# ANNUAL REPORT
2020

VEEM LTD
ACN 008 944 009

# CORPORATE INFORMATION

ABN 51 008 944 009

### DIRECTORS

| | |
|---|---|
| Brad Miocevich | Non-Executive Chairman |
| Mark Miocevich | Managing Director |
| Ian Barsden | Non-Executive Director |
| Peter Torre | Independent Non-Executive Director |
| Michael Bailey | Independent Non-Executive Director |

### JOINT COMPANY SECRETARIES

Tracy Caudwell
David Rich

### REGISTERED OFFICE

22 Baile Road
CANNING VALE WA 6155

Telephone:
+ 61 8 9455 9355

### PRINCIPAL PLACE OF BUSINESS

22 Baile Road
Canning Vale, WA 6155

Telephone:
+ 61 8 9455 9355

### 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)

# CONTENTS

# CHAIRMAN'S LETTER

It is with great pride that I present the 2020 Annual Report for VEEM Ltd. It is particularly pleasing that VEEM was able take some important steps forward and maintain its profitability in 2020 while operating under the local and global shadow of COVID-19.

Our staff, contractors, management and Board all responded rapidly and effectively when the pandemic hit and I am pleased to report that there were no positive tests within the Company. Lockdowns in Europe and the USA impacted orders and sales in April and May and our supply chain also experienced some temporary delays during this period. By 30 June 2020 all customers and suppliers around the world were open and operating with longer freight times being the only remaining impact. Operationally we are now running at pre-COVID-19 levels or better.

We remain vigilant in monitoring domestic and world developments and potential impacts of the pandemic.

Our revolutionary gyrostabilizer business took several key steps forward during 2020 as sales of gyrostabilizers tripled to $4.8 million. The new gyrostabilzer facility was officially opened by the Minister for Defence, the Hon Linda Reynolds in March, and by 30 June was fully operational for the assembly and testing of all model sizes. This timing proved to be astute as in the first six weeks of the new financial year we received orders for $4.1 million of new gyrostabiizers.

**Figure 1:** Pictured Mark Miocevich (left) and Brad Miocevich (right) next to the first ever built VEEM Gyro VG1000SD

Our engineering team completed the first build and sale of the VG1000SD gyrostabiizer for Damen Ships. This is quite a feat of engineering, being the largest operating marine gyrostabilizer in the world with angular momentum of 520 kN.m. Damen Ships have since ordered a second VG1000SD and a third order has also been received from a private owner.

Market acceptance of the gyrostabilizers has continued apace with orders now being received from almost every major superyacht builder in Europe. Progress has also been made in the commercial workboat/supply/crew transfer vessel market with Damen Ships second order of a VG1000SD being for offshore oilfield contractor Naviera Integral. We are confident that the rate of takeup will continue to accelerate as users and owners experience the benefits of the additional stabilization – both through personal enjoyment for superyacht users and commercial returns for offshore vessel operators.

**Figure 2:** MV Anemelie has a VG120 gyro installed

I am proud to report that VEEM's propellers remain the world's leading brand with the major boat builders in Europe and North America supplying VEEM props as standard. We will continue to push innovation of this product into the future.

Our defence business was again a solid contributor to profit and the $9 million submarine contract won in March 2020 will contribute strongly to revenue and sales in 2021. VEEM is well positioned to be a major contributor of sovereign capability to the defence industry under the federal government's current strong push for increased Australian content on defence projects.

While our engineering products and services business may not seem as attractive as our disruptive marine products, it remains a solid contributor to profit. Just as important is the fact that the foundry and precision machining capability provides in-house support for the marine and defence businesses, including ongoing innovation.


**Figure 3:** The most powerful marine gyrostabilizer in the world. VEEM'S VG1000SD is suitable for large Super Yachts, commercial workboats and defence vessels

**Figure 4:** VEEM is manufacturing brake components for Thales' Hawkei vehicles

On the financial side, it is a testament to the diversity of our business that VEEM was able to generate normalised EBITDA and profit in line with the prior year. The slowdown in April and May meant we were eligible for the Federal Government's JobKeeper program, and this has helped put VEEM in a strong position to grow all areas of its business in 2021 and beyond. The Board decided not to include the JobKeeper receipts as part of the dividend calculation, instead choosing to apply the funds towards growth, including employment, and to hold as a buffer against future COVID-19 uncertainty.

Finally, I would like to thank all staff and Directors for their efforts during the year and congratulate them on the progress made.

**Brad Miocevich**
**Non-Executive Chairman**

# DIRECTORS' REPORT

The Directors present their report together with the financial statements of the Company for the financial year ended 30 June 2020. In order to comply with the provisions of the Corporations Act 2001, the Directors' report as follows.

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.

**Figure 5:** VEEM's demonstration and test vessel "VEEM PowerPlay" circumnavigated Australia during the year visiting marinas and ship-yards as well as thoroughly testing the VG120 gyro

## DIRECTORS

### NON-EXECUTIVE CHAIRMAN

**Mr John Bradley Miocevich**
B.Comm, FAICD

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 22 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.

### MANAGING DIRECTOR

**Mr Mark David Miocevich**
B.App.Sc (Mech Eng) FIE Aust

Mark has been a Director and senior manager of VEEM for over 31 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.

## NON- EXECUTIVE DIRECTOR

**Mr Ian Henry Barsden**
CA

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 32 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.

## INDEPENDENT NON-EXECUTIVE DIRECTOR

**Mr Peter Patrick Torre**
B.Bus (Accounting), CA, AGIA

Peter was appointed 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. Peter served as Company Secretary of the Company from September 2016 to November 2019. In the 3 years immediately before the end of the financial year, Peter has served as a Director of Mineral Commodities Ltd (1 April 2010 to present), Volt Power Group Limited (28 April 2017 to present) and Zenith Energy Limited (7 March 2019 to 28 August 2020).

## INDEPENDENT NON-EXECUTIVE DIRECTOR

**Mr Michael Robert Bailey**
MSc; CEng; MRINA

Mike brings 46 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.

## FINANCE AND ADMINISTRATION MANAGER AND JOINT COMPANY SECRETARY

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

Tracy joined VEEM in June 2005. Tracy has over 32 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.

## CHIEF FINANCIAL OFFICER AND JOINT COMPANY SECRETARY

**Mr David James Rich**
BCom, FCA, GAICD, AGIA, Grad.Dip.CSP
Appointed 18 November 2019

David is an experienced public company CFO and Company Secretary with over 30 years commercial experience including the last 22 years as CFO of ASX listed companies. Over his career David has worked in senior management for companies within the technology, manufacturing and oil and gas industries involving international interests and operations including in Australia, Europe, Asia, Africa and the USA.

**Figure 6:** Princess Yachts

## 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 Miocevich | 80,000,000[1] |
| Mark David Miocevich | 80,000,000[1] |
| Ian Henry Barsden | 53,571 |
| Peter Patrick Torre | 60,000 |
| Michael Robert Bailey | 90,000 |

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


**Figure 7:** VEEM PropPuller, the latest innovation provides a simplified installation and removal process with our own spring design

## 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.

## FINANCIAL PERFORMANCE

The Company reported Net Profit After Tax (NPAT) for FY2020 of $2.5 million (2019: $2.5 million) underpinned by revenue of $44.4 million (2019: $45.0 million). There were two significant items in the 2020 result that were not part of the comparative 2019 result – the impact of AASB 16 Leases accounting changes and the JobKeeper subsidy (refer table below). In order to make the two years comparable, the effects of AASB 16 and JobKeeper have been reversed to arrive at a 2020 "normalised" profit which is then comparable to 2019. The negative effect of AASB 16 in 2020 of $0.5 million will diminish over the next four years and then become a positive adjustment for the last five years of the lease term increasing to a positive impact on statutory profit during the last year of the lease of approximately $0.5 million.

The Company is pleased to report the following key metrics for the financial year 2020:

| | FY20 $ Statutory Result | AASB 16 Entries | JobKeeper | FY20 $ Normalised Result | Restated* FY19 $ |
|---|---|---|---|---|---|
| Revenue | 44,368,072 | - | - | 44,368,072 | 44,960,414 |
| EBITDA | 7,506,527 | (1,562,153) | (1,517,250) | 4,427,124 | 4,390,600 |
| Profit before tax | 3,239,764 | 495,354 | (1,517,250) | 2,217,868 | 2,141,870 |
| NPAT | 2,470,261 | 495,354 | (1,100,006) | 1,865,609 | 2,554,705 |
| EPS (cents) | 1.90 | 0.38 | (0.84) | 1.44 | 1.97 |

*Certain amounts shown here do not correspond to the 2019 financial statements and reflect adjustments made – refer to Note 24 of the 2020 financial statements.

On a comparable "normalised" basis, the Company delivered EBITDA of $4.4 million, the same as 2019 and profit before tax of $2.2 million, an increase of $0.1 million on $0.6 million less sales. The increase in gyrostabilizer sales to $4.8 million (2019: $1.6 million) more than offset the fall in propulsion sales. In the defence business, an increase in sales of marine ride control fins offset the fall in revenue due to the delay on the submarine maintenance contract to the 2021 financial year. A higher income tax expense in 2020 due a significantly lower research and development claim pushed the net profit after tax down to $1.9 million from $2.5 million in 2019.

