108: \$2,356,643).

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### NOTE 2: REVENUE AND EXPENSES (cont'd)

The Company has contract assets, being work in progress (recognised overtime) at 30 June 2019 of \$6,723,472 (2018: \$4,670,847).

The Company will recognise revenue from contracts with customers based on the following performance:

- the completion of the contracted work-scope following factory acceptance testing in accordance with contract terms and conditions and
- when applicable, completion of contracted milestones and transfer of title generally based on:
  - milestone 1 - material acquisition, and/or
  - milestone 2 - completion of casting metal pour, and/or
  - milestone 3 - factory acceptance testing (FAT)

The majority of customer contracts are from the private sector and this accounts for approximately 80% of the revenue during FY18/19. Sales to quasi-government and government instrumentalities accounted for 13% (2018: 25%) and 16% (2018: 7%) respectively.

The geographic distribution of sales for the FY18/19 was approximately 59% (2018: 68%) derived within Australia and the remaining 41% (2018: 32%) were derived predominantly from the USA, UK, Italy and NZ.

Contracts are received and executed generally within 12 months and hence are considered short term contracts. Period contracts (those that extend greater than 1 year) with customers are executed by discrete purchase orders for required shipments and hence still fall within the definition for short term contracts.

All sales are generated by direct contract with customers. Sales agents are utilised in Europe and USA to introduce enquiries and leads and contracts are then established direct with the buyer. Where distributors are utilised the entity purchases and contracts directly with VEEM Ltd.

#### Other income

	2019 (\$)	2018 (\$)
Foreign exchange gains/ (losses) (net)	(18,861)	(352,517)
	(18,861)	(352,517)

#### Other expenses

	2019 (\$)	2018 (\$)
Insurance	280,332	291,747
Advertising and marketing	946,608	821,911
Travel	232,855	281,560
Bank Charges	144,809	136,739
Safety and first aid	68,620	70,905
Motor vehicle expenses	89,094	161,600
Accounting and secretarial	137,360	165,352
Telephone expenses	49,403	63,341
Employee related expenses	172,060	74,707
Legal expenses	1,254	45,966
Loss/(profit) on disposal property, plant and equipment	4,804	(13,788)
Share registry expenses	22,930	20,371
Other general expenses	185,613	152,532
	2,335,742	2,272,943



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### NOTE 3: INCOME TAX

#### Income tax recognised in profit or loss

The major components of tax expense are:

	2019 (\$)	2018 (\$)
Current tax expense/(benefit)	42,500	(60,457)
Deferred tax expense/(benefit) relating to the origination and reversal of temporary differences	(131,426)	211,810
Total tax (benefit)/expense	(88,926)	151,353

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

	2019 (\$)	2018 (\$)
Accounting profit before income tax	2,141,870	2,908,271
Income tax expense calculated at 27.5%	589,014	872,481
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
• Prior year overprovision of income tax	(664,040)	(66,485)
• Effect of expenses that are not deductible in determining taxable profit	13,861	3,226
• Effect of concessions – research and development	(27,761)	(657,869)
Income tax (benefit)/expense reported in the statement of profit or loss and other comprehensive income	(88,926)	151,353

The tax rate used in the above reconciliation is the corporate tax rate of 27.5% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in this tax rate since the previous reporting period.

#### Current tax receivables comprise:

	2019 (\$)	2018 (\$)
Income tax receivable/(payable)	538,515	1,016,048

#### Deferred tax assets comprise:

	2019 (\$)	2018 (\$)
Annual leave payable	312,138	312,912
Provision for long service leave	281,292	352,971
Accrued expenses	73,450	59,850
Unrealised foreign exchange (gain) / loss	11,754	3,469
Black hole expenditure and borrowing costs	184,014	307,481
Unclaimed research and development concessions	711,522	-
	1,574,170	1,036,683

#### Deferred tax liabilities comprise:

	2019 (\$)	2018 (\$)
Depreciable property, plant and equipment	1,223,560	894,844
Patents	64,666	83,650
Accrued revenue	96,329	-
	1,384,555	978,494

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### NOTE 3: INCOME TAX (cont'd)

