

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

**APPENDIX 4E: PRELIMINARY FINAL REPORT**

**2017**

**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 2017

Previous Corresponding Period: 30 June 2016

For and on behalf of the Directors



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**PETER TORRE**  
**COMPANY SECRETARY**  
Dated: 31 August 2017

**RESULTS FOR ANNOUNCEMENT TO THE MARKET**

<b>Revenue and Net Profit</b>				<b>AUD \$'000's</b>
Revenue from ordinary activities	down	7.94%	to	38,082
Profit from ordinary activities after tax attributable to members	down	23.25% <sup>1</sup>	to	3,849
Net profit for the period attributable to members	down	23.25% <sup>1</sup>	to	3,849

1. Profit from ordinary activities after tax is after one-off ASX Listing Expenses of \$1,500,409. On a normalised basis, Profit from ordinary activities after tax would have been \$5,349,159 representing a 6.6% increase from 2016.

**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 2017.

## Dividends

During the year, an interim ordinary dividend for the financial year ended 30 June 2017 of \$4,000,000 (of which \$142,000 was franked) was paid on 23 August 2016, prior to the initial public offering of shares.

The directors have declared a final ordinary dividend for the financial year ended 30 June 2017 and provide the following information in this regard:

Date the dividend is payable	21 September 2017
Record date to determine entitlement to the dividend	7 September 2017
Amount per security	0.0123
Total dividend	A\$1,599,000
Amount per security of foreign sourced dividend or distribution	N/A
Details of any dividend reinvestment plans in operation	N/A

## NET TANGIBLE ASSET BACKING

	30 June 2017 \$'000	30 June 2016 \$'000
Net assets	28,806	24,217
Less intangible assets	10,827	6,959
Net tangible assets of the Company	17,979	17,258
Fully paid ordinary shares on issue at balance date	130,000,000	130,000,000 <sup>1</sup>
Net tangible asset backing per issued ordinary share as at balance date	0.138	0.133

(1) THE COMPANY LISTED ON THE ASX IN OCTOBER 2016. THE TOTAL NUMBER OF SHARES HAS BEEN USED FOR BOTH PERIODS TO PROVIDE A MORE MEANINGFUL COMPARISON.

## EARNINGS PER SHARE

Basic earnings per share (cents)	3.21	6.04
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## AUDIT DETAILS

The accompanying financial report has been audited.

**VEEM LTD**  
**ABN 51 008 944 009**  
**Annual Report**  
**30 June 2017**

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## CORPORATE INFORMATION

**ABN 51 008 944 009**

### Directors

Brad Mioceвич	Non-Executive Chairman
Mark Mioceвич	Managing Director
Ian Barsden	Non-Executive Director (appointed 1 July 2016)

### Joint Company Secretaries

Tracy Caudwell  
Peter Torre

### Registered office

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

### Principal place of business

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

### Share registry

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

### Solicitors

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

### Bankers

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

### Auditors

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

### Securities Exchange Listing

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

## DIRECTORS' REPORT

The Directors present their report together with the financial statements of the Company for the financial year ended 30 June 2017. 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.

**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 20 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.

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

Mark has been a director and senior manager of VEEM for over thirty 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 SS Engineering into the company in 1989, and defining the Company management model based on the Australian Business Excellence framework guideline in 1994. From 1995 until present he has been the Managing Director of VEEM and for a period during that time, the Managing Director of GA Perry and a Director of Thomassen Services Australia. He was responsible for the integration of Timcast Engineering into VEEM during 2002. He brings to the Board intimate knowledge of the company, its systems and strategic plan.

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

**Ian Henry Barsden**                      CA  
Non-Executive Director  
Director since 1 July 2017

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 30 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 and become an employee of the Company in 2011.

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

### Company Secretaries

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

Mr Torre was appointed on 9 September 2016. Mr Torre is the principal of Torre Corporate, a specialist corporate advisory firm providing corporate secretarial services to a range of listed companies.

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

Mrs Caudwell joined VEEM in June 2005. Mrs Caudwell has over 30 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 KPI's and financial performance.

## DIRECTORS' REPORT (continued)

### Interests in the shares of the Company and related bodies corporate

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

		Fully paid ordinary shares
Directors		Number
John Bradley Miocevich	(i)	80,000,000
Mark David Miocevich	(i)	80,000,000
Ian Henry Barsden		50,000

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

### 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:

- Propulsion and stabilisation systems; and
- Manufacturing bespoke products and services for the marine, defence and mining industries.

### Review of Operations

The Company was pleased to be able to report the following key metrics for its first year as a public listed company.

	FY16	FY17	Prospectus Forecast FY17
Operating Revenue	41,370,130	38,082,604	46,770,000
EBITDA	8,449,977	7,800,413	7,840,000
Normalised PBT <sup>1</sup>	6,142,579	6,142,501	5,860,000
Normalised PAT <sup>1</sup>	5,014,850	5,349,159	4,810,000
Statutory NPAT	5,014,850	3,848,750	4,010,000
EPS	-	3.21	-

1. Profit before and after tax less one off IPO listing expenses

FY17 was a very significant year for VEEM Ltd. This was the first financial year trading as an ASX listed public company. VEEM staff are to be congratulated for their hard work to not only achieve a successful listing, but for achieving a normalised profit after tax result that exceeded the forecast in the prospectus.

The operational performance underscores the consistent reporting of profits by VEEM historically, whilst it continues to develop ground breaking technology in new products with the view to deliver substantial future earnings to the company.

VEEM has always held itself in high regard for its efficiencies in manufacturing processes. Due to an increased emphasis on production productivity gains, largely from improvement in materials handling, a reduction of non-conformances in casting production and a steady improvement in machine efficiency and utilisation, gross profit margins increased for 2017.

This increase and lower overhead costs, led to an increase of normalised profit after tax of \$539,159 over forecast.

The operating success provided the result in line with forecast and allowed the Board to maintain its dividend policy of declaring a dividend subsequent to year end of 30% of Normalised Net Profit after Tax, representing 1.23 cents per share, with a total dividend of approximately \$1.6 million. Returns to shareholders are an important part of the Company's capital management policy and the Board expected to maintain this in line with its policy outlined in the Prospectus.

A key milestone for the Company during the year was the commencement of sales in the VEEM gyro range of gyro stabilising for vessels and the full production commencement of the VEEM gyro 120 and 260 production.

To design from concept, manufacture and test a prototype, then move to full production takes a focus and dedication from all of the people involved. The first sales of VEEM Gyro 120's were to three super yachts and one sports fishing yacht in the Australasian, European and the USA markets.