**Figure 8:** VEEM supplies components for the Collins Class submarine maintenance program.

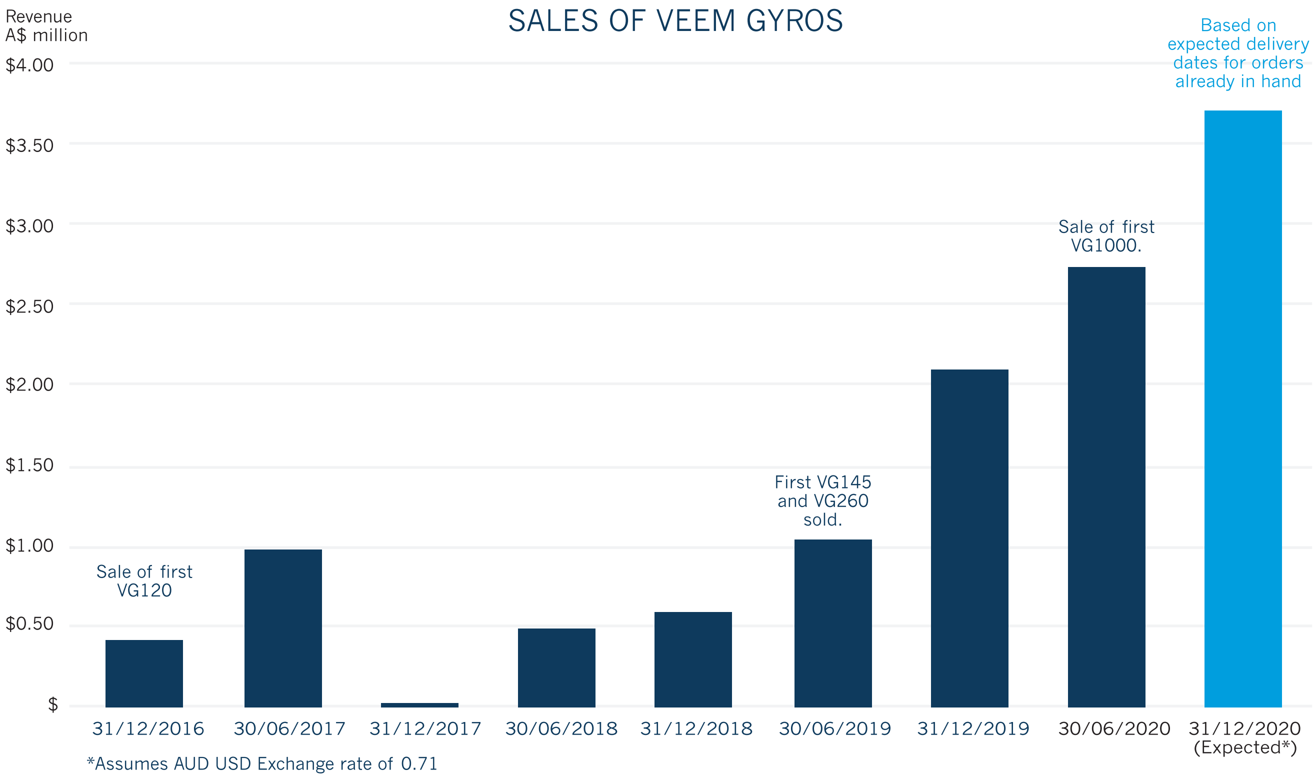
Net assets increased by $1.7 million to $32.6 million with a build-up in work in progress resulting from material purchases and work completed on the ASC submarine component contract ahead of deliveries and invoicing commencing in August 2020. The adoption of AASB 16 reduced net assets by $0.6 million.

Advertising and marketing costs were $387,125 (2019: $946,608), down significantly on the prior year. 2019 expenses included significantly more costs associated with the promotion of the Company's gyrostabilizer range within the global ship building industry, including one-off costs associated with the Company's test vessel and travel. For 2020, additional sales staff were employed to affect the phase change in marketing from proof of concept by way of demonstration, to technical sales.

With the funds received as a result of VEEM qualifying for JobKeeper and positive early cash flows on other projects, VEEM had a healthy cash balance of $3.6 million as at 30 June 2020.

In April 2020, VEEM completed its annual review of banking facilities with ANZ. The overdraft and Commercial Facility were kept on existing terms with the overdraft interest rate reducing by 2.88% and the Commercial Facility maturity date extending two years to 1 July 2023, with a slight rate increase.

## OPERATIONS




During the year significant progress was made on all aspects of the Company's gyrostabilizer business. Firstly, enquiries, leads, orders and sales improved with 2020 sales of $4.8 million, three times the level of the 2019 year. As can be seen in the graph above, this increase was steady over the first and second half of the 2020 financial year and has continued with new orders of $4.1 million being received in the first six weeks of the 2021 financial year.

Secondly, the Company completed and sold its first VG1000SD gyrostabilizer to one of the world's leading shipbuilders, Damen Shipyards. This was a significant milestone for several reasons. The VG1000SD is the first of VEEM's large frame gyrostabilizers and rounds out the three frame sizes that VEEM targeted to be its product offering into the "large gyro" segment of the marine market. Weighing in at 20 tonnes and having an angular momentum of 520 kN.m, when installed this will be the largest operating marine gyrostabilizer in the world. Damen is one of the largest shipbuilders of vessels in the range best suited to VEEM's gyrostabilizer range and ordered the VG1000SD after sea trials in 2018. Damen have since ordered a second VG1000SD for one of their FCS5009 vessels with the end user being Naviera Integral, marking the first sale of VEEM's gyrostabilizers into the commercial offshore supply vessel market.

**Figure 9:** Damen FCS5009 vessel


**Figure 10:** Senator The Hon Linda Reynolds, Minister of Defence, at the official opening of VEEM Gyrostabilizer facility

Finally, the Company completed its 4,000 m2 gyrostabilizer assembly facility in Canning Vale, Western Australia during the year with the Hon. Linda Reynolds, Minister for Defence officially opening the building in March 2020. The facility has dedicated production lines and test facilities for each frame size and VEEM is confident that the facility could generate up to $100m per year of gyrostabilizers at full capacity. The acceleration of gyrostabilizer orders into FY2021 validates the Company's decision to expand production capacity during FY2020.

## PROPULSION

Propeller and shaftline sales were $14 million, down 10% (2019: $16 million). This was due in part to the impact of COVID-19 in April in particular (see below) and some machine downtime early in the year. Orders and sales have returned to normal levels and the factory is operating at efficient levels with gross profits in line with budget expectations.

VEEM continues to maintain its position as the manufacturer of world-leading propellers. VEEM propellers are sold worldwide to premium boatbuilders and the Company expects this to continue as it continues to improve its product offering and generate internal efficiencies that allow the pricing to stay competitive.

The Company is also continuing to develop and market its shaftline offering with sales up on the prior year. Work will continue on both the product and the marketing in FY2021 as VEEM seeks to establish its shaftlines as a premium option for boatbuilders.

## DEFENCE

Once again, the manufacturing of highly specialised marine ride control fins for Austal Ships was a strong contributor to sales and gross profit. Sales of submarine components was down for the year due to the delay of the refit contract for the Collins Class submarines. This $9 million contract was eventually awarded by ASC in March 2020 with first deliveries due in August 2020. Work was undertaken on this contract in the 2020 financial year contributing to the work in progress balance at 30 June 2020.

VEEM's other defence work was steady throughout FY2020, with potential for further work as the federal government seeks to increase Australia's sovereign capability through increased requirements for Australian content in its defence contracts. VEEM's local manufacturing capability and track record positions the Company well to capitalise on the government initiatives in this area.

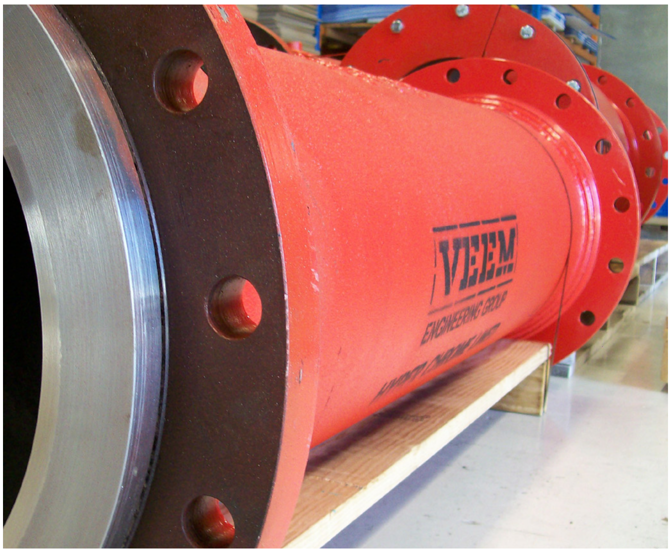



**Figure 11:** VEEM Forever Pipe

## ENGINEERING PRODUCTS AND SERVICES

Engineering products and services fluctuated during the year and saw a downturn in April when COVID-19 was at its most impactful in Western Australia. Local demand has now returned. Of note was the increase in interest in VEEM's "forever pipe", a bimetal, centrifugally cast hollow bar, with the Company receiving its first overseas orders during the year.

It is important to note that while this part of the business is not a high-growth area for VEEM, it provides a reliable ongoing cash flow and the engineering skills and capacity maintained by the Company are utilised in the marine propulsion, stabilization and defence areas of the business. This domestic capability also provides VEEM with the ability to manufacture a number of components in-house should there be supply chain issues.

## COVID-19

Early in the course of the COVID-19 pandemic, VEEM implemented enhanced hygiene measures and eliminated travel and other unnecessary exposures of staff to potential infection while maintaining full capacity at its Canning Vale facilities. A COVID-19 response team was contracted to provide ongoing cleaning, temperature testing and monitoring of distancing while the facilities continued operating. The response team continued through to 30 June 2020 when it was deemed no longer necessary in line with general easing of restrictions in Western Australia. VEEM had no positive tests recorded for COVID-19 and limited interruptions to its normal working conditions. Appropriate health measures continue in place across the Company and remain a key priority.

During April 2020 the majority of the boat builders that buy VEEM's propellers were closed due to government lockdowns in Europe and the USA. This resulted in quotes and orders falling sharply in April. One large gyrostabilizer order due for delivery in April 2020 was deferred and is due for delivery before 31 December 2020. Quotes for VEEM's domestic engineering/mining products and services were also impacted in April 2020.

The fall in revenue in April 2020 was sufficient for VEEM to qualify for the federal government's JobKeeper payments which resulted in an additional $1.5 million in income for the year ended 30 June 2020.

As of today, all of the boat builders in Europe and the USA are back open and ordering propellers. Domestic engineering/mining has improved from the April lows, but is still down compared to 2019.

VEEM's defence business was already contracted for and was not negatively impacted.

VEEM has also been impacted somewhat by the effect that COVID-19 has had on freight. VEEM utilises air and sea freight for both receiving materials from overseas and delivering sales goods to overseas customers. Sea freight had some impacts on deliveries in April and May, but has since returned to reliable, albeit extended schedules. Air freight did incur disruptions for the Company's deliveries to North America in particular, but as orders were well down, this didn't have a material impact and has now returned to a reliable schedule.

Some key components from overseas in our supply chain did incur delays early in the timeline of the pandemic, however production and delivery from our suppliers mostly returned to pre-COVID-19 schedules toward the end of the financial year.

VEEM remains vigilant in monitoring the national and global progression of COVID-19 and potential impacts on all aspects of business. VEEM is aware that the operating environment could change rapidly having a material impact on profitability and cash flow.