#### Reconciliation of deferred tax assets/ (liabilities):

	Opening balance	Change in tax rate	Charged to income	Closing balance
	(\$)	(\$)	(\$)	(\$)
30 June 2019				
Accrued expenses	59,850	(4,987)	18,587	73,450
Annual leave payable	312,912	(26,076)	25,302	312,138
Provision for long service leave	352,971	(29,414)	(42,265)	281,292
Property, plant and equipment	(894,844)	74,570	(403,286)	(1,223,560)
Unrealised foreign exchange (gain) / loss	3,469	(289)	8,574	11,754
Black hole expenditure and borrowing costs	307,481	(25,623)	(97,844)	184,014
Patents	(83,650)	6,971	12,013	(64,666)
Unclaimed research and development concessions	-	-	711,522	711,522
Accrued revenue	-	-	(96,329)	(96,329)
	<u>58,189</u>	<u>(4,848)</u>	<u>136,274</u>	<u>189,615</u>

	Opening balance	Charged to income	Closing balance
	(\$)	(\$)	(\$)
30 June 2018			
Accrued expenses	54,522	5,328	59,850
Annual leave payable	307,226	5,686	312,912
Provision for long service leave	329,595	23,376	352,971
Property, plant and equipment	(676,523)	(218,321)	(894,844)
Unrealised foreign exchange (gain) / loss	(6,445)	9,914	3,469
Black hole expenditure and borrowing costs	346,373	(38,892)	307,481
Patents	(84,749)	1,099	(83,650)
	<u>269,999</u>	<u>(211,810)</u>	<u>58,189</u>

### NOTE 4: SEGMENT REPORTING

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of Directors of VEEM Ltd.

The Board has determined the operating segments based on the reports reviewed by the Board of directors that are used to make strategic decision. The entity does not have any operational segments with discrete financial information.

The Board of Directors' review internal management reports on a monthly basis that are consistent with the information provided in the statement of profit or loss and other comprehensive income, statement of financial position and statement of cash flows. As a result no reconciliation is required because the information as presented is what is used by the Board to make strategic decisions.

The Company has two customers where the revenue from those customers was in excess of 10% of the Company's revenue. Customer A generated 15.4% (2018: 25.4%). Customer B generated 14.1% (2018: 7.4%) of the Company's revenue for the year.

The total sales revenue for VEEM Ltd for FY2019 was \$44,941,572. This can be broken down into the following major sales categories. Engineering Services the mining and industrial engineering manufacture and service portion of the business and sales for FY2019 were \$14,418,810. Propulsion and stabilization consists of the manufacture of new propellers, shaft lines, gyro stabilizers and fin stabilizers. The sales in this category were \$24,206,692. Defence related sales for FY2019 totalled \$13,233,331 with \$6,917,259 of those sales being both within the defence and propulsion/stabilization category.

### NOTE 5: EARNINGS PER SHARE

#### Basic earnings per share

	2019	2018
	Cents per share	Cents per share
Basic earnings per share	<u>1.72</u>	<u>2.12</u>

There are no diluted earnings per share.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### NOTE 5: EARNINGS PER SHARE (cont'd)

#### Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share is as follows:

	2019 (\$)	2018 (\$)
Earnings		
Earnings from continuing operations	2,230,796	2,756,918
	2019 Number	2018 Number
Weighted average number of ordinary shares for the purpose of basic earnings per share	130,000,000	130,000,000

### NOTE 6: DIVIDENDS

	2019 (\$)	2018 (\$)
Fully franked dividends paid	533,000	2,086,500
Fully unfranked dividends paid	-	-
Total dividends paid	533,000	2,086,500

	2019 (\$)	2018 (\$)
Balance of franking account at period end adjusted for franking credits arising from the payment of provision for income tax and dividends recognised as receivables, franking debits arising from payment of proposed dividends and franking credits that may be prevented from distribution in a subsequent financial year.	1,193,530	913,949

The tax rate at which paid dividends have been franked is 27.5% (2018: 30%).

### NOTE 7: CASH AND CASH EQUIVALENTS

	2019 (\$)	2018 (\$)
Cash at bank	2,873,287	303,408
Cash on hand	800	1,300
	2,874,087	304,708

Cash at bank earns interest at floating rates based on daily bank deposit rates.

