

**VELOCITY PROPERTY GROUP LIMITED**  
ABN 66 605 935 153

**Financial Report  
for the year ended  
30 June 2017**

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## **Velocity Property Group Limited**

### **Corporate Directory**

#### **Directors**

Michael Pearson - Chairman (non-executive director, appointed 24 October 2016)

Brendon Ansell - Managing Director

Philip Raff - Director (executive, appointed 30 August 2016)

Cherie Leatham - Director (non-executive, appointed 24 October 2016)

#### **Secretary**

Phillip Young (appointed 30 August 2016)

#### **Principal Registered Office in Australia**

9/462 Hawthorne Road, Bulimba Qld 4171

#### **Other Company Details**

Postal address: PO Box 519, Bulimba Qld 4171

Telephone: 1300 887 623

Email address: [info@velocitypropertygroup.com.au](mailto:info@velocitypropertygroup.com.au)

Website: [www.velocitypropertygroup.com.au](http://www.velocitypropertygroup.com.au)

#### **Share Register**

Link Market Services Limited

Locked Bag A14

South Sydney NSW 1235

Telephone enquiries within Australia: 1300 554 474

Email address: [registrars@linkmarketservices.com.au](mailto:registrars@linkmarketservices.com.au)

#### **Auditor**

Crowe Horwath Brisbane

Level 16, 120 Edward Street, Brisbane Qld 4000

#### **Lawyers**

McCullough Robertson

Level 11, Central Plaza Two

66 Eagle Street, Brisbane Qld 4000

Warlow Scott

Level 7, 79 Adelaide Street, Brisbane Qld 4001

Thomson Geer

Level 16, Waterfront Place

1 Eagle Street, Brisbane Qld 4000

#### **Bankers**

Bank of Queensland

Westpac Banking Corporation

ANZ Banking Group Ltd

Suncorp Limited

**Velocity Property Group Limited**  
**Directors' Report**  
**For the year ended 30 June 2017**

The directors present their report together with the financial report of Velocity Property Group Limited and its controlled entities ("Velocity" and/or "the Group"), for the year ended 30 June 2017 and the independent auditor's report thereon.

**Directors**

The names of directors in office at any time during or since the end of the financial year are:

- Michael Pearson (appointed 24 October 2016)
- Brendon Ansell (appointed 20 May 2015)
- Phillip Raff (appointed 30 August 2016)
- Cherie Leatham (appointed 24 October 2016)
- Phillip Young (appointed 30 August 2016, resigned 24 October 2016)

**Michael Pearson**  
**Chairman (Non-executive & Independent Director)**

Michael is a qualified lawyer and is a current member and graduate of the Governance Institute & Australian Institute of Company Directors. Michael holds a Bachelor of Arts from the University of Queensland and a Bachelor of Law from Queensland University of Technology. Michael was previously the General Counsel and Company Secretary of Cardno Limited, and before that, acted in a corporate and legal role with Aveo Group (formerly FKP Property Group).

Michael is also a member of the Audit & Risk Management Committee.

**Brendon Ansell**  
**Managing Director (Executive)**

Brendon is a property developer with over 10 years' experience having commenced as a financier for property development clients before moving full time into property development. Brendon has completed projects through his own development companies and as part of joint ventures with other equity participants. In particular, Brendon has worked closely on funding projects through structured hybrid debt/equity arrangements. Brendon is a member of the Australian Institute of Company Directors.

**Philip Raff**  
**Director (Executive)**

Philip holds a Bachelor of Business from Central Queensland University along with being a member of the Australian Institute of Company Directors. Prior to joining Velocity in 2013, Philip had a 20-year career in the PC industry working for multi-national corporations including IBM and Lenovo focusing on IT deployments and business transformation. In 2013, Philip began funding property developments through his Singapore network.

Philip is also a member of the Audit & Risk Management Committee.

**Cherie Leatham**  
**Director (Non-executive & Independent)**

Cherie is a corporate real estate lawyer with more than 15 years' experience which encompasses advising leading Australian companies across a broad range of areas including property development, infrastructure and project management. Cherie currently holds an executive role at Woolworths Limited and is responsible for the execution of strategy and identification of risk across the national real estate network. Cherie is a member of the Australian Institute of Directors and holds a Bachelor of Laws and Bachelor of Arts from Monash University.

Cherie is also the Chairman of the Audit & Risk Management Committee.

**Company Secretary**

The following person held the position of company secretary at the end of the financial year:

- Phillip Young (appointed 30 August 2016)

In July 2016, Phillip joined Velocity as Chief Financial Officer and was appointed company secretary in August 2016. Prior to joining Velocity, Phillip spent 13 years at Crowe Horwath, a national mid-tier accounting firm. Phillip is a member of the Chartered Accountants of Australia & New Zealand and the Governance Institute of Australia. Phillip holds a Bachelor of Business in Accounting and Information Systems from Central Queensland University.