## OUTLOOK

VEEM sees a very positive outlook for all areas of its business. Significantly, the orders for VEEM's gyros have been increasing at a rapid rate. This adoption of the gyrostabilizer technology on larger vessels is expected to continue with shipbuilders offering a VEEM gyrostabilizer as an option and end-users increasing their demand for the enhanced experience that a more stable vessel provides. The superyacht market take-up of the product is expected to increase rapidly as more vessels with gyrostabilizers join the global fleet and word spreads as to the effectiveness of the stabilization.

**Figure 12:** VEEM propulsion and shaft line system for the 65m ISA Classic Super Yacht in Italy

The commercial market has been slower to adopt the technology, however through manufacturers like Damen, the crew transfer and offshore supply vessel markets are now being provided with real examples of how the additional stabilization can enhance the commercial argument for installing a gyrostabilizer through more operating days and safer, more efficient operation. We expect the take up of gyrostabilizers on commercial vessels to increase through FY2021 and beyond.

Although VEEM has one of its gyrostabilizers installed on a fisheries patrol vessel, the wide use of gyrostabilization for defence vessels, although well supported by operational enhancement and force multiplication arguments, is expected to mature over a longer period of time due to the conservative nature of this industry. VEEM will continue to educate the defence industry on the product with a longer-term view to wide-spread take-up.

The propulsion business is expected to continue to grow, both organically for propellers and through new product innovation with shaftlines. Propulsion is an area of innovation for VEEM with a focus on finding further ways to make the world-leading propellers more efficiently which will allow VEEM to continue to offer the premium product at reasonable prices while maintaining gross margins.

FY2021 will be a solid year for defence with the bulk of the $9 million submarine component contract with ASC being delivered. VEEM continues to win defence-related contracts where casting and precision engineering is required and this is expected to grow, particularly when the government's increased drive for local content on naval vessels in particular bears fruit.

VEEM's engineering products and services business continues to bid on work across the country where utilisation of the Company's foundry and precision machining capability enables VEEM to provide specialist solutions for customers. VEEM's forever pipe is an example of this and is expected to increase its presence in overseas markets. VEEM is continuing to innovate to improve its product offering in this area. In addition to this, maintaining the engineering capability also supports the marine and defence businesses.

**Figure 13:** Oceanline Yachts

The outlook remains, as previously mentioned, subject to the future impacts of the COVID-19 pandemic.

## STRATEGY

VEEM's strategy and focus remain as set out in its 2016 prospectus. That is to become a market leader in the provision of gyrostabilization to superyachts and commercial craft while growing its position as a premier supplier of world leading fixed pitch propeller technology.

VEEM also manufactures bespoke products and services for the marine, defence and mining and energy industries.

## 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

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 apart from those listed below:

1. On 31 August 2020 the Company declared an unfranked ordinary dividend of $291,883 representing $0.00225 per share.
2. The strong growth in the gyrostabilizer business has continued with new orders of $4.1 million being received in the first six weeks of the 2021 financial year. This compares favourably to the total gyrostabilizer sales for FY2020 of $4.8 million.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company will continue with its strategy as set out above and in its Prospectus lodged with the ASX on 24 October 2016.

## 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 $474,500 was paid on 27 September 2019.
- An interim ordinary dividend of $267,800 was paid on 24 April 2020.

Since the end of the financial year the Directors have recommended the payment of a final unfranked ordinary dividend of $291,883 to be paid on or around 25 September 2020. The recommendation is based on 30% of the normalised profit after tax of $1,865,609 as set out above, being $559,683, less the interim dividend of $267,800 already paid.


## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has agreed to indemnify all the Directors of the Company and the Chief Financial Officer for any liabilities to another person (other than the Company or related body corporate) that may arise from their position as Directors or officers 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 ensuring 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 - AUDITED

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 2020. 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 Key Management Personnel are set out below were the only key management personnel of the Company during or since the end of the financial year.

### Directors

| | |
|---|---|
| **John Bradley Miocevich** | Chairman (Non-Executive) |
| **Mark David Miocevich** | Managing Director |
| **Ian Henry Barsden** | Non-Executive Director |
| **Peter Patrick Torre** | Independent Non-Executive Director |
| **Michael Robert Bailey** | Independent Non-Executive Director |

### Executive

| | |
|---|---|
| **David James Rich** | Chief Financial Officer and Company Secretary (Appointed 18 November 2019) |

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 2020.

## 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.

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 2020 and 30 June 2019 tables.

## 2019 ANNUAL GENERAL MEETING

The Remuneration Report for the year ended 30 June 2019 was approved by in excess of 75% of shareholders at the Annual General Meeting.

**Figure 14:** First ever 48" diameter VEEMSUPERYACHT series 6 blade propeller with patented Interceptor strips

## PERFORMANCE ON SHAREHOLDER WEALTH

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

| | 2020 | Restated* 2019 | Restated* 2018 | 2017 |
|---|---|---|---|---|
| EPS (cents per share) | 1.90 | 1.97 | 1.67 | 3.21 |
| Dividends (cents per share) | 0.57 | 0.41 | 1.61 | 3.08 |
| Net profit ($) | 2,470,261 | 2,554,705 | 2,170,717 | 3,848,750 |
| Share price ($) | 0.40 | 0.53 | 0.47 | 0.64 |

*Certain amounts shown here do not correspond to the 2018 and 2019 financial statements and reflect adjustments made – refer to Note 24 of the 2020 financial statements. Note the dividend and share price information has not been restated.

## EMPLOYMENT CONTRACTS

Details of employment contracts with executive KMP: Agreements with M. Miocevich (date of commencement 1 September 2016) and D. Rich (date of commencement 18 November 2019).

| Name | Term of agreement and termination provisions | Base salary including superannuation | Termination benefit |
|---|---|---|---|
| M. Miocevich | This agreement has no set term. Termination of the agreement is 1 months' 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 $23,915 superannuation | 3 Months salary |
| D. Rich | This agreement has no set term. Termination of the agreement is 1 months' notice by the Executive or the Company and includes a 6 month restraint of trade. | Base: $280,000 per annum plus $21,003 superannuation | 3 Months salary |

Executive remuneration at this stage consists only of fixed remuneration. The remuneration 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.

## REMUNERATION OF KEY MANAGEMENT PERSONNEL

| | 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 2020** | $ | $ | $ | $ | $ | $ | $ | $ | % | % |
| Directors | | | | | | | | | | |
| Bradley Miocevich* | 166,575 | - | - | - | 15,825 | - | - | 182,400 | 100% | - |
| Mark Miocevich | 385,000 | - | - | - | 23,915 | 6,416 | - | 415,331 | 100% | - |
| Ian Barsden | 54,794 | - | - | - | 5,206 | - | - | 60,000 | 100% | - |
| Peter Torre | 60,000 | - | - | - | - | - | - | 60,000 | 100% | - |
| Michael Bailey | 54,794 | - | - | - | 5,206 | - | - | 60,000 | 100% | - |
| **Total Director remuneration** | **721,163** | **-** | **-** | **-** | **50,152** | **6,416** | **-** | **777,731** | | |
| | | | | | | | | | | |
| Executive | | | | | | | | | | |
| David Rich** | 173,467 | - | - | - | 11,765 | 2,891 | - | 188,123 | 100% | - |
| **Total** | **894,630** | **-** | **-** | **-** | **61,917** | **9,307** | **-** | **965,854** | | |

*Mr B Miocevich received an additional $10,400 per month between 1 January 2020 and 30 June 2020 for services provided in relation to the direct project management of an engineering project. This additional work was approved in advance by the Board.
**Mr D Rich commenced on 18 November 2019.

| | 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 Miocevich | 111,696 | - | - | 5,636 | 10,611 | - | - | 127,943 | 100% | - |
| Mark Miocevich | 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 Director remuneration** | **678,812** | **-** | **-** | **5,636** | **40,535** | **6,520** | **-** | **731,503** | | |

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 2020 or 2019.

## 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 |
|---|---|---|---|---|---|---|
| **30 June 2020** | **Number** | **Number** | **Number** | **Number** | **Number** | **Number** |
| Directors | | | | | | |
| Bradley Miocevich | 80,000,000[1] | - | - | - | 80,000,000[1] | - |
| Mark Miocevich | 80,000,000[1] | - | - | - | 80,000,000[1] | - |
| Ian Barsden | 53,571 | - | - | - | 53,571 | - |
| Peter Torre | 60,000 | - | - | - | 60,000 | - |
| Michael Bailey | 75,000 | - | - | 15,000 | 90,000 | - |
| | | | | | | |
| Executive | | | | | | |
| David Rich | 62,301[2] | - | - | 148,615 | 210,916 | - |

| | Balance at beginning of year | Granted as compensation | Received on exercise of options | Net change other | Balance at end of year | Balance held nominally |
|---|---|---|---|---|---|---|
| **30 June 2019** | **Number** | **Number** | **Number** | **Number** | **Number** | **Number** |
| Directors | | | | | | |
| Bradley Miocevich | 80,000,000[1] | - | - | - | 80,000,000[1] | - |
| Mark Miocevich | 80,000,000[1] | - | - | - | 80,000,000[1] | - |
| Ian Barsden | 50,000 | - | - | 3,571 | 53,571 | - |
| Peter Torre | 60,000 | - | - | - | 60,000 | - |
| Michael Bailey | - | - | - | 75,000 | 75,000 | - |

1. Mr Brad Miocevich and Mr Mark Miocevich have a relevant interest in VEEM Corporation Pty Ltd ATF the Miocevich Family Trust which holds 80,000,000 fully paid ordinary shares in the Company.
2. This is the shareholding of Mr David Rich when he commenced on 18 November 2019.

The Company has two lease agreements with Voyka Pty Ltd, an entity controlled by an entity related to Mr Mark Miocevich and Mr Brad Miocevich. The Company pays Voyka Pty Ltd current monthly rent of $142,472 monthly excluding GST which is exclusive of any outgoings including rates, taxes, insurance premiums and maintenance costs. The leases end in 2029 and are on commercial terms.

## 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: | 13 | | |
| Number of meetings attended: | | | |
| John Bradley Miocevich | | 13 | 13 |
| Mark David Miocevich | | 13 | 12 |
| Ian Henry Barsden | | 13 | 13 |
| Peter Patrick Torre | | 13 | 13 |
| Michael Robert Bailey | | 13 | 12 |

## 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 22 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 20 and forms part of this Directors' report for the year ended 30 June 2020.

Signed in accordance with a resolution of the Directors.

