

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

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

***2021***

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**RESULTS FOR ANNOUNCEMENT TO THE MARKET**

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

Current Reporting Period: 30 June 2021

Previous Corresponding Period: 30 June 2020

For and on behalf of the Directors



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**TRACY CAUDWELL**  
**COMPANY SECRETARY**  
Dated: 25 August 2021

**RESULTS FOR ANNOUNCEMENT TO THE MARKET**

Revenue and Net Profit				AUD \$'000's
Revenue from ordinary activities	up	34%	to	59,539
Profit from ordinary activities after tax attributable to members	up	99%	to	4,911
Net profit for the period attributable to members	up	99%	to	4,911

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**COMMENTARY ON RESULTS AND OTHER SIGNIFICANT INFORMATION**

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**COMMENTARY**

The Directors' Report accompanying this Preliminary Final Report contains a review of operations and commentary on the results for the year ended 30 June 2021.

## **Dividends**

A final unfranked ordinary dividend for the financial year ended 30 June 2020 of \$0.00225 per share (\$292,500) was paid on 25 September 2020.

An interim unfranked ordinary dividend for the financial year ended 30 June 2021 of \$0.0043 per share (\$559,000) was paid on 19 April 2021.

The directors have declared a final unfranked ordinary dividend of \$0.0045 per share (\$585,000) for the year ended June 2021.

Date the dividend is payable	21 September 2021
Record date to determine entitlement to the dividend	7 September 2021
Amount per security	\$0.0045
Total dividend	\$585,000
Amount per security of foreign sourced dividend or distribution	Nil
Details of any dividend reinvestment plans in operation	Nil

## **NET TANGIBLE ASSET BACKING**

	<b>30 June 2021</b> <b>\$'000</b>	<b>30 June 2020</b> <b>\$'000</b>
Net assets	<b>36,622</b>	<b>32,563</b>
Less intangible assets	<b>15,705</b>	<b>13,327</b>
Net tangible assets of the Company	<b>20,917</b>	<b>19,236</b>
Fully paid ordinary shares on issue at balance date	<b>130,000,000</b>	<b>130,000,000</b>
Net tangible asset backing per issued ordinary share as at balance date	<b>\$0.161</b>	<b>\$0.148</b>

## **EARNINGS PER SHARE**

Basic earnings per share (cents)	<b>3.78</b>	<b>1.90</b>
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## **AUDIT DETAILS**

The accompanying financial report has been audited.



**VEEM LTD**  
**ABN 51 008 944 009**  
**Financial Statements**  
**30 June 2021**

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## CORPORATE INFORMATION

**ABN 51 008 944 009**

### **Directors**

Brad Mioceovich	Non-Executive Chairman
Mark Mioceovich	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 (WA Partnership)  
Level 4, 130 Stirling Street  
Perth WA 6000  
Telephone:  
+61 8 9227 7500

### **Securities Exchange Listing**

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

## DIRECTORS' REPORT

The Directors present their report together with the financial statements of the Company for the financial year ended 30 June 2021. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

### Directors

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

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

Brad has been a Director of VEEM Ltd since 1983. Combining trade qualifications with a Commerce Degree in Finance and Banking, Brad has the unique skills suitable for the management of an engineering company. With a focus on strategic planning, he was a member of the team responsible for the acquisition of several companies over the 23 years including S&S Foundry & Engineering and Timcast Foundry and Engineering. Taking on the role of Director Marine Propulsion in 2000, he has been the driving force in creating VEEM's now very successful international propeller business. Brad provided the vision for VEEM's highly automated manufacturing processes making VEEM the benchmark of propeller manufacturing worldwide. Brad brings to the Board expertise in finance, manufacturing engineering and marketing along with practical knowledge of the Company and its markets.

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

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

Mark has been a director and senior manager of VEEM for over 33 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 Foundry and Engineering into VEEM during 2002. He brings to the Board intimate knowledge of the Company, its systems and strategic plan.

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

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

Ian is a member of the Chartered Accountants Australia and New Zealand and is a former partner of a mid-tier accounting firm. Ian brings over 33 years' experience in the accounting profession, advising and consulting to a wide variety of businesses and industries as to business structuring, taxation and financial management. Ian has provided advisory services to VEEM as a consultant since 1980.

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

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

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), Zenith Energy Limited (7 March 2019 to 28 August 2020) and Connexion Telematics Ltd (2 October 2020 to present).

#### **Mr Michael Robert Bailey** MSc; CEng; MRINA Independent Non-Executive Director

Mike brings 50 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.

## DIRECTORS' REPORT (continued)

### Company Secretaries

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

Tracy joined VEEM in June 2005. Tracy has over 34 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.

**Mr David James Rich** BCom, FCA, GAICD, AGIA, Grad.Dip.CSP  
Chief Financial Officer and Joint Company Secretary

David is an experienced public company CFO and Company Secretary with over 34 years commercial experience including the last 24 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.

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

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

#### Fully paid ordinary shares

Directors	Number
John Bradley Miocevic	80,000,000 <sup>1</sup>
Mark David Miocevic	80,000,000 <sup>1</sup>
Ian Henry Barsden	53,571
Peter Patrick Torre	60,000
Michael Robert Bailey	90,000

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

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

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

### PRINCIPAL ACTIVITIES

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

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

### REVIEW OF FINANCIAL AND OPERATING PERFORMANCE

#### FINANCIAL PERFORMANCE

The Company reported Net Profit After Tax (NPAT) for FY2021 of \$4.91 million (2020: \$2.5 million) underpinned by revenue of \$59.5 million (2020: \$44.4 million). Earnings before interest, tax, depreciation and amortisation (EBITDA) was up 36% to \$10.2 million (2020: \$7.5 million). Cash flow from operations was \$6.3 million (2020: \$6.0 million) which, when compared to EBITDA, reflects the high level of progress payments on hand at 30 June 2020 that were applied to deliveries during FY2021. Jobkeeper income of \$1.5 million (2020: \$1.5 million) received in the first three months of the year contributed to the strong EBITDA and NPAT results.

Pleasingly the revenue increases were generated across all markets with the ASC submarine refit contract and increased sales of gyrostabilizers being the major contributors to the growth. Details are set out below for each major market.

Employee costs rose during the year, largely through increases in numbers of staff. This included senior people in procurement, gyrostabilizer sales and after-sales and engineering to ensure the growth in the business is managed efficiently. Travel and sales and marketing costs were lower in FY2021 due to the impact of COVID-19 on travel in general and trade shows in particular.

Net assets increased by \$4.0 million to \$36.6 million. This increase included a deliberate build-up in gyrostabilizer component inventory ahead of the build plan for FY2022 and an increase in intangible assets, being the continued gyrostabilizer development work undertaken during the year by our engineering team.

As at 30 June 2021 VEEM had a healthy cash balance of \$2.2 million with an unused overdraft facility of \$3.4 million.

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

### **OPERATIONS**

#### **GYROSTABILIZERS**

The sales of VEEM Gyros increased 54% in FY2021 to \$7.4 million. With an order book of \$1.5 million and the value of leads more than double that of 30 June 2020, VEEM is confident that the strong increases in sales will continue into FY2022.