**Director's Meetings**

The number of director's meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Group during the financial year are:

Director	Board Meetings		Audit & Risk Management Committee Meetings	
	Number Attended	Number Held	Number Attended	Number Held
Michael Pearson	6	6	1	1
Brendon Ansell	6	6	N/A	N/A
Philip Raff	6	6	1	1
Cherie Leatham	6	6	1	1

## **Principal Activities**

Velocity is an Australian boutique property development company that develops multi-unit apartment and mixed commercial developments, recognisable for their stylish architectural design, high quality finishes and usable and flexible spaces that maximise lifestyle and saleability in the markets in which it operates. The principal activities of the Group are:

- Property development (residential multi-unit apartments, residential townhouses and homes and mixed commercial)
- Property investment (residential and commercial)

The delivery of the Group's projects is completed by specialist in-house staff experienced in land acquisition, project due diligence and feasibility analysis, project management, interior design, sales and marketing. Construction and design of the projects are tendered out to external parties.

## **Significant Changes in State of Affairs**

In the opinion of the directors, there were no significant changes in the state of affairs of the Group that occurred during the year under review not otherwise disclosed in the report or the consolidated financial report.

## **Events Subsequent to Balance Date**

At the date of this report and in the opinion of the directors, no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated group, the results of those operations, or the state of affairs of the Group in future financial years.

## **Consolidated Result**

The Board is pleased with the operational performance of the Group for the financial year ended 30 June 2017, resulting in a net profit after tax to the members of Velocity Property Group Limited of \$2,198,705. This is an increase of 113% on the previous year's result (2016: \$1,032,242).

This result is attributable to the strong performance of the completed developments in Brisbane, Queensland. The completed developments for the year were Vue at Red Hill, 50 & 52 Jamieson Street, Bulimba and 48 Orchard Street, Hawthorne.

The issue of additional ordinary shares in Velocity during the current period, due in part to the oversubscribed initial public offering and subsequent listing on the Australian Securities Exchange in February 2017, contributed significantly to the material change in earnings per share and net tangible assets per share result.

## Operations Review and Results

### Operating and Financial Highlights

The directors believe the Group is in a strong and stable financial position to expand and grow its current operations. This is largely due to the following key factors:

- Net profit after tax increased by 113% to \$2,198,705;
- Surplus cash and increased gearing is being utilised to replenish and deliver the Group's development portfolio;
- Solid balance sheet position with cash of \$4,853,472 and available working capital facilities of \$1,377,877;
- Net repayment of debt during the year of \$8,630,216;
- \$10,600,000 site acquisition in prime riverfront location in Brisbane is due to settle in the first half of the 2018 financial year;
- Construction of the luxury ONE Burleigh Headland project on the Gold Coast, which is completely sold out, is progressing well; and
- Strong forecast cash flow generated from existing projects.

### Group Development Portfolio

As at 30 June 2017, the Group's active development portfolio comprised of the following:

#### ONE Burleigh Headland

This site was acquired in May 2015 and will be the first new apartments on the Headland in 30 years. The development is being built into the Headland to blend into the natural surroundings. It consists of nine luxury apartments ranging from 204m<sup>2</sup> to 321m<sup>2</sup> in size, including a luxury penthouse. The site is approximately 150 metres from the beach, on the doorstep of the Burleigh Heads National Park and just minutes' walk from the cafes and restaurants of Burleigh village. Construction is progressing well and is expected to be complete in the January to March quarter of 2018.

#### The Hathaway

This Cadell Street site in Auchenflower was acquired in February 2016. In addition to relocating and renovating the existing pre-1946 four-bedroom heritage-listed home, the development will include eleven luxury apartments in a three-storey apartment building and three luxury townhouses. Designing for the luxury empty nesters and high net wealth individuals has proven successful with the majority of enquiries and subsequent sales coming from those demographics. Site works recently commenced and construction is expected to be complete in the April to June quarter of 2018.

#### ONE Palm Beach

This beach front development on the Gold Coast's Palm Beach is a joint venture with the underlying landowner. Site works commenced in January 2017 with construction expected to be complete in the July to September quarter of 2018.

#### Ellerslie Crescent

The multiple sites that comprise this development were acquired in February 2016. This site fronts Ellerslie Crescent and Oxford Terrace in Taringa, six kilometres from the Brisbane CBD and is close to major shopping centres and the University of Queensland.

Development approval for four luxury homes (including the relocation and renovation of an existing dwelling) and eleven townhouses have been granted and the final application for eight premium apartments has been lodged and is currently under consideration. Velocity expects strong demand from the similar demographic that has been attracted to The Hathaway.

### **Group Investment Property Portfolio**

#### Fusion 462

Velocity retained one residential apartment in this development that has been rented out to the same tenant since it was initially occupied. The gross yield is 5.6% based on the property's valuation of \$695,000.