VEEM has been specified by three international shipyards as standard equipment on at least one of their vessel lines. Two operating mostly in the super yacht market and one in the Oil and Gas market.

VEEM exceeded its Gyro technical expectations with 1,000+ hours of operation for both the VG120 installed in the super yacht MY Tango and the VG 120 installed in the VEEM test vessel.



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

Commissioning of one other super yacht occurred in Europe this year with trouble free operation from installation and successful trials showing 60% roll reduction as per design.

The Gyro sales team continues to build customer confidence in a market with an unpredictable take up rate and VEEM remains confident in achieving traction in the short to medium term which will vindicate the Boards strategy of pursuing this technology, to become the world leader in marine stabilisation.

The production and supply of VEEM's new range of conquest propellers commenced during the year with first supplies to market arriving in the second quarter of the financial year. 53 Conquest propeller dealers have been appointed so far and the rollout of dealers around the world is continuing. Sales for a full year would have approximately been \$500,000, which indicates the success this product has had in the market place. As VEEM is continuing to develop the automated manufacturing of these propellers, continued growth can be expected in the future.

March 2017 saw the commissioning of a new 8 axis computer controlled machining centre which will enable VEEM to manufacture fully machined propellers to 4.6m diameter. This machine is one of the largest of its type in the southern hemisphere and will enable "in country" manufacture of large propellers for defence vessels and for export supply around the world.

The defence sector continued steadily with the order for the next submarine scheduled docking occurring late in the year. This work is spread over the FY17 and the FY18 financial years. VEEM was awarded a \$2.8m Pacific Patrol Boat (PPB) shaft line contract over 5 years, which represents the beginning of the new wave of defence spending by the Australian government. VEEM is well placed to participate in this work and this year provided quotations to a number of the potential future shipbuilders and major contractors. Work for the LCS and JHSV programs in the USA, through Austal ships, is continuing in line with expectations.

The sustainability model developed by VEEM has been underpinned by a global trading concept which partially eliminated the currency exchange risk by creating a natural hedge. The concept of VEEM buying and selling internationally is continuing to be developed to provide greater costing confidence for future proofing VEEM products. The first round of work has been completed with initial buying contracts in place and delivering as per expectations. The second round will be effected during FY18 with the further development of the supply chain in full swing.

### **Outlook**

VEEM enters the FY 2018 with a steady look ahead for all revenue generators of the business.

Defence work in Australia will grow steadily as new projects go into production. VEEM has developed working relationships with all of the tenderers for the upcoming major projects and has already submitted tenders for the OPV contract.

The mining sector is slowly winding up with some increases in tendering and purchasing occurring late in FY17. The commissioning of the new large CNC machine will bring VEEM a great deal more market interest from this sector which, as is already happening, will bring additional growth.

VEEM's propulsion and stabilisation products are expected to continue to grow in markets around the world. VEEM is quickly developing its marketing network in Europe and is focusing on increasing market confidence in the new Gyro stabiliser technology. The cross selling of VEEM propellers and VEEM gyros is a major focus that is expected to bring further success.

FY18 will see the VEEM test boat being relocated to Europe for an extensive testing and evaluation regime with major boat builders throughout the region. This is seen as a strong customer confidence booster to break through the barriers of change in the industry.

### **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**

Other than disclosed elsewhere in this report, there has not been any matter or circumstance that has arisen after balance date that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial periods.

### **Likely developments and expected results**

The Company will continue with its strategy as set out in its Prospectus lodged with the ASX on 24 October 2016. The commercialisation of the Company's Gyro Stabilising will be a key priority during the 2018 financial year.

### **Environmental legislation**

The Company is not subject to any significant environmental legislation.

## DIRECTORS' REPORT (continued)

### Dividends

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

- An interim ordinary dividend of \$4,000,000 was paid on 23 August 2016, prior to the initial public offering of shares.

Since the end of the financial year the Directors have recommended the payment of a final ordinary dividend of \$1,599,000 franked to 30 % to be paid on or around September 2017.

### Indemnification and insurance of Directors and Officers

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

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

### Remuneration report

This report, which forms part of the Directors' report, outlines the remuneration arrangements in place for the key management personnel ("KMP") of VEEM Ltd for the financial year ended 30 June 2017. The information provided in this remuneration report has been audited as required by Section 308(3C) of the Corporations Act 2001.

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

#### *Key Management Personnel*

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

#### Directors

John Bradley Mioceвич	Chairman (non-executive)
Mark David Mioceвич	Managing Director
Ian Barsden	Non-Executive Director (appointed 1 July 2016)

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 caliber employees.

#### *Remuneration Committee*

The Company does not have a separate Remuneration Committee. The full Board currently fulfills the role typically undertaken by a Remuneration Committee and is responsible for determining and reviewing compensation arrangements for the Directors.

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

#### *Remuneration structure*

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

#### *Use of remuneration consultants*

The Board has not used any independent remuneration consultants during the year ended 30 June 2017.

#### *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 caliber, whilst incurring a cost that is acceptable to shareholders.

The ASX Listing Rules specify that the aggregate remuneration of non-executive Directors shall be determined from time to time by a general meeting. The Constitution of the Company as at the time of listing in October 2016 provides that the aggregate remuneration of non-executive Directors be set at \$400,000.

## DIRECTORS' REPORT (continued)

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

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

### *Senior manager and executive Director remuneration*

Remuneration consists of reasonable fixed remuneration only.

### Fixed Remuneration

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

Senior managers are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company. The fixed remuneration component is detailed in Key Management Personnel remuneration for the years ended 30 June 2017 and 30 June 2016 tables.

### 2016 Annual General Meeting

The year ended 30 June 2017 is the first year the Company is reporting as a listed entity. As such, it will be the first year that the Remuneration Report will be considered by its members at the Annual General Meeting.