#### Reconciliation to the Statement of Cash Flows:

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand and at bank and investments in money market instruments, net of outstanding bank overdrafts.

Cash and cash equivalents as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	2019 (\$)	2018 (\$)
Cash and cash equivalents	2,874,087	304,708
Bank overdraft (Note 14)	-	(629,449)
	2,874,087	(324,741)

#### Non-cash financing and investing activities

The Company purchased assets with a value of \$131,985 which were financed through hire purchase.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### NOTE 7: CASH AND CASH EQUIVALENTS (cont'd)

#### Cash balances not available for use

All cash balances are available for use.

#### Reconciliation of profit for the year to net cash flows from operating activities

	2019 (\$)	2018 (\$)
Net profit for the year	2,230,796	2,756,918
Depreciation and amortisation expense	1,752,992	1,607,638
(Profit)/loss on sale or disposal of non-current assets, property, plant & equipment	4,804	(13,788)
Provision for employee leave benefits	(153,691)	77,920
Foreign exchange loss	18,862	352,517
(Increase)/decrease in assets:		
Trade and other receivables	1,926,625	(1,433,360)
Inventories	2,313,716	(4,923,121)
Increase/(decrease) in liabilities:		
Trade and other payables	27,405	1,468,363
Current and deferred tax	346,107	(1,177,669)
GST payable	(11,650)	(160,381)
Net cash inflow/(outflow) from operating activities	8,455,966	(1,444,963)

#### Changes in liabilities arising from financing activities

	Bank loans (\$)	Hire Purchase liability (\$)	Total (\$)
Balance as at 1 July 2017	3,500,000	4,242,946	7,742,946
Net cash from (used in) financing activities	6,000,000	(1,120,438)	4,879,562
Acquisition of plant and equipment by means of hire purchase	-	118,864	118,864
Balance as at 30 June 2018	9,500,000	3,241,372	12,741,372
Net cash from (used in) financing activities	(2,500,000)	(1,159,577)	(3,659,577)
Acquisition of plant and equipment by means of hire purchase	-	131,985	131,985
Balance as at 30 June 2019	7,000,000	2,213,780	9,213,780

### NOTE 8: TRADE AND OTHER RECEIVABLES

	2019 (\$)	2018 (\$)
Trade receivables (i)	6,177,832	8,596,812
GST recoverable	201,086	178,572
Other receivables	478,444	98,277
	6,857,362	8,873,661

(i) the average credit period on sales of goods and rendering of services is 15-60 days

#### Aging of past due but not impaired

	2019 (\$)	2018 (\$)
60 – 90 days	679,805	449,797
90 – 120 days	497,943	210,924
Total	1,177,748	660,721

#### Expected credit losses

The Company applies the AASB 9 simplified model of recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### NOTE 8: TRADE AND OTHER RECEIVABLES (cont'd)

In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared credit risk characteristics. They have been grouped based on the days past due and also according to the geographical location of customers.

The expected loss rates are based on the payment profile for sales over the past 48 months before 30 June 2019 and 30 June 2018 respectively as well as the corresponding historical credit losses during that period. The historical rates are adjusted to reflect current and forwarding looking macroeconomic factors affecting the customer's ability to settle the amount outstanding.

Trade receivables are written off when there is no reasonable expectation of recovery. Failure to make payments within 180 days from the invoice date and failure to engage with the Company on alternative payment arrangement amongst other is considered indicators of no reasonable expectation of recovery.

On the above basis, a provision for expected credit losses as at 30 June 2019 and 30 June 2018 is not required as it is not material to the financial statements.

### NOTE 9: INVENTORIES

	2019 (\$)	2018 (\$)
Work in progress – over time	6,723,472	4,670,847
Work in progress – point in time	1,833,131	1,151,358
Less: progress billings	(7,417,879)	(2,356,643)
	1,138,724	3,465,562
Goods for resale, raw materials and stores	9,899,824	9,886,702
	11,038,548	13,352,264

Inventory write-downs charged to cost of sales totalled \$Nil (2018 \$9,425,468).

During the year, the Company recognised revenue of \$5,365,546 (2018: \$9,425,468) in relation to the prior years' work in progress.