#### Vue at Red Hill

Velocity retained 10 of the 32 residential apartments in this development. Four of these have been rented out with gross yields of between 4.52% to 5.20% based on current valuations. A 5<sup>th</sup> apartment is currently available to short-term leasing under a revenue sharing arrangement with a company which Velocity has a strong business relationship with and has been working with for several years.

#### 48 Orchard Street

This commercial building is fully tenanted with a gross yield of 6.42% based on the first year's lease. Annual increments of 4% will increase this yield to 6.94% within two years.

### **Business Strategies and Future Outlook**

The sales currently being achieved is a testament to Velocity's business strategy of targeting owner occupiers seeking premium developments in desirable locations. Being able to engage with this demographic through providing bespoke interior design services results in buyers getting the features they value and gives Velocity valuable market intelligence to continually refine our offering to our target demographic.

Velocity continues to seek out strategic joint venture partners who share our vision to collaborate with the Group on both existing and future projects to create a more diversified development portfolio. Pursuing this strategy also allows the Group to recycle our capital more frequently to the benefit of our shareholders.

There has always been demand for liveable homes in desirable locations and Velocity believes that will continue. By listening to the demographic that has the financial wherewithal to purchase what they want and delivering to that demographic, Velocity is satisfying demand rather than creating supply that Velocity hopes will sell.

As Velocity's development portfolio increases, the Group expects its profits to also increase. The nature of property development is such that certain expenses associated with each development are recognised in periods prior to the profit from the development. Profit from the individual sales in each development is recognised at settlement. Reported profit will be lower in situations where the development has been completed in a particular financial year and all settlements in the development do not occur in the same final year. In these situations, the enhanced value of what is defined as trading stock and is recorded at cost on the statement of financial position has not yet been recognised as profit in the statement of comprehensive income.

### **Likely Developments in Operations and Expected Results**

The directors continue to be mindful of enhancing shareholder return and in the absence of a dividend payment, the Group must continue to recycle the cash and capital generated from completed developments into replenishing the Group's development and investment property portfolio across key locations in south-east Queensland.

Velocity is aiming to increase its passive income from investment properties year on year to cover as much of the Group's overhead expenses as possible. This income along with the development projects on hand will provide the foundations for the future operations of the Group. Velocity is constantly reviewing its investment portfolio to ensure the capital is being appropriately utilised versus usually superior returns that are available through development opportunities.

### **Environmental Issues**

The Group complies with all relevant legislation and regulations in respect to environmental matters. No matters have arisen during the year relating to Velocity's obligations pursuant to Commonwealth and State environmental regulations.

### **Directors Interests**

The relevant interest of each director in the shares of Velocity at the date of this report is presented below. The table below also includes the relevant interest of each director and their related parties.

<b>Director</b>	<b>Ordinary shares</b>
Brendon Ansell	85,953,571
Philip Raff	31,950,000
Michael Pearson	100,000

There are no options held by directors over unissued ordinary shares of Velocity.

### **Corporate Governance Statement**

Velocity is committed to ensuring that its systems, procedures and practices reflect a high standard of corporate governance. The directors believe that Velocity's corporate governance framework is critical in maintaining high standards of corporate governance and fostering a culture that values ethical behaviour, integrity and respect, to protect shareholders' and other stakeholders' interest at all times.

During the year ended 30 June 2017, Velocity's corporate governance framework was consistent with the third edition of the Corporate Governance Principles and Recommendations released by the ASX Corporate Governance Council. Velocity's corporate governance statement and associated policies for the year ended 30 June 2017 can be found on Velocity's website at:

[www.velocitypropertygroup.com.au/corporate-governance](http://www.velocitypropertygroup.com.au/corporate-governance)

### **Indemnification and Insurance of Officers**

During the current year, the company has paid insurance premiums of \$61,494 in respect of Directors and Officers Liability for all directors, officers and certain employees who have been or who becomes appointed during the policy period.

Under Velocity's constitution, directors and officers are entitled to be indemnified out of the assets of the company against all losses, liabilities, costs, charges and expenses incurred in relation to their duties as an officer of the company. During the period, there were no costs incurred by various directors or officers in respect to any claims against them.

**Velocity Property Group Limited**  
**Directors' Report**  
**For the year ended 30 June 2017**

**Remuneration Report (Audited)**

This Remuneration Report sets out Velocity's remuneration framework for Key Management Personnel (KMP). It demonstrates the links between the performance of Velocity and the individuals' remuneration and discloses the remuneration arrangements, any equity holdings, loans or other transactions for KMP.

**Remuneration Policy**

The objective of Velocity's remuneration policy is to attract, retain and appropriately reward KMP required to achieve both short-term and long-term success.

**Review of Remuneration Policy**

To ensure maximum stakeholder benefit from the retention of executives and KMP, the Board of Directors is responsible for determining and reviewing the remuneration arrangements for the directors and KMP. Directors assess the appropriateness of the nature and amount of remuneration of such officers on an annual basis by reference to Velocity's performance, KMP performance and comparable employment market conditions.