### *Employment Contracts*

Date of commencement, 01 September 2016

NAME	TERM OF AGREEMENT AND TERMINATION PROVISIONS	BASE SALARY INCLUDING SUPERANNUATION	TERMINATION BENEFIT
M. Miocevic Executive	This agreement has no set term.  Termination of the agreement is 1 months' notice by the Executive or 3 months' notice by the Company and includes a 6 month restraint of trade.	Base: \$385,000 per annum plus \$35,000 superannuation	3 Months salary

### *Remuneration of Key Management Personnel*

#### Key Management Personnel remuneration for the years ended 30 June 2017 and 30 June 2016

	Short-term employee benefits				Post-employment benefits	Long-term benefits	Share-based payments	Total	Relative proportions of remuneration of KMP that are linked to performance	
	Salary & fees	Bonus	Non-monetary benefits	Other	Superannuation	Long service leave	Share options		Fixed remuneration	Remuneration linked to performance
30 June 2017	\$	\$	\$	\$	\$	\$	\$	\$	%	%
Directors										
Bradley Miocevic	89,824	-	-	-	9,150	-	-	98,974	100%	-
Mark Miocevic	314,390	-	-	-	34,260	-	-	348,650	100%	-
Ian Barsden	63,737	-	-	-	6,055	-	-	69,792	100%	-

## DIRECTORS' REPORT (continued)

	Short-term employee benefits				Post-employment benefits	Long-term benefits	Share-based payments	Relative proportions of remuneration of KMP that are linked to performance		
	Salary & fees	Bonus	Non-monetary benefits	Other	Superannuation	Long service leave	Share options	Total	Fixed remuneration	Remuneration linked to performance
30 June 2016	\$	\$	\$	\$	\$	\$	\$	\$	%	%
Directors										
Bradley Mioceвич	62,220	-	-	-	35,083	-	-	97,303	100%	-
Mark Mioceвич	62,220	-	-	-	35,083	-	-	97,303	100%	-

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 2017 or 2016.

### *Employee share option plan*

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

### Fully paid ordinary shares

	Balance at beginning of year	Granted as compensation	Received on exercise of options	Net change other	Balance at end of year	Balance held nominally
30 June 2017	Number	Number	Number	Number	Number	Number
Directors						
Bradley Mioceвич	82,955,330	-	-	(2,955,330)	80,000,000 <sup>1</sup>	-
Mark Mioceвич	82,955,330	-	-	(2,955,330)	80,000,000 <sup>1</sup>	-
Ian Barsden	-	-	-	50,000	50,000	-

- Mr Brad Mioceвич and Mr Mark Mioceвич have a relevant interest in VEEM Corporation Pty Ltd ATF the Mioceвич Family Trust which holds 80,000,000 fully paid ordinary shares in the Company. During the year, their original shareholding was divided into a larger number and then partially sold down as part of the initial public offering in October 2016. The net result of this was a movement of (2,955,330) fully paid ordinary shares.

In addition, Brad Mioceвич and Mark Mioceвич through their relevant interest in VEEM Corporation Pty Ltd, held 100 B Class shares, which were cancelled prior to the Company's Initial Public Offering in October 2016.

### *Other key management personnel transactions*

In preparation for the Company's Initial Public Offering and listing on the ASX on 26 October 2016, certain non-core business assets with a written down value of \$585,658 and associated hire purchase liabilities of \$641,480 were transferred out of the Company at market value.

The Company has entered into a lease agreement with Voyka Pty Ltd, an entity controlled by an entity related to Mr Mark Mioceвич and Mr Brad Mioceвич. The Company pays Voyka Pty Ltd monthly rent of \$115,307 including GST, totalling \$1,383,684 for the twelve months to 30 June 2017. The rent is exclusive of any outgoings including rates, taxes, insurance premiums and maintenance costs. The lease was made on commercial terms.

As at 30 June 2016, \$2,750,060 was receivable from VEEM Corporation Pty Ltd, a company related to Mr Mark Mioceвич and Mr Brad Mioceвич. The debt was retired through payment of the interim dividend prior to the Company listing on the ASX.

## END OF REMUNERATION REPORT

## DIRECTORS' REPORT (continued)

### Directors' Meetings

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

	Directors' meetings
Number of meetings held:	11
Number of meetings attended:	
John Bradley Mioceвич	11
Mark David Mioceвич	11
Ian Henry Barsden	11

### Proceedings on behalf of the Company

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

### Non-Audit Services

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

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

### Auditor Independence and Non-Audit Services

Section 307C of the Corporations Act 2001 requires our auditors, HLB Mann Judd, to provide the Directors of the Company with an Independence Declaration in relation to the audit of the annual report. This Independence Declaration is set out on page 11 and forms part of this Directors' report for the year ended 30 June 2017.

Signed in accordance with a resolution of the Directors.



Mark David Mioceвич  
 Managing Director  
 Perth, 31 August 2017

## AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of VEEM Ltd for the year ended 30 June 2017, 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.



**HLB Mann Judd**  
Chartered Accountants



**D I Buckley**  
Partner

**Perth, Western Australia**  
**31 August 2017**

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

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**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2017**

	Notes	2017 \$	2016 \$
<b>Continuing operations</b>			
Revenue	2	38,082,604	41,370,130
Other income	2	192,533	66,167
Change in inventories of finished goods and work in progress		2,949,758	2,588,799
Raw materials and consumables		(13,517,085)	(14,573,811)
Employee benefits expense		(15,138,843)	(16,196,119)
Depreciation and amortisation expense		(1,441,418)	(2,027,520)
Repairs and maintenance expenses		(844,610)	(928,479)
Occupancy expenses		(2,171,640)	(2,259,215)
Borrowing costs expense		(228,773)	(282,588)
Listing expenses		(1,500,409)	-
Share registry expenses		(9,664)	-
Other expenses	2	(1,730,361)	(1,614,785)
<b>Profit before income tax expense</b>	2	<u>4,642,092</u>	<u>6,142,579</u>
Income tax expense	3	<u>(793,342)</u>	<u>(1,127,729)</u>
<b>Net profit for the year</b>		<u>3,848,750</u>	<u>5,014,850</u>
<b>Other comprehensive income, net of income tax</b>		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u>3,848,750</u>	<u>5,014,850</u>
Basic earnings per share (cents per share)	5	3.21	6.04

The accompanying notes form part of these financial statements



**STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2017**

	Notes	2017 \$	2016 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	7	587,586	646,970
Trade and other receivables	8	7,951,188	10,445,392
Inventories	9	8,429,143	5,976,840
Other assets	10	366,051	584,300
<b>Total current assets</b>		<b>17,333,968</b>	<b>17,653,502</b>
<b>Non-current assets</b>			
Property, plant and equipment	11	14,987,968	11,740,233
Deferred tax assets	3	1,031,271	625,812
Intangible assets	12	10,826,643	6,958,710
<b>Total non-current assets</b>		<b>26,845,882</b>	<b>19,324,755</b>
<b>Total assets</b>		<b>44,179,850</b>	<b>36,978,257</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Current tax liabilities	3	373,431	858,499
Trade and other payables	13	5,155,109	4,650,136
Borrowings	14	4,815,690	4,868,818
Provisions	15	1,098,649	1,011,402
<b>Total current liabilities</b>		<b>11,442,879</b>	<b>11,388,855</b>
<b>Non-current liabilities</b>			
Borrowings	14	3,169,910	699,243
Deferred tax liabilities	3	761,272	673,099
<b>Total non-current liabilities</b>		<b>3,931,182</b>	<b>1,372,342</b>
<b>Total liabilities</b>		<b>15,374,061</b>	<b>12,761,197</b>
<b>Net assets</b>		<b>28,805,789</b>	<b>24,217,060</b>
<b>Equity</b>			
Issued capital	16	5,140,616	400,637
Retained earnings		23,665,173	23,816,423
<b>Total equity</b>		<b>28,805,789</b>	<b>24,217,060</b>