Included in goods for resale, raw materials and stores inventories are inventories carried at net realisable value with a carrying value of \$1,151,192 (2018 \$7,754,225). The total impact to profit or loss of write downs to net realisable value is \$85,022 (2018 \$33,098).

### NOTE 10: OTHER ASSETS

	2019 (\$)	2018 (\$)
Prepayments	442,044	391,637
Supplies paid in advance	562,749	500,968
	1,004,793	892,605

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

## NOTE 11: PROPERTY, PLANT AND EQUIPMENT

	Plant and Equipment (\$)	Motor Vehicles (\$)	Capital Work in Progress (\$)	Computer Equipment (\$)	Total (\$)
<b>As at 30 June 2018</b>					
Cost	35,207,615	547,376	271,234	1,424,000	37,450,225
Accumulated depreciation	(21,443,994)	(459,734)	-	(1,233,411)	(23,137,139)
<b>Closing carrying amount</b>	<b>13,763,621</b>	<b>87,642</b>	<b>271,234</b>	<b>190,589</b>	<b>14,313,086</b>
<b>Year ended 30 June 2019</b>					
Opening carrying amount	13,763,621	87,642	271,234	190,589	14,313,086
Additions	188,349	82,035	31,447	31,678	333,509
Disposals	-	(5,713)	(17,945)	-	(23,658)
Transfers	21,630	-	(173,099)	-	(151,469)
Depreciation charge	(1,445,579)	(31,413)	-	(50,464)	(1,527,456)
<b>Closing carrying amount</b>	<b>12,528,021</b>	<b>132,551</b>	<b>111,637</b>	<b>171,803</b>	<b>12,944,012</b>
<b>As at 30 June 2019</b>					
Cost	35,416,129	595,057	111,637	1,455,678	37,578,501
Accumulated Depreciation	(22,888,108)	(462,506)	-	(1,283,875)	(24,634,489)
<b>Carrying amount</b>	<b>12,528,021</b>	<b>132,551</b>	<b>111,637</b>	<b>171,803</b>	<b>12,944,012</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### NOTE 12: INTANGIBLE ASSETS

	Other Intellectual Property	Product Development	Total
	(\$)	(\$)	(\$)
<b>As at 30 June 2018</b>			
Cost	677,554	12,124,536	<b>12,802,090</b>
Accumulated amortisation	(35,595)	(843,545)	<b>(879,140)</b>
<b>Closing carrying amount</b>	<b>641,959</b>	<b>11,280,991</b>	<b>11,922,950</b>

### Year ended 30 June 2019

Opening carrying amount	641,959	11,280,991	<b>11,922,950</b>
Net additions	31,378	850,513	<b>881,891</b>
Transfers	154,800	(3,331)	<b>151,469</b>
Amortisation charge	(143,726)	(81,810)	<b>(225,536)</b>
<b>Closing carrying amount</b>	<b>684,411</b>	<b>12,046,363</b>	<b>12,730,774</b>

### As at 30 June 2019

Cost	863,732	12,971,718	<b>13,835,450</b>
Accumulated amortisation	(179,321)	(925,355)	<b>(1,104,676)</b>
<b>Carrying amount</b>	<b>684,411</b>	<b>12,046,363</b>	<b>12,730,774</b>

No impairment loss was recognised in the 2019 financial year (2018: \$Nil).

### NOTE 13: TRADE AND OTHER PAYABLES (CURRENT)

	2019 (\$)	2018 (\$)
Trade payables (i)	4,862,946	4,672,674
Annual leave payable	1,135,046	1,043,041
GST Payable	317,175	306,311
Other creditors	451,878	687,888
	<b>6,767,045</b>	<b>6,709,914</b>

(i) Trade payables are non-interest bearing and are normally settled on 30-day terms.

Information regarding the interest rate, foreign exchange and liquidity risk exposure is set out in Note 17.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### NOTE 14: BORROWINGS

	2019 (\$)	2018 (\$)
<i>Current</i>		
Bank overdraft (a)	-	629,449
Commercial facility (a)	600,000	3,500,000
Hire purchase liability	1,284,880	1,263,072
Less: Unexpired charges	(86,805)	(133,142)
	<b>1,798,075</b>	<b>5,259,379</b>
<i>Non-current</i>		
Commercial facility (a)	6,400,000	6,000,000
Hire purchase liability	1,046,117	2,203,093
Less: Unexpired charges	(30,412)	(91,651)
	<b>7,415,705</b>	<b>8,111,442</b>

(a) The bank overdraft and commercial facility are secured by a registered first mortgage over the assets and undertakings of the Company.