**Details of Key Management Personnel**

KMP including directors and executives have authority and responsibility for planning, directing and controlling the activities of Velocity. These are the following personnel as at 30 June 2017:

*Directors*

Mr Brendon Ansell, Managing Director

Mr Philip Raff, Director (executive - appointed 30 August 2016)

Mr Michael Pearson, Chairman (non-executive - appointed 26 October 2016)

Mrs Cherie Leatham, Director (non-executive - appointed 26 October 2016)

*Officers*

Mr Phillip Young, Company Secretary (appointed 30 August 2016) and Chief Financial Officer (appointed 4 July 2016)

An executive management team, which includes the Executive Directors and the Chief Financial Officer, is tasked with executing Velocity's strategies and objectives set by the Board. Only those members discussed above are considered to meet the KMP criteria. There were no changes of KMP after reporting date and the date the financial report was authorised for issue.

## **Non-Executive Director Remuneration**

### *Objective*

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

### *Structure*

At the Annual General Meeting held on 26 October 2016 and in preparation for the listing on the Australian Securities Exchange, the aggregate level of remuneration for Non-Executive Director's was set at \$250,000. This amount was agreed upon as it allowed Velocity the capacity to appoint additional Non-Executive Directors in the future years should Velocity consider it necessary and in the best interests of the shareholders. It is not proposed to alter the aggregate level of remuneration for Non-Executive Directors in the 2018 financial year.

For the year ended 30 June 2017, the total amount of remuneration paid to Non-Executive Directors was \$96,655. No element of Non-Executive Director remuneration is "at risk". Fees are fixed and not based on the performance of the Group or equity based. It is not proposed to alter the amount of fees paid to Non-Executive Directors in the 2018 financial year.

## **Executive Director Remuneration**

### *Objective*

Remuneration for the Managing Director (Mr Brendon Ansell) and the Executive Director (Mr Philip Raff) is designed to:

- \* Ensure the pursuit of Velocity's long-term growth within an appropriate control framework;
- \* Demonstrate a clear relationship between executive director performance and remuneration; and
- \* Ensure total remuneration is competitive by market standards and provides sufficient and reasonable rewards for the time and effort required to fulfil these roles.

### *Structure*

The remuneration structure for the Managing Director consists of a base salary and superannuation. The remuneration structure for the Executive Director consists of an annual consultancy fee. No bonuses or other incentives are paid to the Executive Directors until the Board of Directors finishes approving a remuneration framework that will offer specific short-term performance incentives and / or long-term incentives based on predetermined key performance indicators affecting Velocity's business objectives and financial results.

## Executive and Key Management Personnel Remuneration

### *Objective*

The group's executive and KMP reward structure is designed to:

- \* Ensure the pursuit of Velocity's long term growth within an appropriate control framework;
- \* Demonstrate a clear relationship between key executive performance and remuneration;  
and
- \* Provide sufficient and reasonable rewards to ensure Velocity attracts and retains suitably qualified and experienced people for key roles.

### *Structure*

The remuneration structure for KMP consists of a base salary and superannuation or an annual consultancy fee determined by the relevant employment agreement in place for each KMP. The Chief Financial Officer receives a gross bonus, inclusive of superannuation, of 0.2% of the Group's annual net profit after tax. No other bonuses or incentives are paid until the Board of Directors finalises a remuneration framework that will offer specific short-term performance incentives and / or long-term incentives based on predetermined key performance indicators affecting Velocity's business objectives and financial results.

### **Employment Agreements**

Remuneration and other terms of employment for KMP are formalised in employment or consultancy agreements. Velocity may terminate an agreement at any time if serious misconduct has occurred. Remaining key details of these agreements are as follows:

Name:	Brendon Ansell
Title:	Managing Director
Agreement commenced:	24 October 2016
Details:	Employment agreement: Base salary for the year ending 30 June 2017 of \$180,000 plus superannuation, \$1,000 for each business trip to Singapore and mobile phone allowance. No fixed end date with 6 month termination notice by either party.

Name:	Philip Raff
Title:	Director and Commercial Manager
Agreement commenced:	28 October 2016
Details:	Consultancy Agreement: Base fee of \$120,000 excluding GST for a minimum of 47 weeks per annum performance. Travel expenses totalling \$1,000 excluding GST for each business trip to Australia. No fixed end date with 6 month termination notice by either party.

Name: Cherie Leatham  
Title: Independent Non-Executive Director  
Agreement commenced: 24 October 2016  
Details: Letter of Appointment: Annual fees of \$60,000 plus superannuation. Initial 3 year term with eligibility to nominate for a further period on the board subject to the needs of Velocity.

Name: Michael Pearson  
Title: Independent Non-Executive Director and Chairman  
Agreement commenced: 24 October 2016  
Details: Letter of Appointment: Annual fees of \$75,000 plus superannuation. Initial 3 year term with eligibility to nominate for a further period on the board subject to the needs of Velocity.