**Mark David Miocevich**
**Managing Director**
Perth, 31 August 2020

HLB MANN JUDD
ADVISORY AND ACCOUNTING

**AUDITOR'S INDEPENDENCE DECLARATION**

As lead auditor for the audit of the financial report of VEEM Ltd for the year ended 30 June 2020, 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** | **N G Neill** |
| **31 August 2020** | **Partner** |


hlb.com.au

**HLB Mann Judd (WA Partnership) ABN 22 193 232 714**
Level 4, 130 Stirling Street, Perth WA 6000 / PO Box 8124 Perth BC WA 6849
**T:** +61 (0)8 9227 7500 **E:** mailbox@hlbwa.com.au

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2020

| | Notes | 2020 ($) | Restated* 2019 ($) |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 2 | 44,368,072 | 44,960,414 |
| Government subsidies | 2 | 1,574,528 | 22,415 |
| Foreign exchange losses (net) | | (34,111) | (18,861) |
| Change in inventories of finished goods and work in progress | | (184,725) | 3,205,821 |
| Raw materials and consumables purchases | | (16,499,237) | (19,179,742) |
| Employee benefits expense | | (17,214,112) | (18,543,108) |
| Depreciation and amortisation expense | | (3,394,935) | (1,752,992) |
| Repairs and maintenance expenses | | (1,545,466) | (1,332,546) |
| Occupancy expenses | | (1,117,472) | (2,388,051) |
| Borrowing costs expense | | (871,828) | (495,738) |
| Other expenses | 2 | (1,840,950) | (2,335,742) |
| **Profit before income tax expense** | | 3,239,764 | 2,141,870 |
| Income tax (expense)/benefit | 3 | (769,503) | 412,835 |
| Net profit for the year | | 2,470,261 | 2,554,705 |
| Other comprehensive income, net of income tax | | - | - |
| Total comprehensive income for the year | | 2,470,261 | 2,554,705 |
| Basic earnings per share (cents per share) | 5 | 1.90 | 1.97 |

The accompanying notes form part of these financial statements

*Certain amounts shown here do not correspond to the 2019 financial statements and reflect adjustments made – refer to Note 24.

# STATEMENT OF FINANCIAL POSITION
# AS AT 30 JUNE 2020

| | Notes | 2020 ($) | Restated* 2019 ($) |
|---|---|---|---|
| **Assets** | | | |
| Current assets | | | |
| Cash and cash equivalents | 7 | 3,618,166 | 2,874,087 |
| Trade and other receivables | 8 | 9,471,613 | 6,857,362 |
| Inventories | 9 | 8,239,066 | 11,038,548 |
| Other assets | 10 | 1,093,899 | 1,004,793 |
| Current tax assets | 3 | 1,162,575 | 1,701,091 |
| Total current assets | | 23,585,319 | 23,475,881 |
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | 13,649,662 | 12,944,012 |
| Deferred tax assets | 3 | 1,590,945 | 1,863,309 |
| Intangible assets | 12 | 13,326,680 | 12,730,774 |
| Right-of-use-asset | 13 | 13,657,103 | - |
| Total non-current assets | | 42,224,390 | 27,538,095 |
| Total assets | | 65,809,709 | 51,013,976 |
| **Liabilities** | | | |
| Current liabilities | | | |
| Trade and other payables | 14 | 5,400,652 | 6,767,045 |
| Borrowings | 15 | 1,896,831 | 1,798,075 |
| Provisions | 17 | 1,107,730 | 1,022,878 |
| Lease liabilities | 16 | 1,218,474 | - |
| Total current liabilities | | 9,623,687 | 9,587,998 |
| **Non-current liabilities** | | | |
| Borrowings | 15 | 7,016,666 | 7,415,705 |
| Deferred tax liabilities | 3 | 3,595,700 | 3,098,562 |
| Provisions | 17 | 100,929 | - |
| Lease liabilities | 16 | 12,909,950 | - |
| Total non-current liabilities | | 23,623,245 | 10,514,267 |
| Total liabilities | | 33,246,932 | 20,102,265 |
| **Net assets** | | 32,562,777 | 30,911,711 |
| **Equity** | | | |
| Issued capital | 18 | 5,140,616 | 5,140,616 |
| Retained earnings | | 27,422,161 | 25,771,095 |
| Total equity | | 32,562,777 | 30,911,711 |

The accompanying notes form part of these financial statements

*Certain amounts shown here do not correspond to the 2019 financial statements and reflect adjustments made – refer to Note 24.

# STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2020

| | Notes | Issued capital ($) | Retained earnings ($) | Total equity ($) |
|---|---|---|---|---|
| Balance at 1 July 2018 (Restated*) | | 5,140,616 | 23,749,390 | 28,890,006 |
| Profit for the year (Restated*) | | - | 2,554,705 | 2,554,705 |
| Other comprehensive income, net of income tax | | - | - | - |
| Total comprehensive income for the year | | - | 2,554,705 | 2,554,705 |
| Dividend paid | 6 | - | (533,000) | (533,000) |
| Balance as at 30 June 2019 (Restated*) | | 5,140,616 | 25,771,095 | 30,911,711 |
| Adjustment on initial application of AASB16 | 1 | - | (76,895) | (76,895) |
| Balance as at 30 June 2019 post initial adoption of AASB16 | | 5,140,616 | 25,694,200 | 30,834,816 |
| Profit for the year | | - | 2,470,261 | 2,470,261 |
| Other comprehensive income, net of income tax | | - | - | - |
| Total comprehensive income for the year | | - | 2,470,261 | 2,470,261 |
| Dividend paid | 6 | - | (742,300) | (742,300) |
| Balance as at 30 June 2020 | | 5,140,616 | 27,422,161 | 32,562,777 |

The accompanying notes form part of these financial statements

*Certain amounts shown here do not correspond to the 2019 financial statements and reflect adjustments made – refer to Note 24.

# STATEMENT OF CASH FLOWS
# FOR THE YEAR ENDED 30 JUNE 2020

| | Notes | 2020 ($) | 2019 ($) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 45,540,638 | 50,168,613 |
| Payments to suppliers and employees | | (39,159,807) | (40,811,130) |
| Government subsidies received | | 992,000 | - |
| Interest paid | | (871,828) | (495,738) |
| Income tax refunds received | | 538,515 | 435,033 |
| GST paid | | (1,076,793) | (840,812) |
| Net cash inflow from operating activities | 7 | 5,962,725 | 8,455,966 |
| | | | |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | (1,607,609) | (201,524) |
| Payments for intangible assets | | (964,457) | (881,902) |
| Proceeds from sale of property, plant and equipment | | - | 18,865 |
| Net cash (outflow) from investing activities | | (2,572,066) | (1,064,561) |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | | 1,000,000 | 1,000,000 |
| Repayment of borrowings | | (1,876,069) | (4,659,577) |
| Dividends paid | | (742,300) | (533,000) |
| Payment of lease liabilities | | (1,053,284) | - |
| Net cash (outflow) from financing activities | | (2,671,653) | (4,192,577) |
| | | | |
| **Net increase in cash and cash equivalents** | | 719,006 | 3,198,828 |
| Cash and cash equivalents at the beginning of the year | | 2,874,087 | (324,741) |
| Effect of exchange rate fluctuations on cash held | | 25,073 | - |
| Cash and cash equivalents at the end of the year | 7 | 3,618,166 | 2,874,087 |

The accompanying notes form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

## 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 THE REVISED STANDARDS

*Standards and Interpretations applicable to 30 June 2020*

In the year ended 30 June 2020, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AABS that are relevant to the Company and effective for the reporting period beginning on or after 1 July 2019. Those that have a material impact on the Company are set out below.

<u>AASB 16 leases</u>

*Change in accounting policy*

AASB 16 *Leases* supersedes AASB 117 *Leases*. The Company has adopted AASB 16 from 1 July 2019, which has resulted in changes in the classification, measurement and recognition of leases. The changes result in almost all leases where the Company is the lessee being recognised on the Statement of Financial Position and removes the former distinction between 'operating' and 'finance' leases. The new standard requires recognition of a right-of-use asset (the leased item) and a financial liability (to pay rentals). The exceptions are short-term leases and leases of low value assets.

The Company has adopted AASB 16 using the retrospective approach under which the reclassifications and the adjustments arising from the new leasing rules are recognised in the opening Statement of Financial Position on 1 July 2019. Under this approach, the retained earnings are adjusted for the initial impact of application, and comparatives have not been restated.

The Company leases various premises, plant and equipment. Prior to 1 July 2019, leases were classified as operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, where the Company is a lessee, the Company recognises a right-of-use asset and a corresponding liability at the date that the lease asset is available for use by the Company (i.e. commencement date). Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a consistent period rate of interest on the remaining balance of the liability for each period.

The lease liability is initially measured at the present value of the lease payments that are not paid at commencement date, discounted using the rate implied in the lease. If this rate is not readily determinable, the Company uses its incremental borrowing rate.

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

Lease payments included in the initial measurement if the lease liability consist of:

- Fixed lease payments less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at commencement date;
- Any amounts expected to be payable by the Company under residual value guarantees;
- The exercise price of purchase options, if the Company is reasonably certain to exercise the options; and
- Termination penalties of the lease term reflect the exercise of an option to terminate the lease.

Extension options are included in a number of property leases across the Company. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if, at commencement date, it is reasonably certain that the options will be exercised.

Subsequent to initial recognition, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The lease liability is remeasured (with a corresponding adjustment to the right-of-use asset) whenever there is a change in the lease term (including assessments relating to extension and termination options), lease payments due to changes in an index or rate or expected payments under guaranteed residual values.

Right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before commencement date, less any lease incentives received and any initial direct costs. These right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

Where the terms of a lease require the Company to restore the underlying asset, or the Company has an obligation to dismantle and remove a leased asset, a provision is recognised and measured in accordance with AASB 137. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset.

Right-of-use assets are depreciated on a straight-line basis over the term of the lease (or the useful life of the leased asset if this is shorter). Depreciation starts on commencement date of the lease.

Where leases have a term of less than 12 months or relate to low value assets, the Company has applied the optional exemptions to not capitalise these leases and instead account for the lease expense on a straight-line basis over the lease term.

The impact on the accounting policies, financial performance and financial position of the Company from the adoption of AASB 16 is detailed below.

*Impact on adoption of AASB 16*

On adoption of AASB 16, the Company recognised lease liabilities in relation to leases, which had previously been classified as operating leases under the principles of AASB 117. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to lease liabilities on 1 July 2019 was 3.45%.

On initial application, right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of the make good provision.