The Company has a Commercial Facility with a limit of \$8,000,000. The Commercial Facility is repayable by 1 July 2021. \$50,000 of principal is payable monthly for the first 18 calendar months of the Commercial Facility, thereafter \$100,000 of principal is payable each calendar month with the remaining facility amount owing payable on the termination date. The loan facility is reduced by the principal component of each repayment. Interest at the base rate plus 1.75% per annum is charged monthly and a line fee of 0.75% per annum of the Facility Limit is payable quarterly in arrears. The interest rate is currently at 2.77% (June 2018: 3.56%). The facility is reviewed on an annual basis. At 30 June 2019, the Company had available \$1,000,000 (2018: \$1,596,150) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

The Company has an Overdraft Facility with a limit of \$3,400,000. Interest at the base rate less 0.75% per annum is charged monthly. The facility is reviewed on an annual basis. At 30 June 2019, the Company had available \$3,400,000 of undrawn overdraft facilities. In addition, there is an Electronic Payments Facility with a limit of \$300,000. At 30 June 2019, the Company had available \$300,000 under this facility. The Company complied with all banking covenants during the financial year.

#### Financing facilities available

At balance date, the following financing facilities had been negotiated and were available:

	2019 (\$)	2018 (\$)
<b>Total facilities</b>		
• Overdraft Facility	3,400,000	-
• Commercial Facility	8,000,000	-
• Multi Option Facility	-	11,400,000
• Electronic Payments facility	300,000	300,000
• Commercial Card Facility	50,000	50,000
	<b>11,750,000</b>	<b>11,750,000</b>
<b>Facilities used at balance date</b>		
• Overdraft Facility	-	629,449
• Commercial Facility	7,000,000	9,500,000
• Commercial Card Facility	37,004	24,401
	<b>7,037,004</b>	<b>10,153,850</b>
<b>Facilities unused at balance date</b>		
• Overdraft Facility	3,400,000	-
• Commercial Facility	1,000,000	-
• Multi Option Facility	-	1,270,551
• Electronic Payments facility	300,000	300,000
• Commercial Card Facility	12,996	25,599
	<b>4,712,996</b>	<b>1,596,150</b>
<b>Total facilities</b>		
• Facilities used at balance date	7,037,004	10,153,850
• Facilities unused at balance date	4,712,996	1,596,150
	<b>11,750,000</b>	<b>11,750,000</b>



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### NOTE 14: BORROWINGS (cont'd)

The carrying value of plant and equipment held under hire purchase contracts at 30 June 2019 is \$3,856,541 (2018: \$3,957,223). Additions during the year include \$131,985 (2017: \$118,864 of plant and equipment held under hire purchase contracts).

### NOTE 15: PROVISIONS

	2019 Employee benefits (i) \$	2018 Employee benefits (i) \$
Balance at beginning of year	1,176,569	1,098,649
Net movements	(153,691)	77,920
Balance at the end of year	1,022,878	1,176,569
Current	1,022,878	1,176,569
Non-current	-	-

(i) The provision for employee benefits represents long service leave entitlements accrued.

### NOTE 16: ISSUED CAPITAL

	2019 (\$)	2018 (\$)
130,000,000 (2018: 130,000,000) Ordinary shares issued and fully paid	5,140,616	5,140,616

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

	Year to 30 June 2019		Year to 30 June 2018	
	No.	\$	No.	\$
<i>Movements in ordinary shares on issue</i>				
Opening balance	130,000,000	5,140,616	130,000,000	5,140,616
Closing balance	130,000,000	5,140,616	130,000,000	5,140,616

### Share options

The Company has a share-based payment Incentive Option Scheme which provides that the Board of the Company, from time to time, in its absolute discretion, make an offer to any Eligible Participant to apply for Options, upon the terms set out in the Incentive Option Plan and upon such additional terms and conditions as the Board determined.