Name: Phillip Young  
Title: Company Secretary and Chief Financial Officer  
Agreement commenced: 4 July 2016  
Details: Employment Agreement: Base salary of \$150,000 plus superannuation. Gross bonus (including superannuation) of 0.2% of annual net profit after tax. No fixed end date with 6 month termination notice by either party.

### Compensation of Key Management Personnel

Remuneration of KMP is detailed in the following table:

<b>2017</b>	<b>Short-term Salary &amp; fees</b>	<b>Post-employment Superannuation</b>	<b>Total</b>
<b>Directors</b>			
Brendon Ansell	177,692	16,881	<b>194,573</b>
Philip Raff *	129,000	-	<b>129,000</b>
Michael Pearson	49,039	4,659	<b>53,697</b>
Cherie Leatham	39,231	3,727	<b>42,958</b>
<b>Total Directors</b>	<b>394,962</b>	<b>25,266</b>	<b>420,228</b>
<b>Other KMP</b>			
Phillip Young	144,231	13,702	<b>157,933</b>
<b>Total Other KMP</b>	<b>144,231</b>	<b>13,702</b>	<b>157,933</b>
<b>Total KMP Compensation</b>	<b>539,192</b>	<b>38,968</b>	<b>578,161</b>

\* Philip Raff received short-term salary and fees of \$22,000 from the period 1 July 2016 to 30 August 2016 before he was appointed to the position of director.

<b>2016</b>	<b>Short-term Salary &amp; fees</b>	<b>Post-employment Superannuation</b>	<b>Total</b>
<b>Directors</b>			
Brendon Ansell	55,385	5,262	<b>60,647</b>

## Shareholdings of Key Management Personnel

Shares held by key management personnel and their related parties in Velocity Property Group Limited is as follows. No shares have been granted as part of the remuneration and no options have been issued or exercised.

<b>30 June 2017</b>	<b>Ordinary Shares</b>
Brendon Ansell	85,953,571
Philip Raff	31,950,000
Michael Pearson	100,000
	<u>118,003,571</u>
<b>30 June 2016</b>	<b>Ordinary Shares</b>
Brendon Ansell	3,584,099

**Non-audit Services**

Non-audit services were provided by the Group's auditor, Crowe Horwath. As disclosed in note 20 to the financial statements. The directors are satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that audit independence was not compromised.

**Auditor's Independence Declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on the following page.

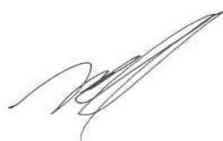
**Proceedings on Behalf of the Group**

No person has applied for leave of Court to bring proceedings on behalf of Velocity or intervene in any proceedings to which Velocity is a party for the purpose of taking responsibility on behalf of Velocity for all or any part of those proceedings. Velocity was not a party to any such proceedings during the year.

**ASIC Class Order 2016/191 Rounding of Amounts**

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191. Amounts in the financial statements have been rounded to the nearest dollar.

This report of the directors, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors, at Brisbane, this 21<sup>st</sup> day of August, 2017.



**Brendon Ansell**  
**Managing Director**



**Michael Pearson**  
**Chairman**

## Auditor's Independence Declaration

As auditor of Velocity Property Group Limited and its controlled entities for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Velocity Property Group Limited and the entities it controlled during the year.



**Crowe Horwath Brisbane**



**Cameron Henry**  
Partner

Signed at Brisbane, 21 August 2017

Crowe Horwath Brisbane is a member of Crowe Horwath International, a Swiss Verein. Each member of Crowe Horwath is a separate and independent legal entity. Liability limited by a scheme approved under Professional Standards Legislation other than for the acts or omissions of financial services licensees.

The title 'Partner' conveys that the person is a senior member within their respective division, and is among the group of persons who hold an equity interest (shareholder) in its parent entity, Findex Group Limited. The only professional service offering which is conducted by a partnership is the Crowe Horwath external audit division. All other professional services offered by Findex Group Limited are conducted by a privately owned organisation and/or its subsidiaries.

**Velocity Property Group Limited**  
**Consolidated Statement of Comprehensive Income**  
**For the year ended 30 June 2017**

	Notes	30 June 2017 \$	30 June 2016 \$
Revenue from the sale of properties		<b>14,245,665</b>	14,607,728
Other revenue from operations	2(a)	<b>3,458,564</b>	1,791,963
<b>Total revenues</b>		<b>17,704,229</b>	16,399,691
Cost of property development and construction	2(b)	<b>12,208,405</b>	12,317,866
Employee benefits expense		<b>747,186</b>	162,614
Depreciation and amortisation expense		<b>9,120</b>	5,486
Administration and other expenses	2(c)	<b>1,821,077</b>	2,445,162
<b>Total expenses</b>		<b>14,785,788</b>	14,931,128
<b>Profit before income tax</b>		<b>2,918,441</b>	1,468,563
Income tax expense	3(a)	<b>(793,321)</b>	(440,569)
<b>Net profit after income tax expense for the year</b>		<b>2,125,120</b>	1,027,994
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year</b>		<b>2,125,120</b>	1,027,994
<b>Profit for the year is attributable to:</b>			
Non-controlling interest		<b>(73,585)</b>	(4,248)
Owners of Velocity Property Group Limited		<b>2,198,705</b>	1,032,242
		<b>2,125,120</b>	1,027,994
<b>Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the group:</b>		<b>Cents</b>	<b>Cents</b>
Basic and diluted earnings per share	4(a)	<b>0.8</b>	14.4