A market study was carried out during the year with the potential gyro market size identified as US\$14.6bn with US\$1.1bn being new builds and the balance retro-fits. The scope for growth in this market is huge across commercial, superyachts and defence.

During the year VEEM continued to develop all aspects of its gyro stabilizer product offering. The sales team capacity and capability were increased and a senior manager was appointed to head up the after-sales area. After-sales will become an increasingly important function as the number of VEEM gyro stabilizers in operation increases. Further to this, VEEM now has an experienced senior technician based in Europe where many of the units are located.

Engineering development work has been focussed on integrating and optimising gyros into different configuration of vessels, developing a larger gyro based on the VG520/1000 and on after-sales servicing. The engineering team was strengthened later in the year to prepare for the development of smaller gyro stabilizers.

The gyro assembly area is running well and build efficiencies are evident as the throughput increased during FY2021. We are now building to a production plan based on forecast probable sales and inquiry levels. The move to building to a plan is a natural maturation of the manufacturing production process and should also appeal to the retrofit market as it will provide inventory available for short delivery and installation periods.

In October 2020 VEEM signed a three year supply agreement with Damen Shipyards, one of Europe's largest shipyards producing 175 vessels per annum. All three VG520/1000SD (previously called VG1000SD) VEEM Gyros built and sold to date have been installed on Damen FCS vessels. Two of these were sold in FY2021. The second VG520/1000SD was a retrofit installed on a Naviera Integral offshore oil field workboat in the Gulf of Mexico (Damen FCS5009). The Naviera Integral gyro was the first VG520SD to be commissioned and during the sea trials roll motion data was recorded with roll reduction measurements exceeding customer expectations.

The third VG520SD VEEM Gyro has been installed on a privately owned Damen FCS vessel in Western Australia. Commissioning and sea trials are imminent.

The sales of the three VEEM Gyros for installation on Damen workboats and significant leads from other commercial players has indicated the rate of takeup within the commercial market will be more rapid than originally expected.

#### **PROPULSION**

Propeller and shaftline sales were up 17% to \$16.4 million (2020: \$14.0 million). This increase in sales was achieved through VEEM increasing its capacity in the second half of the year in order to fulfil rising orders due to the increased global demand for marine leisure vessels. This high demand has continued into FY2022 and VEEM is now receiving the first of two new machining centres ordered in FY2021 to increase capacity further. The second new machine is due in late November 2021.

VEEM continues to lead the world in propeller design and manufacture. 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 production efficiencies that allow the pricing to stay competitive.

Sales of shaftlines continued to grow steadily as VEEM seeks to establish its shaftlines as a premium option for boatbuilders. The Company is continuing to develop its product offering in this area.

#### **DEFENCE**

During the year VEEM delivered almost all of the submarine components for the Collins Class submarine refit contract with ASC with sales totalling \$12.4m including spares. VEEM also secured an initial order and milestone payment for the next submarine refit due to commence deliveries late in FY2022.

The manufacturing of highly specialised marine ride control fins for Austal Ships generated \$9.4 million during the year, in line with the prior year.

VEEM's other defence work was steady throughout the year, with potential for further work as the federal government seeks to increase Australia's sovereign capability through grant programs and 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. One example of this is VEEM's receipt of an order from BAE Systems Maritime Australia for the manufacture of a pilot propeller blade for the Hunter Class Frigate Program.

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

### **FOREVER PIPE**

VEEM's "Forever Pipe", a bimetal, centrifugally cast, high-wearing hollow bar saw sales increase 43% to \$5.8 million during the year as customers realised the significant improvements in safety and maintenance costs that can be gained from the VEEM-developed product. During the year VEEM achieved a breakthrough in the development of forever pipe bends and T-pieces and patents have been applied for. VEEM expects the take up of forever pipe to continue as this new product is rolled out. The first export orders of "Forever Pipe" were shipped and this should provide further opportunities for increased sales.

### **ENGINEERING ON-DEMAND**

VEEM's traditional engineering on-demand business continued to be a strong contributor to profits and margins with revenue of \$8.0 million for the year. Demand within Australia continues to be strong for balancing and other precision engineering services with a number of new customers placing orders during the year.

It is important to note that while this is not a high-growth market 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, forever pipe and defence areas of the business. This domestic capability also provides VEEM with the ability to manufacture the majority of components in-house should there be supply chain issues.

### **COVID-19**

During the prior year there were some impacts in European and North American marine markets due to uncertainty and lockdowns resulting from the spread of COVID-19. VEEM's defence business was already contracted for and was not negatively impacted.

During FY2021 and into FY2022, although COVID-19 has spread and caused many issues around the world, the shipyards of Europe in particular have generally remained open and hence the demand for VEEM's marine products has been strong. The curtailment of travel has also seen leisure marine spending significantly increase, particularly in North America, and this has driven propeller sales. Additional commercial propeller growth was evident during FY2021 which is particularly pleasing as this type of work does not follow the same demand cycles of leisure marine.

VEEM has been impacted somewhat by the effect that COVID-19 has had on global freight. VEEM utilises air and sea freight for both receiving materials and components from overseas and delivering sales goods to overseas customers. Sea freight had some impacts initially, but has since returned to reliable, albeit extended schedules. Air freight did incur some disruptions but didn't have a material impact and has now returned to a reliable, albeit more expensive schedule.

Production and delivery of key components from our overseas suppliers have mostly returned to pre-COVID-19 schedules. VEEM has increased its inventory levels on some key items to ensure a buffer in the case of disruptions.

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 the markets into which it delivers. Gyro sales are expected to continue to grow rapidly given the current strong level of orders, leads and enquiries and the huge potential market. VEEM's strategy of building to a production plan based on sales forecasts should appeal to the retrofit market in particular as it will provide inventory available for short delivery and installation periods.

The positive results from the Gulf of Mexico sea trials and the Damen product launch of the FCS7011 later this quarter are expected to drive further interest from the commercial sector. The positive influence of the Damen relationship is already starting to show.

Commercial retrofit and luxury superyacht new build markets are expected to be the major growth areas with defence expected to take longer to implement new technologies.

VEEM will continue to add to its European-based staff in the coming months to further enhance shipyards and owners' knowledge and experience of VEEM Gyros. The after-sales area of the market will continue to increase as more VEEM gyros are in service.

Propulsion revenue is expected to continue to grow due to increased demand globally. Many ship yards report being booked out to FY2023-FY2024. VEEM has additional machining capacity being installed at present and another increase due in November 2021 which will increase capacity by 25% to meet demand. Two new key superyacht builders have added VEEM as a primary supplier of propellers.

Propulsion products are an area of innovation for VEEM with a focus on implementing identified production efficiency gains enabling VEEM to make the world-leading propellers at lower prices while maintaining gross margins.

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

FY2022 will see a reduction in defence revenue with most of the current ASC contract having been delivered in FY2021. VEEM has the initial order for the next submarine refit with deliveries expected to commence in April 2022 leading to a rise in revenue in FY2023. VEEM continues to quote on, and win, other defence-related contracts where casting and precision engineering is required and this is expected to grow.

Deliveries to Austal for the LCS ride control will continue through to the end of 1H 2022. Other Austal ride control and propulsion work is expected to be ongoing.