In the Statement of Cash Flows, the Company has recognised cash payments for the principal portion of the lease liability within financing activities, cash payments for the interest portion of the lease liability as interest paid within operating activities and short-term lease payments and payments for lease of low-value assets within operating activities.

The adoption of AASB 16 resulted in the recognition of right-of-use assets of $15,205,743, a make good provision of $100,929 and lease liabilities of $15,181,708 in respect of all operating leases, other than short-term leases and leases of low-value assets.

The net impact on retained earnings on 1 July 2019 was $76,895.

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

*Practical expedients applied*

In applying AASB 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with similar characteristics.
- The exclusion of initial direct costs for the measurement of the right-of-use-asset at the date of initial application.
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate.

*Reconciliation of operating lease commitments previously disclosed and lease liabilities on 1 July 2019*

Below is a reconciliation of total operating lease commitments as at 30 June 2019, as disclosed in the annual financial statements for the year ended 30 June 2019, and the lease liabilities recognised on 1 July 2019:

| Lease liabilities | **$** |
|---|---|
| Operating lease commitments disclosed as at 30 June 2019 | 16,394,700 |
| Discounted using the lessee's incremental borrowing rate at the date of initial application | (1,212,992) |
| Lease liabilities as at 1 July 2019 | 15,181,708 |

Other than the above, there is no material impact of the new and revised Standards and Interpretations on the Company.

*New Standards and Interpretations in issue not yet adopted*

The Directors have also reviewed all of the new and revised Standards and Interpretations in issue not yet adopted for the year ended 30 June 2020. As a result of this review, the Directors have determined that there is no material impact of the Standard and Interpretations in issue not yet adopted on the Company and, therefore, no change is necessary to its accounting policies.

No other new standards, amendments to standards or interpretations are expected to affect the Company's financial statements.

## C. STATEMENT OF COMPLIANCE

The financial report was authorised for issue by the Board of VEEM Ltd on 31 August 2020.

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).

## D. SIGNIFICANT ACCOUNTING JUDGMENTS AND KEY ESTIMATES

The preparation of the financial report requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates.

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

**Leases**
The Company has leases for the main warehouse and related facilities, an office and production building. The lease liabilities are secured by the related underlying assets. In applying AASB16 for the first time, the Company has used the following practical expedients:

The use of a single discount rate to a portfolio of leases with similar characteristics.
The exclusion of initial direct costs for the measurement of the right-of-use-asset at the date of initial application.
The use of hindsight in determining the lease term where the contract contains options to extend or terminate.

**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 for 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 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.

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

### 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 decisions. 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.

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.

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

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. Government grants are presented as other income in the statement of profit or loss and other comprehensive income.

## 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.

## J. LEASES

Leases were classified as finance leases whenever the terms of the lease transfered substantially all the risks and rewards of ownership to the lessee.

Assets held under finance leases were 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 was included in the statement of financial position as a finance lease obligation.

Lease payments were 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 were charged directly against income, unless they were directly attributable to qualifying assets, in which case they were capitalised in accordance with the general policy on borrowing costs, refer Note 1(i).

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

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

Old Policy

Prior to 1 January 2019, leases were classified as finance leases or operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

New Policy

From 1 January 2019, where the Company is a lessee, the Company recognises a right-of-use asset and a corresponding liability at the date which the lease asset is available for use by the Company (i.e. commencement date). Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a consistent period rate of interest on the remaining balance of the liability for each period.

The lease liability is initially measured at the present value of the lease payments that are not paid at commencement date, discounted using the rate implied in the lease. If this rate is not readily determinable, the Company uses its incremental borrowing rate. Lease payments included in the initial measurement if the lease liability consist of:

- Fixed lease payments less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at commencement date;
- Any amounts expected to be payable by the Company under residual value guarantees;
- The exercise price pf purchase options, if the Company is reasonably certain to exercise the options; and
- Termination penalties of the lease term reflects the exercise of an option to terminate the lease.

Extension options are included in a number of property leases across the Company. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if, at commencement date, it is reasonably certain that the options will be exercised.

Subsequent to initial recognition, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made. The lease liability is remeasured (with a corresponding adjustment to the right-of-use asset) whenever there is a change in the lease term (including assessments relating to extension and termination options), lease payments due to changes in an index or rate, or expected payments under guaranteed residual values.

Right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before commencement date, less any lease incentives received and any initial direct costs. These right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

Where the terms of a lease require the Company to restore the underlying asset, or the Company has an obligation to dismantle and remove a leased asset, a provision is recognised and measured in accordance with AASB 137. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset.

Right-of-use assets are depreciated on a straight-line basis over the term of the lease (or the useful life of the leased asset if this is shorter). Depreciation starts on commencement date of the lease.

Where leases have a term of less than 12 months or relate to low value assets, the Company has applied the optional exemptions to not capitalise these leases and instead account for the lease expense on a straight-line basis over the lease term.

The impact on the accounting policies, financial performance and financial position of the Company from the adoption of AASB 16 is detailed at (b) above.

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

### 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.

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.

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

## 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.

## 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.

### P. 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.

### Q. 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.

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

**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)
- 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.

**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.

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

**Financial assets 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.

## R. 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.

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

**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.

## S. 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.

## T. PROPERTY, PLANT AND EQUIPMENT

Plant and equipment are 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.

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

**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.

**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.

## U. 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.

## 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 |

**Right-of-use assets**

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the Company expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The Company has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

## V. 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.

## W. 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.

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

## X. 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.

**Lease restoration provision**

A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with the end of the lease term. The calculation of this provision requires assumptions such as application of end dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

## Y. 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.

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

### Z. 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.

### AA 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**

| | 2020 ($) | 2019 ($) |
|---|---|---|
| **Sales revenue** | | |
| • Revenue – point in time | 4,322,844 | 2,582,573 |
| • Revenue – over time | 40,033,292 | 42,358,999 |
| | 44,356,136 | 44,941,572 |
| **Other revenue** | | |
| • Commissions received | 1,035 | 945 |
| • Scrap metal | 10,901 | 17,897 |
| | 44,368,072 | 44,960,414 |
| **Government subsidies** | | |
| • JobKeeper subsidy | 1,517,250 | - |
| • Cashflow boost subsidy (COVID-19) | 50,000 | - |
| • Apprentice subsidies | 4,778 | 4,000 |
| • Government subsidies | 2,500 | 18,415 |
| | 1,574,528 | 22,415 |

During the year, the Company recognised revenue of $8,257,380 (2019: $5,365,546) in relation to the prior year's work in progress. The Company has progress billings at 30 June 2020 of $11,565,195 (2019: $7,417,879).

The Company has contract assets, being work in progress (recognised over time) at 30 June 2020 of $9,592,427 (2019: $6,723,472).

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 68% of the revenue during FY2020. Sales to quasi-government and government instrumentalities accounted for 10% (2019: 13%) and 22% (2019: 16%) respectively.

The geographic distribution of sales for FY2020 was approximately 64% (2019: 59%) derived within Australia and the remaining 36% (2019: 41%) were derived predominantly from the USA, UK, Italy and NZ.

## NOTE 2: REVENUE AND EXPENSES

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.

The majority of sales are generated by direct contracts with customers. Sales agents are utilised in Europe and USA (gyrostabilizers only) to introduce enquiries and leads and contracts are then established directly with the buyer. Distributors are utilised for propeller sales in the USA and Australia, where distributors purchase from and contract directly with VEEM Ltd.

**Other expenses**

| | 2020 ($) | 2019 ($) |
|---|---|---|
| Insurance | 343,857 | 280,332 |
| Advertising and marketing | 387,125 | 946,608 |
| Travel | 166,998 | 232,855 |
| Bank Charges | 86,990 | 144,809 |
| Safety and first aid | 83,540 | 68,620 |
| Motor vehicle expenses | 92,916 | 89,094 |
| Accounting and secretarial | 165,405 | 137,360 |
| Telephone expenses | 53,804 | 49,403 |
| Employee related expenses | 102,164 | 172,060 |
| Legal expenses | 5,863 | 1,254 |
| Loss on disposal property, plant and equipment | - | 4,804 |
| Share registry expenses | 22,382 | 22,930 |
| Other general expenses | 329,906 | 185,613 |
| | 1,840,950 | 2,335,742 |

## NOTE 3: INCOME TAX

**Income tax recognised in profit or loss**

The major components of tax expense are:

| | 2020 ($) | Restated 2019 ($) |
|---|---|---|
| Current tax expense/(benefit) | - | 42,500 |
| Deferred tax expense/(benefit) relating to the origination and reversal of temporary differences | 769,503 | (455,335) |
| Total tax expense/(benefit) | 769,503 | (412,835) |

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

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:

| | 2020 ($) | Restated 2019 ($) |
|---|---|---|
| Accounting profit before income tax | 3,239,764 | 2,141,870 |
| Income tax expense calculated at 27.5% | 890,935 | 589,014 |
| Tax effect of amounts which are not deductible/(taxable) in calculating taxable income: | | |
| • Prior year overprovision of income tax | - | 62,415 |
| • Change in tax rate | - | 170,824 |
| • Effect of expenses that are not deductible in determining taxable profit | 941,448 | 1,596,880 |
| • Effect of concessions – research and development | (1,062,880) | (2,831,968) |
| Income tax (benefit)/expense reported in the statement of profit or loss and other comprehensive income | 769,503 | (412,835) |

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:**

| | 2020 ($) | Restated 2019 ($) |
|---|---|---|
| Income tax receivable/(payable) | 1,162,575 | 1,701,091 |

**Deferred tax assets comprise:**

| | | |
|---|---|---|
| Annual leave payable | 379,294 | 312,138 |
| Provision for long service leave | 304,626 | 281,292 |
| Provision for restoration | 27,755 | - |
| Accrued expenses | 88,618 | 73,450 |
| Unrealised foreign exchange (gain) / loss | (6,296) | 5,471 |
| Black hole expenditure and borrowing costs | 86,489 | 184,014 |
| Timing difference between Right of Use assets and Lease liabilities | 157,369 | - |
| Unclaimed research and development concessions | 553,090 | 1,006,944 |
| | 1,590,945 | 1,863,309 |

**Deferred tax liabilities comprise:**

| | | |
|---|---|---|
| Depreciable property, plant and equipment | 3,563,643 | 2,937,567 |
| Patents | 32,057 | 64,666 |
| Accrued revenue | - | 96,329 |
| | 3,595,700 | 3,098,562 |