**Velocity Property Group Limited**  
**Consolidated Statement of Financial Position**  
**For the year ended 30 June 2017**

	Notes	30 June 2017 \$	30 June 2016 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	4,853,472	3,316,785
Trade and other receivables	7	58,916	343,492
Trading Stock	8	28,093,257	29,173,453
Other	9	271,401	71,720
<b>Total current assets</b>		<b>33,277,046</b>	<b>32,905,450</b>
<b>Non-current assets</b>			
Other		-	44,157
Investment Properties	10	10,559,002	4,046,126
Property, plant and equipment		23,519	14,981
Intangible assets		5,451	7,452
<b>Total non-current assets</b>		<b>10,587,972</b>	<b>4,112,716</b>
<b>Total assets</b>		<b>43,865,018</b>	<b>37,018,166</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	11	604,470	414,908
Borrowings	12	20,663,312	30,033,322
Income tax	3(a)	-	2,878
Employee Benefits		14,898	13,187
Redeemable preference shares		3,196,821	729,679
<b>Total current liabilities</b>		<b>24,479,501</b>	<b>31,193,974</b>
<b>Non-current liabilities</b>			
Borrowings	12	907,500	5,308,564
Deferred Tax	3(c)	634,735	6,573
<b>Total non-current liabilities</b>		<b>1,542,235</b>	<b>5,315,137</b>
<b>Total liabilities</b>		<b>26,021,736</b>	<b>36,509,111</b>
<b>Net assets</b>		<b>17,843,282</b>	<b>509,055</b>
<b>Equity</b>			
Issued capital	15	15,216,548	7,441
Reserves	16	472,862	472,862
Retained profits		2,231,705	33,000
Equity attributable to the owners of Velocity Property Group Limited		17,921,115	513,303
Equity attributable to non-controlling interest		(77,833)	(4,248)
<b>Total equity</b>		<b>17,843,282</b>	<b>509,055</b>

**Velocity Property Group Limited**  
**Consolidated Statement of Changes in Equity**  
**For the year ended 30 June 2017**

	Issued capital (\$)	Reserves - Predecessor Accounting (\$)	Retained profits (\$)	Non- controlling interest (\$)	Total Equity (\$)
<b>Balance at 1 July 2015</b>	7,441	472,862	(999,302)	-	(518,999)
Profit / (loss) after income tax expense for the year	-	-	1,032,242	(4,248)	1,027,994
Other comprehensive income for the year	-	-	-	-	-
<b>Total comprehensive income for the year</b>	-	-	<b>1,032,242</b>	<b>(4,248)</b>	<b>1,027,994</b>

**Transactions with owners in their capacity as owners:**

Contributions of equity, net of transaction costs	-	-	60	-	60
<b>Balance at 30 June 2016</b>	<b>7,441</b>	<b>472,862</b>	<b>33,000</b>	<b>(4,248)</b>	<b>509,055</b>

<b>Balance at 1 July 2016</b>	7,441	472,862	33,000	(4,248)	509,055
Profit / (loss) after income tax expense for the year	-	-	2,198,705	(73,585)	2,125,120
Other comprehensive income for the year	-	-	-	-	-
<b>Total comprehensive income for the year</b>	-	-	<b>2,198,705</b>	<b>(73,585)</b>	<b>2,125,120</b>

**Transactions with owners in their capacity as owners:**

Contributions of equity, net of transaction costs	15,209,107	-	-	-	15,209,107
<b>Balance at 30 June 2017</b>	<b>15,216,548</b>	<b>472,862</b>	<b>2,231,705</b>	<b>(77,833)</b>	<b>17,843,282</b>