The federal government's increased drive for local content, on naval vessels in particular, is expected to drive growth through BAE Systems Australia and others. BAE Systems Australia has placed an order for a pilot propeller blade as part of qualification for the Hunter Class Frigate Program.

VEEM's Forever Pipe product is expected to continue to increase its presence in domestic and overseas markets with an expanded product range. The new techniques of manufacturing bends and T-pieces allow a full piping system able to be externally monitored for wear enhancing safety, increasing the operating envelope of the system and lowering costs significantly. This is expected to drive enquiries and subsequently sales around the world as the product is rolled out.

VEEM continues to bid on, and win, work within the engineering products and services market across the country where utilisation of the Company's foundry and precision machining capability enables VEEM to provide specialist solutions for customers. The local 24/7 Engineering on Demand division is very busy and this is expected to continue. Maintaining the engineering capability and expertise also supports the marine and defence market offerings.

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

### **STRATEGY**

VEEM's strategy and focus is to become a market leader in the provision of gyro stabilization to superyachts and commercial craft while growing its position as a premier supplier of world leading fixed pitch propeller technology. Since the end of the financial year, VEEM has launched the "VEEM Marine" brand to further enhance the cross-selling opportunities in these markets.

VEEM will also continue to manufacture bespoke engineered 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 24 August 2021 the Company declared an unfranked ordinary dividend of \$585,000 representing \$0.0045 per share.
2. On 14 July 2021 the Company advised the ASX that its Incentive Option Plan had been expanded to the Incentive Performance Rights and Option Plan and that the Company had issued 150,000 Performance Rights under the Plan to its Chief Financial Officer, Mr David Rich. The issue was undertaken under the Company's placement capacity pursuant to ASX Listing Rule 7.1 given the Plan is yet to be approved by shareholders of the Company. Details of the Plan and the issue are included in the ASX announcement on 14 July 2021.
3. On 26 July 2021 VEEM announced that BAE Systems Maritime Australia, head contractor for the Hunter Class Frigate Program (HCFP), had placed an order with VEEM to manufacture a pilot propeller blade for the HCFP. The order enables VEEM to demonstrate it has the manufacturing capability to join the HCFP supply chain.  
As a world leader in premium commercial propellers that has delivered similar blades to defence clients globally, VEEM is very confident it can meet the requirements of the HCFP. Contract award for the propeller and brake blade manufacture for the first batch of three Hunter class frigates is anticipated in 2022.

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

The Company will continue with its strategy as set out above.

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

### **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 \$292,500 was paid on 25 September 2020.
- An interim ordinary dividend of \$559,000 was paid on 19 April 2021.

Since the end of the financial year the Directors have recommended the payment of a final unfranked ordinary dividend of \$585,000 (0.45 cents per share) to be paid on or around 21 September 2021. The recommendation is based on 30% of the net profit after tax excluding JobKeeper, less the interim dividend of \$559,000 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 2021. 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
Brett Wayne Silich	Global Commercial Manager (Appointed 3 May 2021)

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.

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

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**

Independent external advice is sought from remuneration consultants as required. A Benchmarking Report was procured during the financial year to ensure the level of remuneration for the Company's Managing Director was in line with market and commensurate with the role being undertaken. Changes to the Managing Director's remuneration resulting from the review were made in July 2021. The Board is currently using the Benchmarking Report as part of its review of the remuneration of the Non-Executive Directors.

### **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 consisted of reasonable fixed remuneration only during the year.

Subsequent to year end the Company expanded its Incentive Option Plan to the Incentive Performance Rights and Option Plan and issued 150,000 Performance Rights under the Plan to its Chief Financial Officer, Mr David Rich. The issue was undertaken under the Company's placement capacity pursuant to ASX Listing Rule 7.1 given the Plan is yet to be approved by shareholders of the Company. The key terms of the Performance Rights issued to Mr Rich are as follows:

- 50,000 Performance Rights which vest on 12 months from date of issue and upon the 30-day Volume Weighted Share Price of the Company being \$1.50 or above at any time up to expiry.
- 50,000 Performance Rights which vest on 24 months from date of issue and upon the 30-day Volume Weighted Share Price of the Company being \$2.00 or above at any time up to expiry.
- 50,000 Performance Rights which vest on 36 months from date of issue and upon the 30-day Volume Weighted Share Price of the Company being \$2.50 or above at any time up to expiry.
- All Performance Rights have an accelerated vesting condition on a change of control event at any time up to expiry.
- All Performance Rights expire 3 years and 1 month from date of issue, being 14 August 2024.

### **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 tables for the years ended 30 June 2021 and 30 June 2020.

## DIRECTORS' REPORT (continued)

### 2020 ANNUAL GENERAL MEETING

The Remuneration Report for the year ended 30 June 2020 was approved by in excess of 75% of shareholders at the Annual General Meeting.

### 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:

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
EPS (cents per share)	3.78	1.90	1.97	1.67	3.21
Dividends (cents per share)	0.66	0.57	0.41	1.61	3.08
Net profit (\$)	4,911,175	2,470,261	2,554,705	2,170,717	3,848,750
Share price (\$)	1.33	0.40	0.53	0.47	0.64

### EMPLOYMENT CONTRACTS

Details of employment contracts with executive KMP as at the date of this report:

NAME	TERM OF AGREEMENT AND TERMINATION PROVISIONS	BASE SALARY INCLUDING SUPERANNUATION	TERMINATION BENEFIT
M. Miocevic Managing Director	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: \$496,432 per annum plus \$23,568 superannuation	3 Months salary
D. Rich Chief Financial Officer	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: \$338,306 per annum plus \$23,568 superannuation	3 Months salary. 12 months salary in the event of a change of control and diminution in duties.
B. Silich Global Commercial Manager	This agreement has no set term.  Termination of the agreement is 1 months' notice by the Executive or the Company and includes a 12 month restraint of trade.	Base: \$300,000 per annum plus \$30,000 superannuation	None

Executive remuneration consisted only of fixed remuneration during the year to 30 June 2021. 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 continues to assess the structure of executive remuneration to ensure it appropriately incentivises key management.

In July 2021 the Board commenced with a variable remuneration component aligned to shareholder wealth in the periods to come through the issue of performance rights to the Chief Financial Officer. Details of this are set out above.

## DIRECTORS' REPORT (continued)

### REMUNERATION OF KEY MANAGEMENT PERSONNEL

Key Management Personnel remuneration for the years ended 30 June 2021 and 30 June 2020:

	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				Fixed remuneration	Remuneration linked to performance	Total
30 June 2021	\$	\$	\$	\$	\$	\$	\$	%	%	\$
<b>Directors</b>										
Bradley Miocevic*	118,356	-	-	-	11,244	-	-	100%	-	129,600
Mark Miocevic	427,760	-	-	-	21,506	7,129	-	100%	-	456,395
Ian Barsden	54,794	-	-	-	5,206	-	-	100%	-	60,000
Peter Torre	60,000	-	-	-	-	-	-	100%	-	60,000
Michael Bailey	54,794	-	-	-	5,206	-	-	100%	-	60,000
Total Director remuneration	715,704	-	-	-	43,162	7,129	-			765,995
<b>Executive</b>										
David Rich	290,091	-	-	-	21,694	5,638	-	100%	-	317,423
Brett Silich**	42,149	-	-	-	4,004	769	-	100%	-	46,922
Total Executive remuneration	332,168	-	-	-	25,698	6,407	-			364,273
Total	1,047,872	-	-	-	68,860	13,536	-			1,130,268

\*Mr B Miocevic received an additional amount of \$9,600 (including superannuation) in July and August 2021 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 B Silich commenced on 3 May 2021

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

\*Mr B Miocevic 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.