In exercising that discretion, the Board may have regard to the following (without limitation):

- (i) The Eligible Participants length of service with the Company
- (ii) The contribution made by the Eligible Participant to the Company
- (iii) The potential contribution of the Eligible Participant to the Company; or
- (iv) Any other matter the Board considers relevant.

No options to subscribe for the Company's shares have been granted during the period. There are no options on issue at balance date.

### NOTE 17: FINANCIAL INSTRUMENTS

#### Capital risk management

The Company manages its capital to ensure it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Company consists of debt, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued capital and retained earnings.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### NOTE 17: FINANCIAL INSTRUMENTS (cont'd)

The Company is not subject to externally imposed capital requirements.

Operating cash flows are used to maintain and expand operations, as well as to make routine expenditures such as tax, dividends and general administrative outgoings.

Gearing levels are reviewed by the Board on a regular basis in line with its target gearing ratio, the cost of capital and the risks associated with each class of capital.

#### Categories of financial instruments

	2019 (\$)	2018 (\$)
<b>Financial assets</b>		
Cash and cash equivalents	2,874,087	304,708
Trade and other receivables	6,857,362	8,793,661
<b>Financial liabilities</b>		
Trade and other payables	6,767,045	6,709,914
Borrowings – Bill Facility	7,000,000	9,500,000
Borrowings – Bank overdraft	-	629,449
Hire purchase liability	2,213,780	3,241,372

#### Financial risk management objectives

The Company is exposed to market risk (including currency risk, fair value, risk and interest), credit risk, liquidity risk and cash flow interest rate risk.

#### Foreign currency risk management

The Company undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. This is managed by the Company's operations having a natural hedge with materials purchased and sold at prices fixed at the prevailing rate. The Company therefore has limited exposure to US Dollar (USD), Euro (EUR), and Great British Pound (GBP) debtors and creditors currency fluctuations.

	Cash (\$)	Receivables (\$)	Payable (\$)	Total Asset /(Liability) (\$)
USD	950,255	924,151		1,874,406
• Impact of a 5% increase to profit or loss				(93,720)
• Impact of a 5% decrease to profit or loss				93,720
EUR	445,271	206,547		651,818
• Impact of a 5% increase to profit or loss				(32,591)
• Impact of a 5% decrease to profit or loss				32,591
GBP	7,411	789,319	1,137,075	(340,345)
• Impact of a 5% increase to profit or loss				(90,587)
• Impact of a 5% decrease to profit or loss				90,587

The Company's sensitivity to foreign exchange has not changed significantly from the prior year.

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and exchange rates.

To negate some of this risk the company has embarked on a global supply program the procurement of all appropriate goods that form part of its manufactured products. This includes but is not limited to the supply of sub components, individual parts consumable products used in production and stock items.

The Company also manages market risk by keeping abreast of factors affecting its market on a continual basis. Business improvement practices continually evolve.

#### Interest rate risk management

The Company is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by the Company by maintaining an appropriate mix between fixed and floating rate borrowings.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### NOTE 17: FINANCIAL INSTRUMENTS (cont'd)

The Company's exposures to interest rate on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

#### Interest rate risk sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non- derivative instruments at the balance date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period. A 50 basis point increase or decrease has been used when reporting interest rate risk represents management's assessment of the change in interest rates.

At balance date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Company's net profit would increase by \$4,401 and decrease by \$4,401 (2018:\$3,562). This is mainly attributable to the Company's exposure to interest rates on its variable rate borrowings.

The Company's sensitivity to interest rates has increased during the current period mainly due to the increase in variable rate debt instruments.

#### Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Company only transacts with entities that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Company uses publicly available financial information and its own trading record to rate its major customers. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by management annually.

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowance for losses, represents the Company's maximum exposure to credit risk without taking account of the value of any collateral obtained.

#### Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of Directors, who have built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 14 is a listing of additional undrawn facilities that the Company has at its disposal to further reduce liquidity risk.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### NOTE 17: FINANCIAL INSTRUMENTS (cont'd)

The following table details the Company's expected contractual maturity for its non-derivative financial liabilities. These have been drawn up based on undiscounted contractual maturities of the financial liabilities based on the earliest date the Company can be required to repay. The tables include both interest and principal cash flows.