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

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

| 30 June 2020 | Opening balance ($) | Charged to income ($) | Closing balance ($) |
|---|---|---|---|
| Accrued expenses | 73,450 | 15,168 | 88,618 |
| Annual leave payable | 312,138 | 67,156 | 379,294 |
| Provision for long service leave | 281,292 | 23,334 | 304,626 |
| Property, plant and equipment | (2,937,567) | (626,076) | (3,563,643) |
| Unrealised foreign exchange (gain) / loss | 5,471 | (11,767) | (6,296) |
| Black hole expenditure and borrowing costs | 184,014 | (97,525) | 86,489 |
| Patents | (64,666) | 32,609 | (32,057) |
| Unclaimed research and development concessions | 1,006,944 | (453,854) | 553,090 |
| Accrued revenue | (96,329) | 96,329 | - |
| Provision for restoration | - | 27,755 | 27,755 |
| Timing difference between Right of Use assets and Lease liabilities | - | 157,369 | 157,369 |
| | (1,235,253) | (769,502) | (2,004,755) |

| 30 June 2019 (Restated) | Opening balance ($) | Change in tax rate ($) | Charged to income ($) | Closing balance ($) |
|---|---|---|---|---|
| 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 | (3,000,180) | 250,015 | (187,402) | (2,937,567) |
| Unrealised foreign exchange (gain) / loss | (1,534) | (61) | 7,066 | 5,471 |
| 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 | 404,042 | - | 602,902 | 1,006,944 |
| Accrued revenue | - | - | (96,329) | (96,329) |
| | (1,648,108) | 170,825 | 242,030 | (1,235,253) |

## 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 decisions. 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 22% (2019: 15%). Customer B generated 10% (2019: 14%) of the Company's revenue for the year.

The total sales revenue for VEEM Ltd for FY2020 was $44,356,136. This can be broken down into the following major sales categories. Propulsion and stabilization consists of the manufacture of new propellers, shaft lines, gyrostabilizers and marine ride control fins. The sales in this category were $28,462,028. Defence related sales for FY2020 totalled $13,902,203 with $9,595,257 of those sales being both within the defence and propulsion/stabilization categories. Sales of engineering products and services for FY2020 were $11,587,162.

## NOTE 5: EARNINGS PER SHARE

**Basic earnings per share**

| | 2020<br>Cents per share | Restated<br>2019<br>Cents per share |
|---|---|---|
| Basic earnings per share | 1.90 | 1.97 |

There are no diluted earnings per share.

**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:

| | 2020 ($) | Restated<br>2019 ($) |
|---|---|---|
| **Earnings** | | |
| Earnings from continuing operations | 2,470,261 | 2,554,705 |
| | 2020<br>Number | 2019<br>Number |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 130,000,000 | 130,000,000 |

## NOTE 6: DIVIDENDS

| | 2020 ($) | 2019 ($) |
|---|---|---|
| Fully franked dividends paid | 742,300 | 533,000 |
| Fully unfranked dividends paid | - | - |
| Total dividends paid | 742,300 | 533,000 |

| | | |
|---|---|---|
| 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 |

The tax rate at which paid dividends have been franked is 27.5% (2019: 27.5%).

## NOTE 7: CASH AND CASH EQUIVALENTS

| | 2020 ($) | 2019 ($) |
|---|---|---|
| Cash at bank | 3,617,366 | 2,873,287 |
| Cash on hand | 800 | 800 |
| | 3,618,166 | 2,874,087 |

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:

| | 2020 ($) | 2019 ($) |
|---|---|---|
| Cash and cash equivalents | 3,618,166 | 2,874,087 |

**Non-cash financing and investing activities**

The Company purchased assets with a value of $575,786 which were financed through hire purchase.

**Cash balances not available for use**

All cash balances are available for use.

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

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

| | 2020 ($) | Restated 2019 ($) |
|---|---|---|
| Net profit for the year | 2,470,261 | 2,554,705 |
| Depreciation and amortisation expense | 3,394,935 | 1,752,992 |
| Loss on sale or disposal of non-current assets, property, plant & equipment | - | 4,804 |
| Provision for employee leave benefits | 84,852 | (153,691) |
| Foreign exchange loss | 34,111 | 18,862 |
| (Increase)/decrease in assets: | | |
| Trade and other receivables | (2,686,075) | 1,926,625 |
| Inventories | 2,799,482 | 2,313,716 |
| Increase/(decrease) in liabilities: | | |
| Trade and other payables | (1,364,146) | 27,405 |
| Current and deferred tax | 1,308,018 | 22,198 |
| GST payable | (78,713) | (11,650) |
| Net cash inflow from operating activities | 5,962,725 | 8,455,966 |

**Changes in liabilities arising from financing activities**

| | Bank loans ($) | Hire Purchase liability ($) | Lease liability ($) | Total ($) |
|---|---|---|---|---|
| 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 |
| Net cash from (used in) financing activities | 400,000 | (1,276,069) | (1,053,284) | (1,929,353) |
| Lease liability recognised on adoption of AASB 16 | - | - | 15,181,708 | 15,181,708 |
| Acquisition of plant and equipment by means of hire purchase | - | 575,786 | - | 575,786 |
| Balance as at 30 June 2020 | 7,400,000 | 1,513,497 | 14,128,424 | 23,041,921 |

## NOTE 8: TRADE AND OTHER RECEIVABLES

| | 2020 ($) | 2019 ($) |
|---|---|---|
| Trade receivables (*i*) | 8,664,713 | 6,177,832 |
| GST recoverable | 218,368 | 201,086 |
| Other receivables | 13,282 | 478,444 |
| Government Covid-19 Stimulus (JobKeeper) | 575,250 | - |
| | 9,471,613 | 6,857,362 |

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

*Aging of past due but not impaired*

| | 2020 ($) | 2019 ($) |
|---|---|---|
| 60 – 90 days | 331,671 | 679,805 |
| 90 – 120 days | 109,979 | 497,943 |
| Total | 441,650 | 1,177,748 |

*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.

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 2020 and 30 June 2019 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 arrangements are considered indicators of low reasonable expectation of recovery.

Where commercially sensible and available, VEEM Limited takes out credit insurance against its overseas receivables.
On the above basis, a provision for expected credit losses as at 30 June 2020 is not required as it is not material to the financial statements (30 June 2019:Nil).

## NOTE 9: INVENTORIES

| | 2020 ($) | 2019 ($) |
|---|---|---|
| Work in progress – over time | 9,592,427 | 6,723,472 |
| Work in progress – point in time | 786,039 | 1,833,131 |
| Less: progress billings | (11,565,195) | (7,417,879) |
| | (1,186,729) | 1,138,724 |
| Goods for resale, raw materials and stores | 9,425,795 | 9,899,824 |
| | 8,239,066 | 11,038,548 |

There were no inventory write-downs charged to cost of sales during the year (2019 $Nil).

During the year, the Company recognised revenue of $9,127,147 (2019: $5,365,546) 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 $5,557,322 (2019 $1,151,192). The total impact to profit or loss of write downs to net realisable value is $314,989 (2019 $85,022).

## NOTE 10: OTHER ASSETS

| | 2020 ($) | 2019 ($) |
|---|---|---|
| Prepayments | 537,261 | 442,044 |
| Supplies paid in advance | 556,638 | 562,749 |
| | 1,093,899 | 1,004,793 |

## NOTE 11: PROPERTY, PLANT AND EQUIPMENT

| | Plant and Equipment ($) | Motor Vehicles ($) | Capital Work in Progress ($) | Computer Equipment ($) | Total ($) |
|---|---|---|---|---|---|
| **As at 30 June 2019** | | | | | |
| 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) |
| **Closing carrying amount** | **12,528,021** | **132,551** | **111,637** | **171,803** | **12,944,012** |
| **Year ended 30 June 2020** | | | | | |
| Opening carrying amount | 12,528,021 | 132,551 | 111,637 | 171,803 | 12,944,012 |
| Additions | 1,888,664 | 65,663 | 128,995 | 140,681 | 2,224,003 |
| Disposals | - | - | (40,608) | - | (40,608) |
| Transfers | 131,746 | - | (131,746) | - | - |
| Depreciation charge | (1,398,673) | (28,793) | - | (50,279) | (1,477,745) |
| **Closing carrying amount** | **13,149,758** | **169,421** | **68,278** | **262,205** | **13,649,662** |
| **As at 30 June 2020** | | | | | |
| Cost | 37,436,529 | 660,720 | 68,278 | 1,596,359 | 39,761,886 |
| Accumulated Depreciation | (24,286,771) | (491,299) | - | (1,334,154) | (26,112,224) |
| **Carrying amount** | **13,149,758** | **169,421** | **68,278** | **262,205** | **13,649,662** |

## NOTE 12: INTANGIBLE ASSETS

| | Other Intellectual Property ($) | Product Development ($) | Total ($) |
|---|---|---|---|
| **As at 30 June 2019** | | | |
| Cost | 863,732 | 12,971,718 | 13,835,450 |
| Accumulated amortisation | (179,321) | (925,355) | (1,104,676) |
| **Closing carrying amount** | **684,411** | **12,046,363** | **12,730,774** |
| | | | |
| Year ended 30 June 2020 | | | |
| Opening carrying amount | 684,411 | 12,046,363 | 12,730,774 |
| Net additions | 41,273 | 1,255,392 | 1,296,665 |
| Transfers to | - | (332,208) | (332,208) |
| Amortisation charge | (181,832) | (186,719) | (368,551) |
| **Closing carrying amount** | **543,852** | **12,782,828** | **13,326,680** |
| | | | |
| As at 30 June 2020 | | | |
| Cost | 905,005 | 13,894,902 | 14,799,907 |
| Accumulated amortisation | (361,153) | (1,112,074) | (1,473,227) |
| **Carrying amount** | **543,852** | **12,782,828** | **13,326,680** |

No impairment loss was recognised in the 2020 financial year (2019: $Nil).

## NOTE 13: RIGHT-OF-USE ASSETS

| | Premises $ | Total $ |
|---|---|---|
| **30 June 2020** | | |
| Recognised on 1 July 2019 on adoption of AASB 16 | 15,205,743 | 15,205,743 |
| Depreciation expense | (1,548,640) | (1,548,640) |
| **Closing carrying amount** | **13,657,103** | **13,657,103** |

| | Premises $ | Total $ |
|---|---|---|
| **As at 30 June 2020** | | |
| Cost | 15,486,397 | 15,486,397 |
| Accumulated depreciation | (1,829,294) | (1,829,294) |
| **Carrying amount** | **13,657,103** | **13,657,103** |

## NOTE 14: TRADE AND OTHER PAYABLES (CURRENT)

| | 2020 ($) | 2019 ($) |
|---|---|---|
| Trade payables *(i)* | 3,081,871 | 4,862,946 |
| Annual leave payable | 1,379,248 | 1,135,046 |
| GST payable | 255,745 | 317,175 |
| Other creditors | 683,788 | 451,878 |
| | **5,400,652** | **6,767,045** |

*(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.