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 2021 or 2020.

### EMPLOYEE SHARE OPTION PLAN

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

## DIRECTORS' REPORT (continued)

### 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 2021	Number	Number	Number	Number	Number	Number
<i>Directors</i>						
Bradley Mioceovich	80,000,000 <sup>1</sup>	-	-	-	80,000,000 <sup>1</sup>	-
Mark Mioceovich	80,000,000 <sup>1</sup>	-	-	-	80,000,000 <sup>1</sup>	-
Ian Barsden	53,571	-	-	-	53,571	-
Peter Torre	60,000	-	-	-	60,000	-
Michael Bailey	90,000	-	-	-	90,000	-
<i>Executive</i>						
David Rich	210,916	-	-	-	210,916	-
Brett Silich	-	-	-	-	-	-
30 June 2020	Number	Number	Number	Number	Number	Number
<i>Directors</i>						
Bradley Mioceovich	80,000,000 <sup>1</sup>	-	-	-	80,000,000 <sup>1</sup>	-
Mark Mioceovich	80,000,000 <sup>1</sup>	-	-	-	80,000,000 <sup>1</sup>	-
Ian Barsden	53,571	-	-	-	53,571	-
Peter Torre	60,000	-	-	-	60,000	-
Michael Bailey	75,000	-	-	15,000	90,000	-
<i>Executive</i>						
David Rich	62,301	-	-	148,615	210,916	-

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

The Company has two lease agreements with Voyka Pty Ltd, an entity controlled by an entity related to Mr Mark Mioceovich and Mr Brad Mioceovich. The Company pays Voyka Pty Ltd current monthly rent of \$143,783 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:	12		
Number of meetings attended:			
John Bradley Mioceovich		12	12
Mark David Mioceovich		12	12
Ian Henry Barsden		12	11
Peter Patrick Torre		12	11
Michael Robert Bailey		12	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.

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

### **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 21 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 15 and forms part of this Directors' report for the year ended 30 June 2021.

Signed in accordance with a resolution of the Directors.

A handwritten signature in black ink, appearing to read "Mark David Mioceovich".

Mark David Mioceovich  
Managing Director  
Perth, 24 August 2021

## AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of VEEM Limited for the year ended 30 June 2021, 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  
24 August 2021

**N G Neill**  
Partner

**hlb.com.au**

**HLB Mann Judd (WA Partnership) ABN 22 193 232 714**

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

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2021

		2021 (\$)	2020 (\$)
	Notes		
<b>Continuing operations</b>			
Revenue	2	59,538,617	44,368,072
Government subsidies	2	1,698,565	1,574,528
Foreign exchange losses (net)		(389,523)	(34,111)
Changes in inventories of finished goods and work in progress		2,523,494	(184,725)
Raw materials and consumables purchases		(28,224,607)	(16,499,237)
Employee benefits expense		(20,111,147)	(17,214,112)
Depreciation and amortisation expense		(3,637,309)	(3,394,935)
Repairs and maintenance expenses		(1,705,408)	(1,545,466)
Occupancy expense		(1,189,472)	(1,117,472)
Borrowing costs expense		(720,179)	(871,828)
Other expenses	2	(1,874,867)	(1,840,950)
<b>Profit before income tax expense</b>		5,908,164	3,239,764
Income tax expense	3	(996,989)	(769,503)
<b>Net profit for the year</b>		4,911,175	2,470,261
Other comprehensive income, net of income tax		-	-
<b>Total comprehensive income for the year</b>		4,911,175	2,470,261
Basic earnings per share (cents per share)	5	3.78	1.90

The above Statement of Profit or Loss and Other Comprehensive income should be read in conjunction with the accompanying notes.

## STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

	Notes	2021 (\$)	2020 (\$)
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	7	2,233,076	3,618,166
Trade and other receivables	8	9,820,535	9,471,613
Inventories	9	12,992,181	8,239,066
Other assets	10	2,682,958	1,093,899
Current tax assets	3	522,162	1,162,575
<b>Total current assets</b>		<b>28,250,912</b>	<b>23,585,319</b>
<b>Non-current assets</b>			
Property, plant and equipment	11	12,917,940	13,649,662
Deferred tax assets	3	1,301,610	1,590,945
Intangible assets	12	15,705,046	13,326,680
Right-of-use-asset	13	12,108,464	13,657,103
<b>Total non-current assets</b>		<b>42,033,060</b>	<b>42,224,390</b>
<b>Total assets</b>		<b>70,283,972</b>	<b>65,809,709</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	14	7,494,592	5,400,652
Borrowings – current	15	1,469,153	1,896,831
Provisions	17	1,842,135	1,107,730
Lease liabilities - current	16	1,312,232	1,218,474
<b>Total current liabilities</b>		<b>12,118,112</b>	<b>9,623,687</b>
<b>Non-current liabilities</b>			
Borrowings – non current	15	5,701,585	7,016,666
Deferred tax liabilities	3	4,129,227	3,595,700
Provisions	17	154,135	100,929
Lease liabilities – non current	16	11,558,461	12,909,950
<b>Total non-current liabilities</b>		<b>21,543,408</b>	<b>23,623,245</b>
<b>Total liabilities</b>		<b>33,661,520</b>	<b>33,246,932</b>
<b>Net assets</b>		<b>36,622,452</b>	<b>32,562,777</b>
<b>Equity</b>			
Issued capital	18	5,140,616	5,140,616
Retained earnings		31,481,836	27,422,161
<b>Total equity</b>		<b>36,622,452</b>	<b>32,562,777</b>

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2021

		Issued capital (\$)	Retained earnings (\$)	Total equity (\$)
	Notes			
Balance at 1 July 2019		5,140,616	25,771,095	30,911,711
Adjustment on initial application of AASB16		-	(76,895)	(76,895)
Balance at 1 July 2019 post initial adaption 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
Profit for the year		-	4,911,175	4,911,175
Other comprehensive income, net of income tax		-	-	-
Total comprehensive income for the year		-	4,911,175	4,911,175
Dividend paid	6	-	(851,500)	(851,500)
Balance as at 30 June 2021		5,140,616	31,481,836	36,622,452