The accompanying notes form part of these financial statements



## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2017

	Notes	Issued capital \$	Retained earnings \$	Total equity \$
Balance at 1 July 2015		400,637	22,301,573	22,702,210
Profit for the year		-	5,014,850	5,014,850
Other comprehensive income, net of income tax		-	-	-
Total comprehensive income for the year		-	5,014,850	5,014,850
Dividend paid or provided for	6	-	(3,500,000)	(3,500,000)
Balance as at 30 June 2016		400,637	23,816,423	24,217,060
Profit for the year		-	-	-
Other comprehensive income, net of income tax		-	3,848,750	3,848,750
Total comprehensive income for the year		-	3,848,750	3,848,750
Dividend paid or provided for	6	-	(4,000,000)	(4,000,000)
Shares issued during the year	16	5,000,000	-	5,000,000
Share issue costs	16	(260,021)	-	(260,021)
Balance as at 30 June 2017		5,140,616	23,665,173	28,805,789

The accompanying notes form part of these financial statements



**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2017**

Notes	2017 \$	2016 \$
<b>Cash flows from operating activities</b>		
Receipts from customers	40,334,844	42,153,185
Payments to suppliers and employees	(35,871,557)	(32,168,007)
Interest received	12,279	2,710
Interest paid	(228,774)	(281,380)
Income tax paid	(1,595,697)	(561,138)
GST paid	(61,455)	(1,122,421)
<b>Net cash inflow from operating activities</b>	<b>7 2,589,640</b>	<b>8,022,949</b>
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	(980,361)	(849,883)
Payments for intangible assets	(3,897,090)	(3,330,262)
<b>Net cash (outflow) from investing activities</b>	<b>(4,877,451)</b>	<b>(4,180,145)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	5,000,000	-
Capital raising costs	(260,021)	-
Proceeds from borrowings	-	2,500,000
Repayment of borrowings	(1,495,363)	(1,019,314)
Dividends paid	(4,000,000)	(3,500,000)
Proceeds from related party loans	-	(715,274)
Repayments of related party loans	2,750,061	-
<b>Net cash inflow/(outflow) from financing activities</b>	<b>1,994,677</b>	<b>(2,734,588)</b>
Net increase/(decrease) in cash and cash equivalents	(293,134)	1,108,216
Cash and cash equivalents at the beginning of the year	646,970	(469,176)
Effect of exchange rate fluctuations on cash held	(8,904)	7,930
<b>Cash and cash equivalents at the end of the year</b>	<b>7 344,932</b>	<b>646,970</b>

The accompanying notes form part of these financial statements

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

### NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of preparation

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

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

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

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

#### (b) Adoption of new and revised standards

##### *Standards and Interpretations applicable to 30 June 2017*

In the year ended 30 June 2017, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Company and effective for the reporting periods beginning on or after 1 July 2016.

As a result of this review, the Directors have determined that there is no material impact of the new and revised Standards and Interpretations in issue not yet adopted on the Company and therefore no material change is necessary to Company accounting policies.

##### *Standards and Interpretations in issue not yet adopted applicable to 30 June 2017*

The Directors have also reviewed all of the new and revised Standards and Interpretations in issue not yet adopted that are relevant to the Company and effective for the reporting periods beginning on or after 1 July 2017.

As a result of this review, the Directors have determined that AASB16 "Leases" may have a material effect on the application in future periods. The potential impact has not been quantified.

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

##### *Early adoption of Standards*

The Company has early adopted AASB 15 "Revenue from Contracts with Customers" which is mandatory for years beginning on or after 1 January 2018. There is no material impact to profit or loss or net assets on the adoption of this new standard in the current or comparative years.

#### (c) Statement of compliance

The financial report was authorised for issue by the Board of VEEM Ltd on 31 August 2017.

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 estimates and judgements

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

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

Except as described below, in preparing the full-year financial report, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial report for the year ended 30 June 2016.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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

#### *Amortisation*

In the full-year ended 30 June 2017, management has revised its methodology of amortisation of Product Development. Product Development was previously amortised over 10 years. The revised methodology is to amortise Product Development based on units of production to better reflect the pattern of consumption of economic benefits by the Company over the useful life. Amortisation of Product Development for the year is \$29,158. Amortisation under the previous methodology would have been \$390,848.

#### *Recovery of deferred tax assets*

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

#### *Inventories*

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

#### *Capitalisation of internally developed products*

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

#### **(e) Segment reporting**

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

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

The Board of Directors review internal management reports on a monthly basis that are consistent with the information provided in the statement of 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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

#### (g) Revenue recognition

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

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

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 & stabilisation, 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 the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

#### (i) Borrowing costs

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

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

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

#### (j) Leases

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

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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

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

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

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

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

#### **(k) Income tax**

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

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance date.

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

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

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

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

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

The carrying amount of deferred income tax assets is reviewed at each balance date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

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

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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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

#### (l) Other taxes

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

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

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

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

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

#### (m) Impairment of tangible and intangible assets

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

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

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

#### (n) Cash and cash equivalents

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

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

#### (o) Trade and other receivables

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

Impairment of trade receivables is continually reviewed and those that are considered to be uncollectible are written off by reducing the carrying amount directly. An allowance account is used when there is objective evidence that the Company will not be able to collect all amounts due according to the original contractual terms. Factors considered by the Company in making this determination include known significant financial difficulties of the debtor, review of financial information and significant delinquency in making contractual payments to the Company. The impairment allowance is set equal to the difference between the carrying amount of the receivable and the present value of estimated future cash flows, discounted at the original effective interest rate. Where receivables are short-term discounting is not applied in determining the allowance.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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

The amount of the impairment loss is recognised in the statement of 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 comprehensive income.

#### **(p) Inventories**

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

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

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

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

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

#### **(q) Financial assets**

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Company determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end. All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

##### *Financial assets at fair value through profit or loss*

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss' where applicable. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, where applicable, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

##### *Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

If the Company were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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

#### *Available-for-sale investments*

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models.