		Weighted average interest rate		
		1 year or less	1–5 years	5+ years
30 June 2019	%	\$	\$	\$
Non-interest bearing – Trade and other payables		6,767,045	-	-
Fixed interest rate – Hire purchase liabilities	4.4	1,284,880	1,046,117	-
Variable interest rate – Bill facility and bank overdraft	2.77	600,000	6,400,000	-
		8,651,925	7,446,117	-

		Weighted average interest rate		
		1 year or less	1–5 years	5+ years
30 June 2018	%	\$	\$	\$
Non-interest bearing - Trade and other payables		6,709,915	-	-
Fixed interest rate – Hire purchase liabilities	4.4	1,263,072	2,203,093	-
Variable interest rate – Bill facility and bank overdraft	3.56	4,423,058	6,162,307	-
		12,396,045	8,365,400	-

#### Fair value measurement

The directors consider that the carrying value of the financial assets and liabilities as recognised in the financial statements approximate their fair values.

### NOTE 18: COMMITMENTS AND CONTINGENCIES

#### Operating lease commitments – Company as lessee

The Company has commitments for operating leases. During the year, the Company extended the commercial lease on its premises for a further 10 years. The Company has the option to extend the lease beyond this term for another 15 years in increments of five year terms. During the year, the Company entered into a new commercial lease for additional premises for a 10 year period. The Company has the option to extend the lease beyond this term for another 15 years in increments of five year terms. At balance date, these premises were not yet available for use.

Future minimum rentals payable under non-cancellable operating leases as at 30 June 2019 are as follows:

	2019 (\$)	2018 (\$)
<b>(a) Operating lease commitments</b>		
- within one year	1,669,470	1,165,273
- after one year but not more than 5 years	6,677,880	-
- longer than 5 years	8,047,350	-
	16,394,700	1,165,273

#### Hire purchase commitments - Company as lessee

The Company has hire purchase contracts for various items of plant and machinery. These contracts have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

### NOTE 18: COMMITMENTS AND CONTINGENCIES (cont'd)

Future minimum lease payments under hire purchase contracts together with the present value of the net minimum lease payments are as follows:

	2019 (\$)	2018 (\$)
<b>(b) Hire purchase commitments payable</b>		
- within one year	1,284,880	1,263,072
- after one year but not more than five years	1,046,117	2,203,093
- longer than five years	-	-
Minimum hire purchase payments	2,330,997	3,466,165
Less: Unexpired charges	(117,217)	(224,793)
Present value of net minimum lease payments	2,213,780	3,241,372
Represented by:		
Current	1,198,075	1,129,931
Non-current	1,015,705	2,111,441
	2,213,780	3,241,372

### Capital commitments

At 30 June 2019 the Company has no capital commitments (2018: \$Nil).

### NOTE 19: RELATED PARTY DISCLOSURE

The Company's related parties include key management personnel and their related entities as described below.

The aggregate compensation for Directors and other key management personnel of the Company are set out below:

	2019 (\$)	2018 (\$)
Short-term employee benefits	684,448	634,169
Other long-term benefits	47,055	46,734
	731,503	680,903

### Key management personnel transactions

The Company has entered into a lease agreement with Voyka Pty Ltd, an entity controlled by an entity related to Mr Mark Miocevic and Mr Brad Miocevic. The Company paid Voyka Pty Ltd monthly rent of \$115,307 from July 2018 to March 2019 and \$110,000 from April 2019 to June 2019 including GST, totalling \$1,367,763 for the twelve months to 30 June 2018. The rent is exclusive of any outgoings including rates, taxes, insurance premiums and maintenance costs. The lease was made on commercial terms. During the year, the Company extended this lease for a further ten years with rent charged of \$110,000 a month, including GST.

During the year, the Company signed a new lease with Voyka Pty Ltd for new premises for a period of the years with rent charged of \$43,035 a month, including GST.

### NOTE 20: AUDITOR'S REMUNERATION

The auditor of VEEM Limited is HLB Mann Judd.

	2019 (\$)	2018 (\$)
Audit or review of the financial statements	79,040	89,500
Tax compliance services	23,950	31,700
	102,990	121,200

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## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019**

### **NOTE 21: SUBSEQUENT EVENTS**

Subsequent to the end of year an ordinary dividend of \$474,500 franked to 27.5% has been declared.