**Velocity Property Group Limited**  
**Consolidated Statement of Cash Flows**  
**For the year ended 30 June 2017**

	Notes	30 June 2017 \$	30 June 2016 \$
<b>Cash flows from operating activities</b>			
Receipts from customers		16,224,500	15,256,021
Payments to suppliers and employees		(17,523,099)	(28,134,444)
Interest received		71,164	6,842
Interest paid		(182,480)	(1,717,826)
Income taxes refunded / (paid)		(2,878)	-
GST recovered / (paid)		(17,047)	344,351
<b>Net cash outflow from operating activities</b>	6	<b>(1,429,840)</b>	<b>(14,245,056)</b>
<b>Cash flows from investing activities</b>			
Payment for property, plant & equipment		(15,659)	(23,888)
Payment for investment properties		(713,236)	(1,027,844)
Proceeds from the sale of investment properties		2,050,000	-
<b>Net cash (outflow) / inflow from investing activities</b>		<b>1,321,105</b>	<b>(1,051,732)</b>
<b>Cash flows from financing activities</b>			
Net proceeds (repayment) from borrowings		(8,630,216)	18,154,633
Net proceeds from shares issued		10,275,639	-
<b>Total cash flows from financing activities</b>		<b>1,645,423</b>	<b>18,154,633</b>
<b>Net increase in cash and cash equivalents</b>		<b>1,536,688</b>	<b>2,857,845</b>
Cash and cash equivalents at the beginning of the financial year		3,316,785	458,940
Cash and cash equivalents at the end of the financial year	5	<b>4,853,473</b>	<b>3,316,785</b>

**Velocity Property Group Limited**  
**Notes to the consolidated financial statements**  
**For the year ended 30 June 2017**

**1. Summary of significant accounting policies**

**Basis of preparation**

These financial statements of Velocity Property Group Limited are the consolidated financial statements of the parent and its controlled entities (the "Group" or "Velocity") and are presented in Australian dollars. The directors have the power to amend and reissue the financial statements.

Velocity Property Group Limited is a company limited by shares, incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange. Velocity's registered office and principal place of business is:

Velocity Property Group Limited  
Unit 9, 462 Hawthorne Road  
Bulimba, Queensland, 4171

The notes include information which is required to understand the financial statements and is material and relevant to the operations and the financial position and performance of Velocity. Information is considered relevant and material if:

- \* It is significant in size or nature;
- \* It is important in understanding the results of Velocity;
- \* It helps to explain the impact of significant changes in Velocity's business; or
- \* It is important to Velocity's future performance.

The notes are organised into the following sections:

- \* Financial Performance;
- \* Financial Position;
- \* Capital Structure; and
- \* Other notes.

The nature of the operations and principal activities of Velocity are described in the Directors' Report. Velocity is a for-profit entity.

The operating cycle of the business varies depending on each project within the Group. Velocity's operating cycle can span between 12 months to 24 months as it relies on appropriate development approvals being obtained, construction and then finalisation including settlements.

These general purpose financial statements comply with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board and have been prepared:

- \* In accordance with the Australian Accounting Standards Board and interpretations issued by the Australian Accounting Standards Board;
- \* In accordance with the Corporations Act 2001;
- \* On a historical costs basis (except where otherwise stated).

The principal accounting policies adopted in the preparation of these financial statements are presented throughout the report and have been consistently applied in the years presented.

## FINANCIAL PERFORMANCE

### 2. Revenue and expenses

<b>(a) Other revenues</b>	<b>30 June 2017 \$</b>	<b>30 June 2016 \$</b>
Commission on property sales	28,315	25,241
Rental income	178,269	30,407
Interest received	71,164	6,842
Net fair value gain on investment properties	2,819,878	1,729,473
Commercial loan forgiveness	72,545	-
Unrealised foreign exchange gain	207,392	-
Fair value gain / (loss) on sale of assets	(8,187)	-
Other	89,188	-
	<b>3,458,564</b>	<b>1,791,963</b>

### **(b) Costs of property development and construction**

Costs of goods sold	<b>10,848,063</b>	11,545,080
Finance costs	<b>1,360,342</b>	772,786
	<b>12,208,405</b>	<b>12,317,866</b>

### **(c) Administration and other costs**

Legal costs	<b>262,211</b>	46,512
Finance costs	<b>242,733</b>	1,398,065
Rental property expenses	<b>131,907</b>	12,616
Other administration expenses	<b>1,184,226</b>	987,969
	<b>1,821,077</b>	<b>2,445,162</b>

### **(d) Revenue recognition accounting policy**

Revenue is recognised when it is probable that the economic benefit will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Revenue and expenses are recognised net of the amount of the associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the revenue or expense.

Revenue is recognised for the major business activities as follows:

*(i) Sale of properties*

Revenue is recognised when it is probable that the economic benefit and effective control of the properties have passed from the Group to the buyer. This is generally considered to be at settlement for the sale of the properties. Where settlement has not occurred, but the significant risks and rewards or ownership and effective control of the goods may have passed from the Group once a contract has become unconditional, approvals are received from local authorities, and it is probable that settlement will occur in the near future, the related receivable is recognised in the settlement receivables on accrued revenue account. No revenue is recognised if there are significant uncertainties regarding recovery of consideration due, or if there is a risk of there being continuing management involvement to the degree usually associated with ownership of the project. There was no sale of properties on accrued revenue account in the current reporting period (2016: \$0).

*(ii) Interest income*

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

*(iii) Rental income*

Rental income is accounted for on a straight-line basis over the lease term.