#### **(r) Derecognition of financial assets and financial liabilities**

##### *Financial assets*

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

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

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

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

##### *Financial liabilities*

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

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

#### **(s) Impairment of financial assets**

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

##### *Financial assets carried at amortised cost*

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

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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

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

#### *Financial assets carried at cost*

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

#### *Available-for-sale investments*

If there is objective evidence that an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the statement of comprehensive income. Reversals of impairment losses for equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses for debt instruments are reversed through profit or loss if the increase in an instrument's fair value can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

#### **(t) Property, plant and equipment**

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

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

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

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

#### *Impairment*

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

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

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

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

For plant and equipment, impairment losses are recognised in the statement of comprehensive income in the cost of sales line item. However, because land and buildings are measured at revalued amounts, impairment losses on land and buildings are treated as a revaluation decrement.

#### *Derecognition 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 derecognition 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.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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

#### (u) Intangible assets

##### *Intangible assets acquired separately*

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

##### *Internally generated intangible assets – research and development expenditure*

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

#### (v) Trade and other payables

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

#### (w) Borrowings

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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

#### (x) Provisions

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

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

#### (y) Employee leave benefits

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

Liabilities accruing to employees in respect of wages and salaries, annual leave, long service 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.

#### (z) Dividends

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

#### (aa) Earnings per share

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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

#### (ab) Going concern

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

At balance date, the Company had a working capital surplus of \$5,891,089. The Board considers that based on its assessment of operating cash flows, it is appropriate to the Company's current circumstances to prepare its financial statements on a going concern basis.

### NOTE 2: REVENUE AND EXPENSES

#### Revenue from contracts with customers

	2017	2016
	\$	\$
Sales revenue		
• Revenue – point in time	1,740,511	15,876
• Revenue – over time	36,306,980	41,345,272
Other revenue		
• Apprentice subsidies	14,000	-
• Commissions received	850	885
• Interest received	12,279	2,710
• Scrap metal	7,986	5,387
	38,082,604	41,370,130

During the year, the Company recognised revenue of \$10,231,649 in relation to the prior years' work in progress.

The Company has progress payments at 30 June 2017 of \$1,775,114 (2016: \$3,887,231).

The Company has contract assets, being work in progress (overtime) at 30 June 2017 of \$3,060,509 (2016: \$4,631,892).

There are no contract liabilities at balance date (30 June 2016: \$Nil) as a result of first time application of AASB 15.

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

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

The majority of customer contracts are from the private sector and this accounts for approximately 80% of the revenue during FY16/17. Sales to quasi-government and government instrumentalities accounted for 18% and 2% respectively.

The geographic distribution of sales for the FY16/17 was approximately 68% derived within Australia and the remaining 32% were derived predominantly from the USA, UK, Italy and NZ.

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

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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

#### Other income

	2017	2016
	\$	\$
Other income	30,989	34,595
Foreign exchange gains/losses (net)	161,544	31,572
	<u>192,533</u>	<u>66,167</u>

#### Other expenses

Insurance	276,026	256,985
Advertising and marketing	332,739	168,496
Travel	193,372	161,250
Bank Charges	141,368	108,067
Safety and first aid	75,243	66,449
Motor vehicle expenses	28,712	50,559
Accounting and secretarial	141,685	63,268
Telephone expenses	49,845	36,978
Employee related expenses	82,784	104,433
Legal expenses	74,111	91,302
Other general expenses	334,476	506,998
	<u>1,730,361</u>	<u>1,614,785</u>

### NOTE 3: INCOME TAX

#### Income tax recognised in profit or loss

The major components of tax expense are:

	2017	2016
	\$	\$
Current tax expense	476,056	995,059
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	317,286	132,670
Total tax expense	<u>793,342</u>	<u>1,127,729</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:

	2017	2016
	\$	\$
Accounting profit before income tax	4,642,092	6,142,579
Income tax expense calculated at 30%	1,392,628	1,842,774
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:	-	-
• Effect of expenses that are not deductible in determining taxable profit	102,982	8,518
• Effect of concessions – research and development	(702,268)	(723,563)
Income tax expense reported in the statement of comprehensive income	<u>793,342</u>	<u>1,127,729</u>

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in this tax rate since the previous reporting period.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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

*Current tax liabilities comprise:*

	2017	2016
	\$	\$
Income tax payable	373,431	858,499

*Deferred tax assets comprise:*

	2017	2016
	\$	\$
Annual leave payable	307,226	272,097
Provision for long service leave	329,595	303,421
Accrued expenses	54,522	48,014
Unrealised foreign exchange (gain) / loss	(6,445)	2,198
Black hole expenditure and borrowing costs	346,373	-
Patents	-	82
	<u>1,031,271</u>	<u>625,812</u>

*Deferred tax liabilities comprise:*

	2017	2016
	\$	\$
Depreciable property, plant and equipment	676,523	598,370
Patents	84,749	74,729
	<u>761,272</u>	<u>673,099</u>

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

	Opening balance	Charged to income	Closing balance
	\$	\$	\$
30 June 2017			
Accrued expenses	48,014	6,508	54,522
Annual leave payable	272,097	35,129	307,226
Provision for long service leave	303,421	26,174	329,595
Property, plant and equipment	(598,370)	(78,153)	(676,523)
Unrealised foreign exchange (gain) / loss	2,198	(8,643)	(6,445)
Black hole expenditure and borrowing costs	-	346,373	346,373
Patents	(74,647)	(10,102)	(84,749)
	<u>(47,287)</u>	<u>317,286</u>	<u>269,999</u>
30 June 2016			
Accrued expenses	86,587	(38,573)	48,014
Annual leave payable	230,296	41,801	272,097
Provision for long service leave	284,243	19,178	303,421
Property, plant and equipment	(716,202)	117,832	(598,370)
Unrealised foreign exchange (gain) / loss	(4,870)	7,068	2,198
Black hole expenditure and borrowing costs	1,559	(1,559)	-
Patents	(61,570)	(13,077)	(74,647)
	<u>(179,957)</u>	<u>132,670</u>	<u>(47,287)</u>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

### NOTE 4: SEGMENT REPORTING

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

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

The Board of Directors review internal management reports on a monthly basis that are consistent with the information provided in the statement of 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 that customer was in excess of 10% of the Company's revenue. Customer A generated 19.8% (2016: 19.5%) of the Company's revenue for the year and Customer B generated 17.7% (2016: 15.4%) of the Company's revenue for the year.

The total turnover for VEEM Ltd for FY2017 was \$38,047,491. This can be broken down in to the following major sales categories. Engineering Services is the mining and industrial engineering manufacture and service portion of the business and sales for FY2017 were \$9,423,024. Propulsion and stabilisation consists of the manufacture of new propellers, shaft lines, gyro stabilisers and fin stabilisers. The sales in this category were \$21,885,080. Defence related sales for FY2017 totaled \$14,299,173 with \$7,559,786 of those sales being both within the defence and propulsion/stabilisation category.