Other than the above, no matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the operating of the Company, the results of those operations, or state of affairs of the Company in future financial years.

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## DIRECTORS' DECLARATION

1. In the opinion of the Directors of VEEM Limited (the 'Company'):
  - a. the accompanying financial statements and notes are in accordance with the Corporations Act 2001 including:
    - i. giving a true and fair view of the Company's financial position as at 30 June 2019 and of its performance for the year then ended; and
    - ii. complying with Australian Accounting Standards, the Corporations Regulations 2001, professional reporting requirements and other mandatory requirements.
  - b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
  - c. the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.
2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2019.

This declaration is signed in accordance with a resolution of the board of

Directors. Mark David Mioceovich  
Managing Director



Dated this 29 day of August 2019

## INDEPENDENT AUDITOR'S REPORT

To the members of VEEM Ltd

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of VEEM Ltd ("the Company") which comprises the statement of financial position as at 30 June 2019, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the 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 Company is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the Company's financial position as at 30 June 2019 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 Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the financial report in Australia. We have 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.

#### 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.

Key Audit Matter	How our audit addressed the key audit matter
<b>Carrying amount of the intangible asset (product development expenditure)</b> Note 12 of the financial report	
The Company has an intangible asset in relation to capitalised expenditure on the development of gyroscopic stabilizers.	Our procedures included but were not limited to the following:

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Key Audit Matter	How our audit addressed the key audit matter
<p><b>Carrying amount of the intangible asset (product development expenditure)</b> Note 12 of the financial report</p> <p>The development expenditure of \$12.046 million is considered to be a key audit matter, given the size of the balance, the gyroscopic stabilizer market being relatively new and immature, as well as the specific criteria that have to be met for capitalisation.</p> <p>In addition, determining whether there is any indication of impairment requires management judgment and assumptions which are affected by future market or economic developments.</p>	<ul style="list-style-type: none"> <li>- We assessed the recognition criteria for this intangible asset by challenging the key assumptions used and estimates made in capitalising development costs, including management's assessment of the stage of the project in the development phase and the accuracy of costs included;</li> <li>- We considered management's assessment of whether any indicators of impairment were present by understanding the business rationale for projects and performing reviews for indicators of impairment;</li> <li>- We assessed the adequacy of the Company's disclosures in the financial report; and</li> <li>- We ensured management applied an appropriate amortisation method and amortisation period to this finite life intangible.</li> </ul>
<p><b>Revenue recognition</b> Note 2 of the financial report</p> <p>The Company has two distinct categories of revenue being revenue with performance obligations recognised at a point in time and revenue with performance obligations recognised over time.</p> <p>We focused on this area as a key audit matter due to the number and type of estimation events that may occur over the course of a contract life, leading to complex and judgemental revenue recognition and the direct impact on profit.</p>	<p>Our procedures included but were not limited to the following:</p> <ul style="list-style-type: none"> <li>- We examined and tested the Company's key controls over revenue and related work-in-progress;</li> <li>- We read and considered a sample of the Company's key contracts to determine if we concurred with management's assessment of performance obligations, the transaction price and any contract liabilities that may arise, the allocation of the transaction price, and when to recognise revenue, either at a point in time, or over time;</li> <li>- For a sample of contracts designated for over time recognition, we assessed the methodology and accuracy of recognising profit at the stage of completion at balance date;</li> <li>- We substantiated revenue transactions on a sample basis by agreeing the transaction to the customer's contract, purchase order, sales invoice, delivery docket, customer certification report, and bank receipt, where relevant;</li> <li>- We tested the appropriateness of progress claims on a sample basis; and</li> <li>- We assessed the adequacy of the Company's disclosures in the financial report.</li> </ul>

*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 Company's annual report for the year ended 30 June 2019, 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 Company 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 Company or to cease operations, or have no realistic alternative but to do so.

*Auditor's responsibilities for the audit of the financial report*

Our 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 Company'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 Company'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 Company 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.

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, related safeguards.

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 within the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of VEEM Ltd for the year ended 30 June 2019 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.



**HLB Mann Judd**  
**Chartered Accountants**

**Perth, Western Australia**  
**29 August 2019**



**Norman Neill**  
**Partner**