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021

		2021 (\$)	2020 (\$)
	Notes		
<b>Cash flows from operating activities</b>			
Receipts from customers		59,059,289	45,540,638
Payments to suppliers and employees		(54,145,627)	(39,159,807)
Government subsidies received		2,215,878	992,000
Interest paid		(720,179)	(871,828)
Interest received		4,310	-
Income tax refunds received		466,286	538,515
GST paid		(587,242)	(1,076,793)
<b>Net cash flows from operating activities</b>	7	<u>6,292,715</u>	<u>5,962,725</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(714,373)	(1,607,609)
Purchase of intangible assets		(2,840,416)	(964,457)
Proceeds from sale of property, plant and equipment		6,787	-
<b>Net cash (outflow) from investing activities</b>		<u>(3,548,002)</u>	<u>(2,572,066)</u>
<b>Cash flows from financing activities</b>			
Repayment of borrowings	7	(1,945,703)	(1,876,069)
Dividends paid		(851,500)	(742,300)
Payments of lease liabilities	7	<u>(1,257,731)</u>	<u>(1,053,284)</u>
<b>Net cash (outflow) from financing activities</b>		<u>(4,054,934)</u>	<u>(2,671,653)</u>
Net (decrease)/increase in cash and cash equivalents		(1,310,221)	719,006
Cash and cash equivalents at the beginning of the year		3,618,166	2,874,087
Effect of exchange rate fluctuations on cash held		<u>(74,869)</u>	<u>25,073</u>
<b>Cash and cash equivalents at the end of the year</b>	7	<u>2,233,076</u>	<u>3,618,166</u>

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

### 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 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 2021*

In the year ended 30 June 2021, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Company and effective for the reporting period beginning on or after 1 July 2020. As a result of this review, the Directors have determined that there is no material impact of the Standard and Interpretations issued on the Company and, therefore, no change is necessary to its accounting policies.

##### *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 2021. 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 24 August 2021.

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.

#### 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 in the previous financial year, the Company 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

#### 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 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.

#### (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.

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021**

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

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

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

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

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

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

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

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

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

#### **Interest income**

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

#### **(h) GOVERNMENT GRANTS**

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

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate. Government grants are presented as other income in the statement of profit or loss and other comprehensive income.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

#### (i) LEASES

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 of 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.

#### (j) 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

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.

#### (k) 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.

#### (l) 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

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.

#### (m) 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.

#### (n) TRADE AND OTHER RECEIVABLES

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

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

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

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

#### (o) INVENTORIES

##### *Ø 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.

##### *Ø 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

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

##### Financial assets

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

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

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

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

##### Financial liabilities

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

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

#### (q) 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.

##### 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

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.

#### (r) 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.

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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

#### (s) 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.

#### (t) 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.

#### (u) 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

#### (v) 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.

#### (w) 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.

#### (x) 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), 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);
- 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

### NOTE 2: REVENUE AND EXPENSES

#### Revenue from contracts with customers

	2021 (\$)	2020 (\$)
Sales revenue		
• Revenue – point in time	6,834,216	4,322,844
• Revenue – over time	52,620,604	40,033,292
	59,454,820	44,356,136
Other revenue	83,797	11,936
	59,538,617	44,368,072
Other subsidies		
• JobKeeper subsidy	1,535,250	1,517,250
• Cashflow boost subsidy (COVID-19)	50,000	50,000
• Apprentice subsidies	113,315	4,778
• Government subsidies	-	2,500
	1,698,565	1,574,528

During the year, the Company recognised revenue of \$7,778,743 (2020: \$8,257,380) in relation to the prior year's work in progress. The Company has progress billings at 30 June 2021 of \$8,263,159 (2020: \$11,565,195), refer to Note 9.

The Company has contract assets, being work in progress (recognised over time) at 30 June 2021 of \$8,451,146 (2020: \$9,592,427).

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 accounted for approximately 78% (2020: 68%) of the revenue during FY2021. Sales to government instrumentalities accounted for 21% (2020: 22%). Sales to quasi-government instrumentalities accounted for 1% (2020: 10%).

The geographic distribution of sales for FY2021 was approximately 69% (2020: 64%) derived from customers within Australia and the remaining 31% (2020: 36%) were derived predominantly from customers in the USA, Netherlands, UK, Italy and NZ.

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

The majority of sales are generated by direct contracts with customers. During the year sales agents were utilised in Europe, the USA, Middle East, Asia and South America (gyrostabilizers only) to introduce enquiries and leads. Contracts are then established directly between VEEM Ltd and the customer. Distributors are utilised for propeller sales in the USA, France, Italy and Australasia, where the distributors purchase from and contract directly with VEEM Ltd.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

#### Other expenses

	2021 (\$)	2020 (\$)
Insurance	465,562	343,857
Advertising and marketing	226,218	387,125
Travel	-	166,998
Bank Charges	55,295	86,990
Safety and first aid	83,767	83,540
Motor vehicle expenses	61,957	92,916
Accounting and secretarial	177,615	165,405
Employee related expenses	88,574	102,164
Loss on disposal property, plant and equipment	15,632	-
Other general expenses	700,247	411,955
	<u>1,874,867</u>	<u>1,840,950</u>

### NOTE 3: INCOME TAX

#### Income tax recognised in profit or loss

The major components of tax expense are:

	2021 (\$)	2020 (\$)
Current tax expense	174,129	-
Deferred tax expense relating to the origination and reversal of temporary differences	822,860	769,503
Total tax expense	<u>996,989</u>	<u>769,503</u>

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:

Accounting profit before income tax	5,908,164	3,239,764
Income tax expense calculated at FY2021 30% (FY2020 27.5%)	1,772,449	890,935
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
• Prior year overprovision of income tax	14,878	-
• Change in tax rate	232,531	-
• Effect of expenses that are not deductible in determining taxable profit	704,264	941,448
• Effect of concessions – research and development	(1,727,133)	(1,062,880)
Income tax (benefit)/expense reported in the statement of profit or loss and other comprehensive income	<u>996,989</u>	<u>769,503</u>

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities with turnover greater than \$50 million on taxable profits under Australian tax law. In the prior year the tax rate was 27.5% as the turnover was less than \$50 million.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

#### Current tax receivables comprise:

	2021 (\$)	2020 (\$)
Income tax receivable/(payable)	522,162	1,162,575

#### Deferred tax assets comprise:

Annual leave payable	537,134	379,294
Provisions	356,223	332,381
Accrued expenses	159,902	88,618
Unrealised foreign exchange (gain) / loss	(11,409)	(6,296)
Black hole expenditure and borrowing costs	813	86,489
Timing difference between Right of Use assets and Lease liabilities	258,947	157,369
Unclaimed research and development concessions	-	553,090
	<u>1,301,610</u>	<u>1,590,945</u>

#### Deferred tax liabilities comprise:

Depreciable property, plant and equipment	4,113,886	3,563,643
Patents	15,341	32,057
	<u>4,129,227</u>	<u>3,595,700</u>

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

	Opening balance	Change in Tax Rate	Charged to income	Closing balance
30 June 2021	(\$)	(\$)	(\$)	(\$)
Accrued expenses	88,618	8,056	63,228	159,902
Annual leave payable	379,294	34,481	123,359	537,134
Provisions	332,381	30,216	(6,374)	356,223
Property, plant and equipment	(3,563,643)	(323,968)	(226,275)	(4,113,886)
Unrealised foreign exchange (gain) / loss	(6,296)	(572)	(4,541)	(11,409)
Black hole expenditure and borrowing costs	86,489	7,863	(93,539)	813
Patents	(32,057)	(2,914)	19,630	(15,341)
Unclaimed research and development concessions	553,090	50,281	(603,371)	-
Timing difference between Right of Use assets and Lease liabilities	157,369	14,306	87,272	258,947
	<u>(2,004,755)</u>	<u>(182,251)</u>	<u>(640,611)</u>	<u>(2,827,617)</u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

	Opening balance	Charged to income	Closing balance
	(\$)	(\$)	(\$)
30 June 2020			
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)

### 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 21% (2020: 10%) and Customer B generated 16% (2020: 22%) of the Company's revenue for the year.