## NOTE 15: BORROWINGS

| | 2020 ($) | 2019 ($) |
|---|---|---|
| *Current* | | |
| Commercial facility (a) | 900,000 | 600,000 |
| Hire purchase liability | 1,041,420 | 1,284,880 |
| Less: Unexpired charges | (44,589) | (86,805) |
| | **1,896,831** | **1,798,075** |
| *Non-current* | | |
| Commercial facility (a) | 6,500,000 | 6,400,000 |
| Hire purchase liability | 553,270 | 1,046,117 |
| Less: Unexpired charges | (36,604) | (30,412) |
| | **7,016,666** | **7,415,705** |

(a) The Company has a Commercial Facility with a limit of $7,400,000. The Commercial Facility is repayable by 1 July 2023. $50,000 of principal is payable monthly until 31 December 2020, thereafter $100,000 of principal is payable each calendar month with the remaining facility amount owing payable on the expiry date. The loan facility is reduced by the principal component of each repayment. Interest at the base rate plus 1.95% 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 1.89% (June 2019: 2.77%). The facility is reviewed on an annual basis. At 30 June 2020, the Company had no (2019: $1,000,000) available undrawn committed borrowing facilities under the Commercial Facility 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 2020, 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 2020, the Company had available $300,000 under this facility. The Company complied with all banking covenants during the financial year.

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

## NOTE 15: BORROWINGS (cont'd)

**Financing facilities available**

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

| | 2020 ($) | 2019 ($) |
|---|---|---|
| Total facilities | | |
| • Overdraft Facility | 3,400,000 | 3,400,000 |
| • Commercial Facility | 7,400,000 | 8,000,000 |
| • Electronic Payments Facility | 300,000 | 300,000 |
| • Commercial Card Facility | 50,000 | 50,000 |
| | 11,150,000 | 11,750,000 |
| Facilities used at balance date | | |
| • Overdraft Facility | - | - |
| • Commercial Facility | 7,400,000 | 7,000,000 |
| • Commercial Card Facility | 47,226 | 37,004 |
| | 7,447,226 | 7,037,004 |
| Facilities unused at balance date | | |
| • Overdraft Facility | 3,400,000 | 3,400,000 |
| • Commercial Facility | - | 1,000,000 |
| • Electronic Payments Facility | 300,000 | 300,000 |
| • Commercial Card Facility | 2,774 | 12,996 |
| | 3,702,774 | 4,712,996 |
| Total facilities | | |
| • Facilities used at balance date | 7,447,226 | 7,037,004 |
| • Facilities unused at balance date | 3,702,774 | 4,712,996 |
| | 11,150,000 | 11,750,000 |

The carrying value of plant and equipment held under hire purchase contracts at 30 June 2020 is $4,073,063 (2019: $3,856,541). Additions during the year include $575,786 (2019: $131,985) of plant and equipment held under hire purchase contracts.

## NOTE 16: LEASE LIABILITIES

| **30 JUNE 2020** | **Premises ($)** | **Total ($)** |
|---|---|---|
| Current liabilities | 1,218,474 | 1,218,474 |
| Non-current liabilities | 12,909,950 | 12,909,950 |
| | 14,128,424 | 14,128,424 |

| Reconciliation | **Premises ($)** | **Total ($)** |
|---|---|---|
| Recognised on 1 July 2019 on adoption of AASB 16 | 15,181,708 | 15,181,708 |
| Principal repayments | (1,053,284) | (1,053,284) |
| Closing balance | 14,128,424 | 14,128,424 |

AASB 16 has been adopted during the period, refer note 1(b) for details.

The average lease term to expiry is 9 years.

## NOTE 16: LEASE LIABILITIES (cont'd)

Underlying assets serve as security for the related lease liabilities. A maturity analysis of future minimum lease payments is presented below:

| Lease payments due 30 June 2020 | <1 year ($) | 1-5 years ($) | >5 years ($) | Total ($) |
|---|---|---|---|---|
| Lease payments | 1,725,397 | 7,226,680 | 7,533,794 | 16,485,871 |
| Interest | (506,923) | (1,399,051) | (451,473) | (2,357,447) |
| Net present values | 1,218,474 | 5,827,629 | 7,082,321 | 14,128,424 |

Total cash outflow relating to leases for the period ended 30 June 2020 was $1,562,153 of which $1,053,285 related to principal payments, $508,868 related to interest.

## NOTE 17: PROVISIONS

| | 2020 ($) | 2019 ($) |
|---|---|---|
| Employee benefits *(i)* | | |
| Balance at beginning of year | 1,022,878 | 1,176,569 |
| Net movements | 84,852 | (153,691) |
| Balance at the end of year - Current | 1,107,730 | 1,022,878 |

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

| | | |
|---|---|---|
| Provision for Restoration | | |
| Balance at beginning of year | - | - |
| Net movements | 100,929 | - |
| Balance at the end of the year - Non-current | 100,929 | - |

## NOTE 18: ISSUED CAPITAL

| | 2020 ($) | 2019 ($) |
|---|---|---|
| 130,000,000 (2019: 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.

There were no movements in ordinary shares on issue during the year (2019:Nil)

## NOTE 18: ISSUED CAPITAL (cont'd)

**Share options**

The Company has a share-based payment Incentive Option Scheme which provides that the Board of the Company may, 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 Participant' s 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 19: 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.

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**

| | 2020 ($) | 2019 ($) |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | 3,618,166 | 2,874,087 |
| Trade and other receivables | 9,471,613 | 6,857,362 |
| **Financial liabilities** | | |
| Trade and other payables | 5,400,652 | 6,767,045 |
| Borrowings – Bill Facility | 7,400,000 | 7,000,000 |
| Hire purchase liability | 1,513,497 | 2,213,780 |
| Lease liability | 14,128,424 | - |

**Financial risk management objectives**

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

## NOTE 19: FINANCIAL INSTRUMENTS (cont'd)

**Foreign currency risk management**

The Company undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. A large portion of the USD and GBP exposures are reduced by the Company's operations having a natural hedge with materials purchased and sold in the same currency, with the major exposure being to the US Dollar exchange rate. The Company's exposure is to US Dollar (USD), Euro (EUR), and Great British Pound (GBP) debtors and creditors currency fluctuations.

| | Cash ($) | Receivables ($) | Payable ($) | Total Asset /(Liability) ($) |
|---|---|---|---|---|
| USD | 789,005 | 373,141 | | 1,162,146 |
| • Impact of a 5% increase to profit or loss | | | | (58,107) |
| • Impact of a 5% decrease to profit or loss | | | | 58,107 |
| EUR | 229,953 | 1,365,670 | | 1,595,623 |
| • Impact of a 5% increase to profit or loss | | | | (79,781) |
| • Impact of a 5% decrease to profit or loss | | | | 79,781 |
| GBP | 51,079 | 350,564 | 437,911 | (36,268) |
| • Impact of a 5% increase to profit or loss | | | | (1,813) |
| • Impact of a 5% decrease to profit or loss | | | | 1,813 |

The Company's sensitivity to foreign exchange has not changed significantly from the prior year. As all gyrostabilizer sales are in USD, and only part of the costs provides a natural hedge, the exposure to USD will increase in line with gyrostabilizer revenue increases.

As explained above, the Company's activities expose it primarily to the financial risk of changes in foreign currency exchange rates.

To negate some of this risk the Company has embarked on a global supply program for 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 and consumable products used in production and stock items.

The Company also considers forward contracts and other derivative financial instruments as a way to manage currency risk. At 30 June 2020 there were no forward contracts in place (2019:Nil).

The Company also manages market risk generally 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.

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

## NOTE 19: FINANCIAL INSTRUMENTS (cont'd)

### 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 sensitivity to interest rate risk as this represents management's assessment of the change in interest rates.

If interest rates had been 50 basis points higher or lower throughout the year, and all other variables were held constant, the Company's net profit would increase by $4,401 and decrease by $4,401 (2019: $4,401) respectively.
This is completely 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 a 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 readily 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.

Where commercially sensible and available, VEEM Ltd takes out credit insurance against its overseas receivables.

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 15 is a listing of additional undrawn facilities that the Company has at its disposal as part of its management of liquidity risk.

## NOTE 19: 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.

| 30 June 2020 | % | 1 year or less $ | 1–5 years $ | 5+ years $ |
|---|---|---|---|---|
| Non-interest bearing – Trade and other payables | | 5,400,652 | - | - |
| Fixed interest rate – Hire purchase liabilities | 4.4 | 1,041,420 | 553,270 | - |
| Fixed interest rate – Lease liabilities | 3.45 | 1,218,474 | 5,827,659 | 7,082,321 |
| Variable interest rate – Bill facility and bank overdraft | 1.89 | 900,000 | 6,500,000 | - |
| | | 8,560,546 | 12,880,929 | 7,082,321 |

| 30 June 2019 | % | 1 year or less $ | 1–5 years $ |
|---|---|---|---|
| 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 |

**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 20: COMMITMENT AND CONTINGENCIES

**Hire purchase commitments**

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.

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

| | 2020 ($) | 2019 ($) |
|---|---|---|
| Hire purchase commitments payable | | |
| - within one year | 1,041,420 | 1,284,880 |
| - after one year but not more than five years | 553,270 | 1,046,117 |
| Minimum hire purchase payments | 1,594,690 | 2,330,997 |
| Less: Unexpired charges | (81,193) | (117,217) |
| Present value of net minimum lease payments | 1,513,497 | 2,213,780 |
| Represented by: | | |
| Current | 996,831 | 1,198,075 |
| Non-current | 516,666 | 1,015,705 |
| | 1,513,497 | 2,213,780 |

**Capital commitments**

At 30 June 2020 the Company had $128,034 of capital commitments (2019: $Nil).