### NOTE 5: EARNINGS PER SHARE

#### *Basic earnings per share*

	2017 Cents per share	2016 Cents per share
Basic earnings per share	3.21	6.04

There is 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:

	2017 \$	2016 \$
Earnings		
Earnings from continuing operations	3,848,750	5,014,850

  

	2017 Number	2016 Number
Weighted average number of ordinary shares for the purpose of basic earnings per share	119,893,048	82,955,330

### NOTE 6: DIVIDENDS

	2017 \$	2016 \$
Fully franked dividends paid	142,000	1,310,000
Fully unfranked dividends paid	3,858,000	2,190,000
Total dividends paid	4,000,000	3,500,000

Balance of franking account at period end adjusted for franking credits arising from the payment of provision for income tax and dividends recognised as receivables, franking debits arising from payment of proposed dividends and franking credits that may be prevented from distribution in a subsequent financial year.

	2017 \$	2016 \$
Franking account balance		
The amount of franking credits available for subsequent financial years are:		
Franking account balance as at the end of the financial year at 30% (2016: 30%)	1,539,053	859,206
The tax rate at which paid dividends have been franked is 30% (2016: 30%).		



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

### NOTE 7: CASH AND CASH EQUIVALENTS

	2017	2016
	\$	\$
Cash at bank	586,786	646,170
Cash on hand	800	800
	587,586	646,970

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:

	2017	2016
	\$	\$
Cash and cash equivalents	587,586	646,970
Bank overdraft	(242,654)	-
	344,932	646,970

#### *Non-cash financing and investing activities*

The Company purchased assets with a value of \$4,365,325 which were financed through hire purchase.

#### *Cash balances not available for use*

All cash balances are available for use

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

	2017	2016
	\$	\$
Net profit for the year	3,848,750	5,014,850
Depreciation and amortisation expense	1,441,418	2,027,520
(Gain)/loss on sale or disposal of non-current assets, property, plant & equipment	(9,422)	45,349
Provision for employee leave benefits	87,247	63,927
Foreign exchange (gain)/loss	(161,544)	(31,572)
Interest income received and receivable		
(Increase)/decrease in assets:		
Trade and other receivables	127,573	(2,475,430)
Inventories	(2,452,304)	1,568,955
Increase/(decrease) in liabilities:		
Trade and other payables	380,547	1,143,932
Current and deferred tax	(802,357)	566,591
GST payable	129,732	98,827
Net cash from operating activities	2,589,640	8,022,949

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

### NOTE 8: TRADE AND OTHER RECEIVABLES

	2017	2016
	\$	\$
Trade receivables (i)	7,787,925	7,519,119
GST recoverable	162,905	168,176
Loans to related entities (ii)	-	2,750,061
Other receivables	358	8,036
	<u>7,951,188</u>	<u>10,445,392</u>

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

#### *Aging of past due but not impaired*

	2017	2016
	\$	\$
60 – 90 days	553,738	550,833
90 – 120 days	176,721	112,041
Total	<u>730,459</u>	<u>662,874</u>

In determining the recoverability of a trade receivable, the Company considers any changes in the credit quality of the trade receivable from the date credit was initially granted up to the balance date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the Directors believe that there is no further credit provision required in excess of the allowance for impairment.

(ii) For details of the terms and conditions of related party receivables refer to note 19.

### NOTE 9: INVENTORIES

	2017	2016
	\$	\$
Work in progress – over time	3,060,509	4,631,892
Work in progress – point in time	1,806,562	2,324,251
Less: progress billings	<u>(1,775,114)</u>	<u>(3,887,231)</u>
	3,091,958	3,068,912
Goods for resale, raw materials and stores	<u>5,337,185</u>	<u>2,907,928</u>
	<u>8,429,143</u>	<u>5,976,840</u>

Inventory write-downs charged to cost of sales totaled \$Nil (2016 Nil)

During the year, the Company recognised revenue of \$10,231,649 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 \$962,676. The total impact to profit or loss is \$13,738.

### NOTE 10: OTHER ASSETS

	2017	2016
	\$	\$
Prepayments	<u>366,051</u>	<u>584,300</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2017**

**NOTE 11: PROPERTY, PLANT AND EQUIPMENT**

	<b>Plant and Equipment</b>	<b>Motor Vehicles</b>	<b>Capital Work in Progress</b>	<b>Computer Equipment</b>	<b>Total</b>
<b>As at 30 June 2016</b>					
Cost	29,367,843	1,545,979	315,958	1,238,179	32,467,959
Accumulated depreciation	(18,776,718)	(799,303)	-	(1,151,705)	(20,727,726)
<b>Closing carrying amount</b>	<b>10,591,125</b>	<b>746,676</b>	<b>315,958</b>	<b>86,474</b>	<b>11,740,233</b>
<b>Year ended 30 June 2017</b>					
Opening carrying amount	10,591,125	746,676	315,958	86,474	11,740,233
Additions	4,918,141	22,541	464,955	155,973	5,561,610
Disposals	-	(585,657)	-	-	(585,657)
Transfers	-	-	(315,958)	-	(315,958)
Depreciation charge	(1,330,291)	(50,785)	-	(31,184)	(1,412,260)
<b>Closing carrying amount</b>	<b>14,178,975</b>	<b>132,775</b>	<b>464,955</b>	<b>211,263</b>	<b>14,987,968</b>
<b>As at 30 June 2017</b>					
Cost	34,285,984	560,932	464,955	1,394,152	36,706,023
Accumulated Depreciation	(20,107,009)	(428,157)	-	(1,182,889)	(21,718,055)
<b>Carrying amount</b>	<b>14,178,975</b>	<b>132,775</b>	<b>464,955</b>	<b>211,263</b>	<b>14,987,968</b>

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 30 June 2017 is \$4,241,747 (2016: \$1,575,320). Additions during the year include \$4,365,325 (2016: \$695,441) of plant and equipment held under finance leases and hire purchase contracts.