Although the Company is managed as a single business segment, sales revenue of \$59,454,820 can be broken down into the following sales categories. Propulsion and stabilization consist of the manufacture of new propellers, shaft lines, gyro/stabilizers and marine ride control fins. The sales in this category were \$33,260,193. Defence related sales for FY2021 totalled \$23,469,731 with \$8,947,791 of those sales being both within the defence and propulsion/stabilization categories. Sales of engineering products and services (non-defence) for FY2021 were \$11,672,687.

### NOTE 5: EARNINGS PER SHARE

#### Basic earnings per share

	2021	2020
	Cents per share	Cents per share
Basic earnings per share	3.78	1.90

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:

	2021 (\$)	2020 (\$)
Earnings		
Earnings from continuing operations	4,911,175	2,470,261
	2021	2020
	Number	Number
Weighted average number of ordinary shares for the purpose of basic earnings per share	130,000,000	130,000,000

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

### NOTE 6: DIVIDENDS

	2021 (\$)	2020 (\$)
Fully franked dividends paid	-	742,300
Unfranked dividends paid	851,500	-
Total dividends paid	851,500	742,300

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.

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The dividends paid in 2020 were franked at a tax rate of 27.5%.

### NOTE 7: CASH AND CASH EQUIVALENTS

	2021 (\$)	2020 (\$)
Cash at bank	2,232,276	3,617,366
Cash on hand	800	800
	2,233,076	3,618,166

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:

	2021 (\$)	2020 (\$)
Cash and cash equivalents	2,233,076	3,618,166

#### Non-cash financing and investing activities

The Company purchased assets with a value of \$202,944 which were financed through hire purchase.

#### Cash balances not available for use

All cash balances are available for use.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

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

	2021 (\$)	2020 (\$)
Net profit for the year	4,911,175	2,470,261
Depreciation and amortisation expense	3,637,309	3,394,935
Loss on sale or disposal of non-current assets, property, plant & equipment	15,594	-
Provision for employee leave benefits	787,610	84,852
Foreign exchange loss	562,773	34,111
(Increase)/decrease in assets:		
Trade and other receivables	(1,902,662)	(2,686,075)
Inventories	(4,753,115)	2,799,482
Increase/(decrease) in liabilities:		
Trade and other payables	1,565,406	(1,364,146)
Current and deferred tax	1,463,276	1,308,018
GST payable	5,349	(78,713)
Net cash inflow from operating activities	6,292,715	5,962,725

#### Changes in liabilities arising from financing activities

	Bank loans (\$)	Hire Purchase liability (\$)	Lease liability (\$)	Total (\$)
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
Net cash from (used in) financing activities	(900,000)	(1,045,703)	(1,257,731)	(3,203,434)
Acquisition of plant and equipment by means of hire purchase	-	202,944	-	202,944
Balance as at 30 June 2021	6,500,000	670,738	12,870,693	20,041,431

### NOTE 8: TRADE AND OTHER RECEIVABLES

	2021 (\$)	2020 (\$)
Trade receivables (i)	9,561,199	8,664,713
GST recoverable	253,688	218,368
Other receivables	5,648	13,282
Government Covid-19 Stimulus (JobKeeper)	-	575,250
	9,820,535	9,471,613

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

#### Aging of past due but not impaired

	2021 (\$)	2020 (\$)
60 – 90 days	486,113	331,671
90 – 120 days	130,508	109,979
Total	616,621	441,650

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

#### *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 2021 and 30 June 2020 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 Ltd takes out credit insurance against its overseas receivables.

On the above basis, a provision for expected credit losses as at 30 June 2021 is not required as it is not material to the financial statements (30 June 2020: Nil).

### NOTE 9: INVENTORIES

	2021 (\$)	2020 (\$)
Work in progress – over time	8,451,146	9,592,427
Work in progress – point in time	711,362	786,039
	9,162,508	10,378,466
Less: progress billings	(8,263,159)	(11,565,195)
	899,349	(1,186,729)
Goods for resale, raw materials and stores	12,092,832	9,425,795
	12,992,181	8,239,066

There were no inventory write-downs charged to cost of sales during the year (2020 \$Nil).

During the year, the Company recognised revenue of \$7,778,743 (2020: \$9,127,147) 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 \$348,643 (2020 \$5,557,322).

### NOTE 10: OTHER ASSETS

	2021 (\$)	2020 (\$)
Prepayments	499,266	537,261
Supplies paid in advance	2,183,692	556,638
	2,682,958	1,093,899

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

### NOTE 11: PROPERTY, PLANT AND EQUIPMENT

	Plant and Equipment (\$)	Motor Vehicles (\$)	Capital Work in Progress (\$)	Computer Equipment (\$)	Total (\$)
<b>As at 30 June 2020</b>					
Cost	37,436,529	660,720	68,278	1,596,359	<b>39,761,886</b>
Accumulated depreciation	(24,286,771)	(491,299)	-	(1,334,154)	<b>(26,112,224)</b>
<b>Closing carrying amount</b>	<b>13,149,758</b>	<b>169,421</b>	<b>68,278</b>	<b>262,205</b>	<b>13,649,662</b>
<b>Year ended 30 June 2021</b>					
Opening carrying amount	13,149,758	169,421	68,278	262,205	<b>13,649,662</b>
Additions	616,077	53,580	145,463	128,856	<b>943,976</b>
Disposals	(49,085)	-	-	-	<b>(49,085)</b>
Depreciation charge	(1,509,870)	(36,857)	-	(79,886)	<b>(1,626,613)</b>
<b>Closing carrying amount</b>	<b>12,206,880</b>	<b>186,144</b>	<b>213,741</b>	<b>311,175</b>	<b>12,917,940</b>
<b>As at 30 June 2021</b>					
Cost	37,976,862	714,300	213,741	1,725,215	<b>40,630,118</b>
Accumulated Depreciation	(25,769,982)	(528,156)	-	(1,414,040)	<b>(27,712,178)</b>
<b>Carrying amount</b>	<b>12,206,880</b>	<b>186,144</b>	<b>213,741</b>	<b>311,175</b>	<b>12,917,940</b>

### NOTE 12: INTANGIBLE ASSETS

	Other Intellectual Property (\$)	Product Development (\$)	Total (\$)
<b>As at 30 June 2020</b>			
Cost	905,005	13,894,902	<b>14,799,907</b>
Accumulated amortisation	(361,153)	(1,112,074)	<b>(1,473,227)</b>
<b>Closing carrying amount</b>	<b>543,852</b>	<b>12,782,828</b>	<b>13,326,680</b>
<b>Year ended 30 June 2021</b>			
Opening carrying amount	543,852	12,782,828	<b>13,326,680</b>
Net additions	41,420	2,799,002	<b>2,840,422</b>
Amortisation charge	(179,311)	(282,745)	<b>(462,056)</b>
<b>Closing carrying amount</b>	<b>405,961</b>	<b>15,299,085</b>	<b>15,705,046</b>
<b>As at 30 June 2021</b>			
Cost	946,425	16,693,904	<b>17,640,329</b>
Accumulated amortisation	(540,464)	(1,394,819)	<b>(1,935,283)</b>
<b>Carrying amount</b>	<b>405,961</b>	<b>15,299,085</b>	<b>15,705,046</b>

No impairment loss was recognised in the 2021 financial year (2020: \$Nil).