## NOTE 21: 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:

| | 2020 ($) | 2019 ($) |
|---|---|---|
| Short-term employee benefits | 894,631 | 684,448 |
| Other long-term benefits | 71,223 | 47,055 |
| | 965,854 | 731,503 |

**Key management personnel transactions**

The Company has two lease agreements with Voyka Pty Ltd, an entity controlled by an entity related to Mr Mark Miocevich and Mr Brad Miocevich. The Company pays Voyka Pty Ltd current monthly rent of $142,472 monthly excluding GST which is exclusive of any outgoings including rates, taxes, insurance premiums and maintenance costs. The leases end in 2029 and are on commercial terms.

There was one related party of Mr Mark Miocevich and one of Mr Brad Miocevich employed in the business during the year, both on normal commercial terms. Lumos Marketing, which is owned by a related party of Mr Mark Miocevich, provided $47,408 of marketing services to the Company on normal commercial terms.

## NOTE 22: AUDITOR'S REMUNERATION

The auditor of VEEM Limited is HLB Mann Judd.

| | 2020 ($) | 2019 ($) |
|---|---|---|
| Audit or review of the financial statements | 65,975 | 79,040 |
| Tax compliance services | 30,200 | 23,950 |
| | 96,175 | 102,990 |

## NOTE 23: SUBSEQUENT EVENTS

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 apart from those listed below:

1. On 31 August 2020 the Company declared an unfranked ordinary dividend of $291,883 representing $0.00225 per share.

2. The strong growth in the gyrostabilizer business has continued with new orders of $4.1 million being received in the first six weeks of the 2021 financial year. This compares favourably to the total gyrostabilizer sales for FY2020 of $4.8 million.

## NOTE 24: RESTATEMENT OF COMPARATIVE FIGURES

During the year the Company identified an error in prior years' tax returns and tax effect accounting relating to capitalised research and development which is expected to result in a refund of tax and additional carried forward tax offsets. The adjustments have had a cumulative impact on the Company's financial position and reported results for prior years as set out below:

| | Consolidated 2019 ($) | | |
|---|---|---|---|
| | As Previously Reported | Adjustments | As Restated |
| *Statement of profit or loss and other comprehensive income** | | | |
| Income tax benefit/(expense) | 88,926 | 323,909 | 412,835 |
| Total comprehensive income for the year | 2,230,796 | 323,909 | 2,554,705 |
| Basic earnings per share (cents per share) | 1.72 | 0.25 | 1.97 |
| *Statement of financial position* | | | |
| Current tax assets | 538,515 | 1,162,576 | 1,701,091 |
| Deferred tax assets | 1,574,170 | 289,139 | 1,863,309 |
| Total assets | 49,562,261 | 1,451,715 | 51,013,976 |
| Deferred tax liabilities | 1,384,555 | 1,714,007 | 3,098,562 |
| Total liabilities | 18,388,258 | 1,714,007 | 20,102,265 |
| Net assets | 31,174,003 | (262,292) | 30,911,711 |
| Retained earnings | 26,033,387 | (262,292) | 25,771,095 |
| Total equity | 31,174,003 | (262,292) | 30,911,711 |

*Adjustments to the statement of profit or loss and other comprehensive income relate to 2019 only.

| | Consolidated 2018 ($) | | |
|---|---|---|---|
| | As Previously Reported | Adjustments | As Restated |
| *Statement of profit or loss and other comprehensive income* | | | |
| Income tax benefit/(expense) | (151,353) | (586,201) | (737,554) |
| Total comprehensive income for the year | 2,756,918 | (586,201) | 2,170,717 |
| Basic earnings per share (cents per share) | 2.12 | (0.45) | 1.67 |
| *Statement of financial position* | | | |
| Current tax assets | 1,016,048 | 1,162,576 | 2,178,624 |
| Deferred tax assets | 1,036,683 | 356,559 | 1,393,242 |
| Total assets | 51,712,005 | 1,519,135 | 53,231,140 |
| Deferred tax liabilities | 978,494 | 2,105,336 | 3,083,830 |
| Total liabilities | 22,235,798 | 2,105,336 | 24,341,134 |
| Net assets | 29,476,207 | (586,201) | 28,890,006 |
| Retained earnings | 24,335,591 | (586,201) | 23,749,390 |
| Total equity | 29,476,207 | (586,201) | 28,890,006 |

## 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 2020 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 2020.

This declaration is signed in accordance with a resolution of the Board of Directors.

Mark David Miocevich
Managing Director

Dated this 31 August 2020

HLB MANN JUDD
ADVISORY AND ACCOUNTING

**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 2020, 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 2020 and of its financial performance for the year then ended; and

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

*Basis for opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the 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.

We have determined the matters described below to be the key audit matters to be communicated in our report.

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**HLB Mann Judd (WA Partnership) ABN 22 193 232 714**
Level 4, 130 Stirling Street, Perth WA 6000 / PO Box 8124 Perth BC WA 6849
**T:** +61 (0)8 9227 7500 **E:** mailbox@hlbwa.com.au

HLB MANN JUDD
ADVISORY AND ACCOUNTING

| Key Audit Matter | How our audit addressed the key audit matter |
|---|---|
| **Carrying amount of the intangible asset (product development expenditure)**<br>Note 12 of the financial report | |
| The Company has an intangible asset in relation to capitalised expenditure on the development of gyroscopic stabilizers.<br><br>The development expenditure of $12.783 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.<br><br>In addition, determining whether there is any indication of impairment requires management judgment and assumptions which are affected by future market or economic developments. | Our procedures included but were not limited to the following:<br>- 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;<br>- 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;<br>- We assessed the adequacy of the Company's disclosures in the financial report; and<br>- We ensured management applied an appropriate amortisation method and amortisation period to this finite life intangible. |
| **Revenue recognition**<br>Note 2 of the financial report | |
| 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.<br><br>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. | Our procedures included but were not limited to the following:<br>- We examined and tested the Company's key controls over revenue and related work-in-progress;<br>- We assessed 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;<br>- 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;<br>- 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;<br>- We tested the appropriateness of progress claims on a sample basis; and<br>- We assessed the adequacy of the Company's disclosures in the financial report. |

*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 2020, but does not include the financial report and our auditor's report thereon.

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

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

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

*Responsibilities of the directors for the financial report*

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

In preparing the financial report, the directors are responsible for assessing the ability of the 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 2020.

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

*Responsibilities*

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

HLB Mann Judd

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

**Perth, Western Australia**
**31 August 2020**

Norman Glad

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

## ADDITIONAL SHAREHOLDER INFORMATION

Additional information required by the Australian Securities Exchange Ltd Listing Rules and not disclosed elsewhere in this report. This information is current as at 14 September 2020.

### Twenty largest shareholders

| Rank | Name | Units | % Units |
|---|---|---|---|
| 1 | VEEM CORPORATION PTY LTD <MIOCEVICH FAMILY A/C> | 80,000,000 | 61.54 |
| 2 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 10,389,675 | 7.99 |
| 3 | NATIONAL NOMINEES LIMITED | 9,576,461 | 7.37 |
| 4 | BNP PARIBAS NOMS PTY LTD <DRP> | 4,076,994 | 3.14 |
| 5 | BOND STREET CUSTODIANS LIMITED <SALTER - D64848 A/C> | 3,879,766 | 2.98 |
| 6 | UBS NOMINEES PTY LTD | 3,417,473 | 2.63 |
| 7 | J P MORGAN NOMINEES AUSTRALIA PTY LIMITED | 2,135,607 | 1.64 |
| 8 | BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C> | 1,853,907 | 1.43 |
| 9 | BOND STREET CUSTODIANS LIMITED <RSALTE - V57322 A/C> | 1,041,670 | 0.80 |
| 10 | ANACACIA PTY LTD <WATTLE FUND A/C> | 600,000 | 0.46 |
| 11 | BOND STREET CUSTODIANS LIMITED <RSALTE - D63444 A/C> | 520,850 | 0.40 |
| 12 | BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP> | 422,849 | 0.33 |
| 13 | BOND STREET CUSTODIANS LIMITED <RSALTE - D62375 A/C> | 312,510 | 0.24 |
| 13 | BOND STREET CUSTODIANS LIMITED <RSALTE - V38491 A/C> | 312,510 | 0.24 |
| 13 | BOND STREET CUSTODIANS LIMITED <RSALTE - V39117 A/C> | 312,510 | 0.24 |
| 16 | MRS SABRINA CHANG | 300,000 | 0.23 |
| 17 | ACRES HOLDINGS PTY LTD <NOEL EDWARD KAGI FAMILY A/C> | 285,000 | 0.22 |
| 18 | REDBROOK NOMINEES PTY LTD | 275,000 | 0.21 |
| 19 | BLACK MAGIC ENTERPRISES PTY LTD <RH BLACK SUPER FUND A/C> | 250,000 | 0.19 |
| 19 | MR GRAEME JOHN MEDHURST | 250,000 | 0.19 |
| **Totals: Top 20 holders of ordinary fully paid shares** | | **120,212,782** | **92.47** |
| **Total Remaining Holders Balance** | | **9,787,218** | **7.53** |
| **Total Shares on Issue** | | **130,000,000** | |

### Distribution of equity security holders

| Range | Total holders | Units | % Units |
|---|---|---|---|
| 1 - 1,000 | 57 | 34,951 | 0.03 |
| 1,001 - 5,000 | 120 | 339,704 | 0.26 |
| 5,001 - 10,000 | 66 | 570,565 | 0.44 |
| 10,001 - 100,000 | 162 | 6,416,459 | 4.94 |
| 100,001 Over | 35 | 122,638,321 | 94.34 |
| **Rounding** | | | **-0.01** |
| **Total** | **440** | **130,000,000** | **100.00** |

## MARKETABLE PARCELS

Number of shareholders holding less than a marketable parcel of ordinary shares is 61.

## VOTING RIGHTS

Every ordinary shareholder present in person or by proxy at meetings of shareholders shall have one vote for every share held.

Option holders have the right to attend meetings but have no voting rights until the options are exercised.

## Substantial shareholders

The following shareholders are considered substantial shareholders:

| | |
|---|---|
| VEEM Corporation Pty Ltd ATF The Miocevich Family Trust | 61.54% of the issued ordinary shares |
| Perennial Value Management Limited | 14.93% of the issued ordinary shares |

## Restricted securities

There are no restricted securities.

## Share buy backs

There is no current on market share buyback.

## Corporate Governance Statement

The Company's 2020 Corporate Governance Statement is available on the Company's website at www.veem.com.au.

VEEM

22 Baile Rd,
Canning Vale WA 6155

Telephone: +61 8 9455 9355
Email: veem@veem.com.au
Website: www.veem.com.au

/veem_ltd
@ veemltd