Leased assets and assets under hire purchase contracts are pledged as security for the related finance lease and hire purchase liabilities.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

### NOTE 12: INTANGIBLE ASSETS AND GOODWILL

	Other Intellectual Property	Product Development	Total
<b>As at 30 June 2016</b>			
Cost	382,127	7,338,933	<b>7,721,060</b>
Accumulated amortisation	-	(762,350)	<b>(762,350)</b>
<b>Closing carrying amount</b>	<b>382,127</b>	<b>6,576,583</b>	<b>6,958,710</b>
<b>Year ended 30 June 2017</b>			
Opening carrying amount	382,127	6,576,583	<b>6,958,710</b>
Net additions	-	3,897,091	<b>3,897,091</b>
Amortisation charge	-	(29,158)	<b>(29,158)</b>
<b>Closing carrying amount</b>	<b>382,127</b>	<b>10,444,516</b>	<b>10,826,643</b>
<b>As at 30 June 2017</b>			
Cost	382,127	11,236,023	<b>11,618,150</b>
Accumulated amortisation	-	(791,507)	<b>(791,507)</b>
<b>Carrying amount</b>	<b>382,127</b>	<b>10,444,516</b>	<b>10,826,643</b>

No impairment loss was recognised in the 2017 financial year (2016: \$Nil).

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

	2017 \$	2016 \$
Trade payables (i)	3,125,221	2,812,140
Annual leave payable	1,024,088	906,990
GST Payable	451,025	326,564
Other creditors	554,775	604,442
	<b>5,155,109</b>	<b>4,650,136</b>

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

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



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

### NOTE 14: BORROWINGS

	2017 \$	2016 \$
<i>Current</i>		
Bank overdraft (a)	242,654	-
Bill facility (a)	3,500,000	4,000,000
Hire purchase liability	1,249,894	925,807
Less: Unexpired charges	(176,858)	(56,989)
	<b>4,815,690</b>	<b>4,868,818</b>
<i>Non-current</i>		
Hire purchase liability	3,372,898	764,606
Less: Unexpired charges	(202,988)	(65,363)
	<b>3,169,910</b>	<b>699,243</b>

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

The Company has a Multi Option Facility with a limit of \$11,400,000 that may be allocated between the Overdraft Facility and Commercial Bill Facility. In addition, there is an Electronic Payments Facility with a limit of \$300,000. The interest rate is currently at 2.92% (June 2016: 2.94%). The facility is renewed on an annual basis.

At 30 June 2017, the Company had available \$7,957,346 (2016: \$1,900,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

#### *Financing facilities available*

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

	2017 \$	2016 \$
<i>Total facilities</i>		
• Bank overdraft	900,000	900,000
• MULTI Option Facility	10,500,000	5,000,000
• Electronic Payments facility	300,000	-
	<b>11,700,000</b>	<b>5,900,000</b>
<i>Facilities used at balance date</i>		
• Bank overdraft	242,654	-
• MULTI Option Facility	3,500,000	4,000,000
	<b>3,742,654</b>	<b>4,000,000</b>
<i>Facilities unused at balance date</i>		
• Bank overdraft	657,346	900,000
• MULTI Option Facility	7,000,000	1,000,000
• Electronic Payments facility	300,000	-
	<b>7,957,346</b>	<b>1,900,000</b>
<i>Total facilities</i>		
• Facilities used at balance date	3,742,654	4,000,000
• Facilities unused at balance date	7,957,346	1,900,000
	<b>11,700,000</b>	<b>5,900,000</b>

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

### NOTE 14: FINANCIAL LIABILITIES (cont'd)

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 30 June 2017 is \$4,241,747 (2016: \$1,575,320). Additions during the year include \$4,365,325 (2016: \$695,441 of plant and equipment held under finance leases and hire purchase contracts).

### NOTE 15: PROVISIONS

	Employee benefits (i) \$
Balance at beginning of year	1,011,402
Net movements	87,247
Balance at the end of year	1,098,649
Current	1,098,649
Non-current	-

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

### NOTE 16: ISSUED CAPITAL

	2017 \$	2016 \$
130,000,000 (2016: 82,955,330) Ordinary shares issued and fully paid	5,140,616	400,637

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

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

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

	Year to 30 June 2017		Year to 30 June 2016	
	No.	\$	No.	\$
<i>Movements in ordinary shares on issue</i>				
Opening balance	82,955,330	400,587	82,955,330	400,587
Share split (i)	37,044,670	50	-	-
Issue of fully paid ordinary shares at 50c per share	10,000,000	5,000,000	-	-
Capital raising costs	-	(260,021)	-	-
Closing balance	130,000,000	5,140,616	82,955,330	400,587

	Year to 30 June 2017		Year to 30 June 2016	
	No.	\$	No.	\$
<i>Movements in B Class Shares on issue</i>				
Opening balance	100	50	100	50
Cancellation of B class shares (i)	(100)	(50)	-	-
Closing balance	-	-	100	50

(i) Prior to the IPO, the Company split its Ordinary Shares from 82,955,330 shares to 120,000,000 shares and cancelled the B class shares.

#### Share options

The Company has a share-based payment option scheme. No options to subscribe for the Company's shares have been granted during the period. There are no options on issue at balance date.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

### NOTE 17: FINANCIAL INSTRUMENTS

#### *Capital risk management*

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

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

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*

	2017	2016
	\$	\$
<u>Financial assets</u>		
Cash and cash equivalents	587,586	646,970
Loans and receivables	7,951,188	10,445,392
<u>Financial liabilities</u>		
Trade and other payables	5,155,109	4,650,136
Borrowings – Bill Facility	3,500,000	4,000,000
Borrowings – Bank overdraft	242,654	-
Borrowings - Hire purchase liability	4,242,946	1,568,061

#### *Financial risk management objectives*

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

#### *Foreign currency risk management*

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

	<u>Cash</u>	<u>Receivables</u>	<u>Payable</u>	<u>Total Assets</u>
	\$	\$	\$	\$
USD	232,778	619,009	-	851,787
• Impact of a 5% increase to profit or loss				(51,190)
• Impact of a 5% decrease to profit or loss				33,083
EUR	73,464	202,896	-	276,360
• Impact of a 5% increase to profit or loss				(11,855)
• Impact of a 5% decrease to profit or loss				15,987
GBP	7,053	497,509	(20,964)	525,525
• Impact of a 5% increase to profit or loss				(23,735)
• Impact of a 5% decrease to profit or loss				29,085

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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

#### Market risk

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

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

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

#### Interest rate risk management

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

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

#### Interest rate risk sensitivity analysis

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

At balance date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Company's net profit would increase by \$1,871 and decrease by \$1,871 (2016:\$2,000). This is mainly attributable to the Company's exposure to interest rates on its variable rate borrowings.

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

#### Credit risk management

Credit risk refers to the risk that 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 available and, if not available, the Company uses publicly available financial information and its own trading record to rate its major customers. The Company's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by management annually.

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

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

#### Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of Directors, who have built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 8 is a listing of additional undrawn facilities that the Company has at its disposal to further reduce liquidity risk.



## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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

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

		Weighted average interest rate		
30 June 2017		1 year or less	1–5 years	5+ years
	%	\$	\$	\$
Non-interest bearing – Trade and other payables		5,155,109	-	-
Fixed interest rate – Hire purchase liabilities	4.4	1,249,894	3,372,898	-
Variable interest rate – Bill facility and bank overdraft	2.9	3,816,310	-	-
		<u>10,221,312</u>	<u>3,372,898</u>	<u>-</u>

		Weighted average interest rate		
30 June 2016		1 year or less	1–5 years	5+ years
	%	\$	\$	\$
Non-interest bearing - Trade and other payables		4,650,136	-	-
Fixed interest rate – Hire purchase liabilities	7.0	925,807	764,606	-
Variable interest rate – Bill facility and bank overdraft	2.9	4,079,529	-	-
		<u>9,655,472</u>	<u>764,606</u>	<u>-</u>

#### Fair value measurement

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

### NOTE 18: COMMITMENTS AND CONTINGENCIES

#### *Operating lease commitments – Company as lessee*

The Company has entered into a commercial lease on its premises. This lease has a life of 3 years with options to renew included in the contract. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 30 June 17 are as follows:

	2017	2016
	\$	\$
<b>(a) Operating lease commitments</b>		
- within one year	1,393,553	1,284,580
- after one year but not more than 5 years	962,293	2,201,325
	<u>2,355,846</u>	<u>3,485,905</u>

#### *Finance lease and hire purchase commitments - Company as lessee*

The Company has finance leases and hire purchase contracts for various items of plant and machinery. These leases 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 2017

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

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

	2017	2016
	\$	\$
<b>(b) Hire purchase commitments payable</b>		
- within one year	1,249,894	925,807
- after one year but not more than five years	3,372,898	764,606
- longer than five years	-	-
Minimum hire purchase payments	4,622,792	1,690,413
Less: Unexpired charges	(379,846)	(122,352)
Present value of net minimum lease payments	4,242,946	1,568,061
Represented by:		
Current	1,073,036	868,818
Non-current	3,169,910	699,243
	4,242,946	1,568,061

#### Capital commitments

At 30 June 2017 the Company has no capital commitments (2016: \$4,037,596).

### NOTE 19: RELATED PARTY DISCLOSURE

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

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

	2017	2016
	\$	\$
Short-term employee benefits	467,951	124,440
Other long-term benefits - Superannuation	49,465	70,166
	517,416	194,606

#### Key management personnel transactions

In preparation of the Company's Initial Public Offering and listing on the ASX on 26 October 2016, certain non-core business assets with a written down value of \$585,658 and associated hire purchase liabilities of \$641,480 were transferred out of the Company at market value.

The Company has entered into a lease agreement 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 monthly rent of \$115,307 including GST, totalling \$1,383,684 for the twelve months to 30 June 2017. The rent is exclusive of any outgoings including rates, taxes, insurance premiums and maintenance costs. The lease was made on commercial terms.

As at 30 June 2016, \$2,750,060 was receivable from VEEM Corporation Pty Ltd, a company related to Mr Mark Mioceovich and Mr Brad Mioceovich. The debt was retired through payment of the interim dividend prior to the Company listing on the ASX.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2017**

**NOTE 20: AUDITOR'S REMUNERATION**

The auditor of VEEM Ltd is HLB Mann Judd.

	2017	2016
	\$	\$
Auditor of the parent entity		
Audit or review of the financial statements	66,500	46,000
Tax compliance services	53,131	21,855
Investigating accountant's report	70,000	-
	<u>189,631</u>	<u>67,855</u>

**NOTE 21: SUBSEQUENT EVENTS**

Subsequent to the end of the financial year an ordinary dividend of \$1,599,000 franked to 30% has been declared.

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

## DIRECTORS' DECLARATION

1. In the opinion of the Directors of VEEM Ltd (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 2017 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 2017.

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

Mark David Miocevic  
Managing Director

A handwritten signature in black ink, appearing to read 'Mark David Miocevic'.

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Dated this 31 day of August 2017

## INDEPENDENT AUDITOR'S REPORT

To the Members of VEEM Ltd

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of VEEM Ltd ("the Company") which comprises the statement of financial position as at 30 June 2017, the statement of 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 2017 and of its financial performance for the year then ended; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

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

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

#### Key audit matters

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

Key Audit Matter	How our audit addressed the key audit matter
<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 stabilisers.</p> <p>The development expenditure of \$10.445 million has been deemed to be a key audit matter, given the size of the balance, the technological change in the industry, the gyrostabiliser market being relatively new and immature, VEEM itself being a new entrant, as well as the specific criteria that have to</p>	<p>Our procedures included but were not limited to the following:</p> <ul style="list-style-type: none"> <li>• We have performed audit procedures over the accuracy and valuation of amounts recognised. Our audit procedures included, among other things, assessing the recognition criteria for intangible assets, challenging the key assumptions used or estimates made in capitalising development costs, including management's assessment</li> </ul>

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be met for capitalisation. This involves management judgment, such as with respect to distinguishing between research and development phases, technical feasibility, intention and ability to complete the intangible asset, ability to use or sell the asset, generation of future economic benefits and the ability to measure the costs reliably. In addition, determining whether there is any indication of impairment requires management judgment and assumptions which are affected by future market or economic developments.

of the stage of the project in the development phase and the accuracy of costs included;

- We considered management's assessment whether any indicators of impairment were present by understanding the business rationale for projects and performing reviews for indicators of impairment;
- We assessed the adequacy of the Company's disclosure in the financial report; and
- We ensured management applied an appropriate amortisation method and amortisation period to its finite life intangibles.

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### **Revenue recognition**

Note 2 of the financial report

Revenue recognition has been deemed to be a key audit matter as the Company has early adopted AASB 15 *Revenue from Contracts with Customers*. This has resulted in additional audit effort given the new five-step approach to revenue recognition under AASB 15.

We focused on this area as a key audit matter due to the number and type of estimation events that may occur over the course of a contract life, leading to complex and judgemental revenue recognition and the direct impact on profit.

Our procedures included but were not limited to the following:

- We examined and tested the Company's key controls over revenue and related work-in-progress;
- We evaluated management's process to assess the impact of AASB 15;
- We read and considered a sample of the Company's key contracts to determine if we concurred with management's assessment of performance obligations, the transaction price and any contract liabilities that may arise, the allocation of the transaction price, and when to recognise revenue, either at a point in time, or over time;
- 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;
- 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;
- 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 2017, 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 in the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of VEEM Ltd for the year ended 30 June 2017 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



**D I Buckley**  
Partner

**Perth, Western Australia**  
**31 August 2017**