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

### NOTE 13: RIGHT-OF-USE ASSETS

	Premises \$	Total \$
<b>As at 30 June 2020</b>		
Cost	15,486,397	15,486,397
Accumulated depreciation	(1,829,294)	(1,829,294)
Carrying amount	13,657,103	13,657,103
	2021 (\$)	2020 (\$)
Opening balance	13,657,103	15,205,743
Depreciation	(1,548,639)	(1,548,640)
Closing balance	12,108,464	13,657,103
	Premises \$	Total \$
<b>As at 30 June 2021</b>		
Cost	15,486,397	15,486,397
Accumulated depreciation	(3,377,933)	(3,377,933)
Carrying amount	12,108,464	12,108,464

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

	2021 (\$)	2020 (\$)
Trade payables (i)	4,326,074	3,081,871
Annual leave payable	1,790,447	1,379,248
GST payable	296,376	255,745
Other creditors	1,081,695	683,788
	7,494,592	5,400,652

(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

	2021 (\$)	2020 (\$)
<b>Current</b>		
Commercial facility (a)	1,200,000	900,000
Hire purchase liability	295,552	1,041,420
Less: Unexpired charges	(26,399)	(44,589)
	1,469,153	1,896,831
<b>Non-current</b>		
Commercial facility (a)	5,300,000	6,500,000
Hire purchase liability	423,735	553,270
Less: Unexpired charges	(22,151)	(36,604)
	5,701,584	7,016,666

(a) The Company has a Commercial Facility with a limit of \$7,550,000. The Commercial Facility is repayable by 1 July 2023. \$50,000 of principal was 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 2.01% (June 2020: 1.89%). The facility is reviewed on an annual basis. At 30 June 2021, the Company had no (2020: nil) available undrawn committed borrowing facilities under the Commercial Facility in respect of which all conditions precedent had been met.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

### NOTE 15: BORROWINGS (cont'd)

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 2021, 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 2021, 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.

#### Financing facilities available

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

	2021 (\$)	2020 (\$)
Total facilities		
• Overdraft Facility	3,400,000	3,400,000
• Commercial Facility	6,500,000	7,400,000
• Electronic Payments facility	300,000	300,000
• Commercial Card Facility	50,000	50,000
	<u>10,250,000</u>	<u>11,150,000</u>
Facilities used at balance date		
• Overdraft Facility	-	-
• Commercial Facility	6,500,000	7,400,000
• Commercial Card Facility	47,969	47,226
	<u>6,547,969</u>	<u>7,447,226</u>
Facilities unused at balance date		
• Overdraft Facility	3,400,000	3,400,000
• Commercial Facility	-	-
• Electronic Payments facility	300,000	300,000
• Commercial Card Facility	2,031	2,774
	<u>3,702,031</u>	<u>3,702,774</u>
Total facilities		
• Facilities used at balance date	6,547,969	7,447,226
• Facilities unused at balance date	3,702,031	3,702,774
	<u>10,250,000</u>	<u>11,150,000</u>

The carrying value of plant and equipment held under hire purchase contracts at 30 June 2021 is \$670,738 (2020: \$4,073,063). Additions during the year include \$202,944 (2020: \$575,786) of plant and equipment held under hire purchase contracts.

### NOTE 16: LEASE LIABILITIES

	Premises \$	Total \$
<b>30 June 2021</b>		
Current liabilities	1,312,232	1,312,232
Non-current liabilities	11,558,461	11,558,461
	<u>12,870,693</u>	<u>12,870,693</u>
Reconciliation		
	Premises \$	Total \$
Balance at 1 July 2020	14,128,424	14,128,424
Principal repayments	(1,257,731)	(1,257,731)
Closing balance	<u>12,870,693</u>	<u>12,870,693</u>

The average lease term to expiry is 8 years.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

### 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:

<i>Lease payments due 30 June 2021</i>	<1 year \$	1-5 years \$	>5 years \$	Total \$
Net present values	1,312,232	6,215,113	5,343,348	12,870,693
Interest	423,552	1,191,923	274,306	1,889,781
Lease payments	1,735,784	7,407,036	5,617,654	14,760,474

Total cash outflow relating to leases for the period ended 30 June 2021 was \$1,725,397 of which \$1,257,731 related to principal payments, \$467,666 related to interest.

### NOTE 17: PROVISIONS

	2021 (\$)	2020 (\$)
<i>Current</i>		
Employee benefits	1,124,204	1,107,730
Advertising and Marketing	10,000	-
After-sales costs	707,931	-
	1,842,135	1,107,732

<i>Non-Current</i>		
Commissioning costs	53,206	-
Lease Restoration	100,929	100,929
	154,135	100,929

	2021 (\$)	2020 (\$)
Employee benefits (i)		
Balance at beginning of year	1,107,730	1,022,878
Net movements	16,473	84,852
Balance at the end of year - Current	1,124,203	1,107,730

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

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

### NOTE 18: ISSUED CAPITAL

	2021 (\$)	2020 (\$)
130,000,000 (2020: 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 (2020:Nil)

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

#### Share options

During the year the Company had a share-based payment Incentive Option Scheme which provided 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 were granted during the period. There were no options on issue at balance date.

Subsequent to year end, equity instruments were issued under this plan – refer Note 22.

### 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

	2021 (\$)	2020 (\$)
<b><u>Financial assets</u></b>		
Cash and cash equivalents	2,233,076	3,618,166
Trade and other receivables	9,820,535	9,471,613
<b><u>Financial liabilities</u></b>		
Trade and other payables	7,494,592	5,400,652
Borrowings – Bill Facility	6,500,000	7,400,000
Hire purchase liability	719,288	1,513,497
Lease liability	12,870,693	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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

### 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.

	<u>Cash (\$)</u>	<u>Receivables (\$)</u>	<u>Payable (\$)</u>	<u>Total Asset /(Liability) (\$)</u>
USD	1,394,051	1,859,988	76,572	3,177,730
• Impact of a 5% increase to profit or loss				(158,886)
• Impact of a 5% decrease to profit or loss				158,886
EUR	211,167	311,723	3,979	518,911
• Impact of a 5% increase to profit or loss				(25,946)
• Impact of a 5% decrease to profit or loss				25,946
GBP	27,592	680,905	612,572	95,925
• Impact of a 5% increase to profit or loss				4,796
• Impact of a 5% decrease to profit or loss				(4,796)

The Company's sensitivity to foreign exchange has not changed significantly from the prior year. Propeller sales are denominated 32% in USD, 10% in GBP and 6% in EUR hence increases in propeller sales will increase exposure to USD exchange rate movements. As all gyro stabilizer sales are in USD, and only part of the costs provides a natural hedge, the exposure to USD will increase in line with gyro stabilizer revenue increases.

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 2021 there were no forward contracts in place (2020: 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.

#### 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 \$36,000 and decrease by \$36,000 (2020: \$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 remained relatively steady during the current period as interest rates have only increased slightly which was offset by the Company having less variable rate debt instruments.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

#### 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.

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.

		1 year or less	1–5 years	5+ years
30 June 2021	%	\$	\$	\$
Non-interest bearing – Trade and other payables		7,494,592	-	-
Fixed interest rate – Hire purchase liabilities	4.4	295,552	423,735	-
Fixed interest rate – Lease liabilities	3.45	1,735,784	7,407,036	5,617,653
Variable interest rate – Bill facility and bank overdraft	2.01	1,200,000	5,300,000	-
		10,725,928	13,130,771	5,617,653
30 June 2020	%	\$	\$	\$
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

#### 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.

#### 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

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

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

	2021 (\$)	2020 (\$)
<b>Hire purchase commitments payable</b>		
- within one year	295,552	1,041,420
- after one year but not more than five years	423,735	553,270
Minimum hire purchase payments	719,287	1,594,690
Less: Unexpired charges	(48,550)	(81,193)
Present value of net minimum lease payments	670,737	1,513,497
Represented by:		
Current	269,153	996,831
Non-current	401,584	516,666
	670,737	1,513,497

### Capital commitments

At 30 June 2021 the Company had \$3,972,965 of capital commitments (2020: \$128,034).

### NOTE 20: 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:

	2021 (\$)	2020 (\$)
Short-term employee benefits	1,047,872	894,631
Other long-term benefits	82,396	71,223
	1,130,268	965,854

### Key management personnel transactions

The Company has two lease agreements with Voyka Pty Ltd, an entity controlled by an entity related to Mr Mark Miocevic and Mr Brad Miocevic. The Company pays Voyka Pty Ltd current monthly rent of \$143,783 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 Brad Miocevic employed in the business during the year on normal commercial terms. Lumos Marketing, which is owned by a related party of Mr Mark Miocevic, provided \$68,303 of marketing services to the Company on normal commercial terms.

### NOTE 21: AUDITOR'S REMUNERATION

The auditor of VEEM Limited is HLB Mann Judd.

	2021 (\$)	2020 (\$)
Audit or review of the financial statements	83,500	65,975
Tax compliance services	39,900	30,200
Other services	1,500	-
	124,900	96,175

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

### NOTE 22: 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:

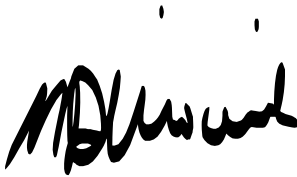
1. On 24 August 2021 the Company declared an unfranked ordinary dividend of \$585,000 representing \$0.0045 per share.
2. On 14 July 2021 the Company advised the ASX that its Incentive Option Plan had been expanded to the Incentive Performance Rights and Option Plan and that the Company had issued 150,000 Performance Rights under the Plan to its Chief Financial Officer, Mr David Rich. The issue was undertaken under the Company's placement capacity pursuant to ASX Listing Rule 7.1 given the Plan is yet to be approved by shareholders of the Company. Details of the Plan and the issue are included in the ASX announcement on 14 July 2021.
3. On 26 July 2021 VEEM announced that BAE Systems Maritime Australia, head contractor for the Hunter Class Frigate Program (HCFP), had placed an order with VEEM to manufacture a pilot propeller blade for the HCFP. The order enables VEEM to demonstrate it has the manufacturing capability to join the HCFP supply chain.  
As a world leader in premium commercial propellers that has delivered similar blades to defence clients globally, VEEM is very confident it can meet the requirements of the HCFP. Contract award for the propeller and brake blade manufacture for the first batch of three Hunter class frigates is anticipated in 2022.

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## DIRECTORS' DECLARATION

1. In the opinion of the Directors of VEEM Limited (the 'Company'):
  - a. the accompanying financial statements and notes are in accordance with the Corporations Act 2001 including:
    - i. giving a true and fair view of the Company's financial position as at 30 June 2021 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 2021.

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

A handwritten signature in black ink, appearing to read "Mark David Mioceovich", written over a horizontal line.

Mark David Mioceovich  
Managing Director

Dated this 24 August 2021

## INDEPENDENT AUDITOR'S REPORT

To the members of VEEM Limited

### Report on the Audit of the Financial Report

#### *Opinion*

We have audited the financial report of VEEM Limited ("the Company") which comprises the statement of financial position as at 30 June 2021, 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 2021 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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Key Audit Matter	How our audit addressed the key audit matter
<p><b>Carrying amount of the intangible asset (product development expenditure)</b> Note 12 of the financial report</p> <p>The Company has an intangible asset in relation to capitalised expenditure on the development of gyroscopic stabilizers.</p> <p>The development expenditure of \$15.3 million is considered to be a key audit matter, given the size of the balance, as well as the specific criteria that have to be met for capitalisation.</p> <p>In addition, determining whether there is any indication of impairment requires management judgment and assumptions which are affected by future market or economic developments.</p>	<p>Our procedures included but were not limited to the following:</p> <ul style="list-style-type: none"> <li>- We assessed the recognition criteria for this intangible asset by challenging the key assumptions used and estimates made in capitalising development costs, including management's assessment of the stage of the project in the development phase and the accuracy of costs included;</li> <li>- We considered management's assessment of whether any indicators of impairment were present by understanding the business rationale for projects and performing reviews for indicators of impairment;</li> <li>- We ensured management applied an appropriate amortisation method and amortisation period to this finite life intangible; and</li> <li>- We assessed the adequacy of the Company's disclosures in the financial report.</li> </ul>
<p><b>Revenue recognition</b> Note 2 of the financial report</p> <p>The Company has two distinct categories of revenue being revenue with performance obligations recognised at a point in time and revenue with performance obligations recognised over time.</p> <p>We focused on this area as a key audit matter due to the number and type of estimation events that may occur over the course of a contract life, leading to complex and judgemental revenue recognition and the direct impact on profit.</p>	<p>Our procedures included but were not limited to the following:</p> <ul style="list-style-type: none"> <li>- We examined and tested the Company's key controls over revenue and related work-in-progress;</li> <li>- We 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;</li> <li>- For a sample of contracts designated for over time recognition, we assessed the methodology and accuracy of recognising profit at the stage of completion at balance date;</li> <li>- We substantiated revenue transactions on a sample basis by agreeing the transaction to the customer's contract, purchase order, sales invoice, delivery docket, customer certification report, and bank receipt, where relevant;</li> </ul>

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- We tested the appropriateness of progress claims on a sample basis; and
  - We assessed the adequacy of the Company's disclosures in the financial report.
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*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 2021, 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 2021.

In our opinion, the Remuneration Report of VEEM Limited for the year ended 30 June 2021 complies with section 300A of the *Corporations Act 2001*.

### *Responsibilities*

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



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

**Perth, Western Australia**  
**24 August 2021**



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