*(iv) Net fair value gain on investment properties*

Adjustments to the fair value of investment properties are recorded within the other revenues account in profit and loss. Fair value is determined in accordance with the accounting policy in note 10.

*(v) Rendering of services*

Revenue from property and other services rendered by the Group is recognised when the service is rendered and the revenue is receivable.

**(e) Costs of goods sold accounting policy**

Development costs include land, consultants, construction costs, statutory charges, and finance costs required to deliver the project. These costs are initially capitalised as trading stock for accounting purposes and the carrying amount of those trading stock are recognised as an expense in the period in which revenue is generated through the settlements of a project.

Marketing and advertising costs are expensed for accounting purposes when incurred, ahead of recognising revenue from a project. This can distort the reported returns on projects, especially where projects are delivered in different reporting periods to the marketing and advertising costs being incurred.

Adjustments to the net realisable value of trading stock are recorded within the cost of goods sold account in profit and loss. Net realisable value is determined in accordance with the accounting policy in note 8. There was no adjustments to the net realisable value of trading stock in the current period (2016: \$0).

### 3. Income tax expense

	30 June 2017 \$	30 June 2016 \$
<b>(a) Income tax expense</b>		
Current tax *	-	2,878
Deferred tax differences - see note 3(c)	793,321	437,691
Aggregate income tax expense	<u>793,321</u>	<u>440,569</u>

\* As a result of significant volumes of holding and finance development costs incurred during the current period being tax deductible in advance of the recognition of related revenues and cost of good sold expenses, Velocity's taxable income is significantly lower than its accounting profit. This has resulted in a deferred tax liability of \$461,648 and as the Group settles the profit from developments in the future, these deferred tax liabilities will be realised.

#### **(b) Numerical reconciliation of income tax expense to prima facie tax payable**

Profit before income tax	2,918,441	1,468,563
Tax at the statutory rate of 30% (2016: 30%)	875,532	440,569
Tax effect amounts which are not deductible / (assessable) in calculating taxable income:		
Share of associate tax expense	44,151	-
Utilisation of unrecognised capital losses on sale of investment property	(97,869)	-
Prior year adjustments	(22,966)	-
Sundry	(5,527)	-
Income tax expense (benefit)	<u>793,321</u>	<u>440,569</u>

#### **(c) Consolidated deferred income tax**

##### *(i) Recognised deferred tax assets and liabilities*

Deferred tax assets and liabilities are attributed to the following:

	<b>Assets</b>		<b>Liabilities</b>	
<b>Consolidation</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Development costs deductible for tax but capitalised for accounting	-	-	(461,648)	(475,096)
Investment property revaluations not currently assessable for tax	-	-	(917,766)	(518,842)
Unrealised foreign gain not currently assessable for tax	-	-	(62,218)	-
Employee provisions not immediately deductible for tax	4,469	2,340	-	-
Superannuation expense not immediately deductible for tax	9	62	-	-
Prepayment expenses not immediately deductible for tax	24,434	-	-	-
Borrowing costs not immediately deductible for tax	27,690	-	-	-

<b>Consolidation</b>	<b>Assets</b>		<b>Liabilities</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Initial public offer expenses not immediately deductible for tax	199,688	-	-	-
Revenue tax losses available to offset against future income	550,606	984,963	-	-
	<u>806,897</u>	<u>987,365</u>	<u>(1,441,632)</u>	<u>(993,938)</u>

*(ii) Movement in temporary differences during the year*

	<b>Balance 1/7/15</b>	<b>Recognised in profit or loss</b>	<b>Balance 30/06/16</b>
<b>Consolidated</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Development costs	(253,035)	(222,061)	(475,096)
Investment property revaluations	-	(518,842)	(518,842)
Superannuation payable	-	62	62
Employee provisions	-	2,340	2,340
Sundry	95,950	(95,950)	-
Revenue tax losses	588,203	396,760	984,963
	<u>431,118</u>	<u>(437,691)</u>	<u>(6,573)</u>

	<b>Balance 1/7/16</b>	<b>Recognised in Equity</b>	<b>Recognised in profit or loss</b>	<b>Balance 30/06/17</b>
<b>Consolidated</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Development costs	(475,096)	-	13,449	(461,648)
Investment property revaluations	(518,842)	-	(398,925)	(917,767)
Unrealised foreign gains	-	-	(62,218)	(62,218)
Superannuation payable	62	-	(53)	9
Employee provisions	2,340	-	2,129	4,469
Revenue tax losses	984,963	-	(434,357)	550,606
Prepayment expenses	-	-	24,434	24,434
Borrowing costs	-	-	27,690	27,690
Initial public offer expenses	-	168,370	31,319	199,688
	<u>(6,573)</u>	<u>168,370</u>	<u>(796,532)</u>	<u>(634,735)</u>

**(d) Tax consolidation**

Velocity Property Group Limited and its 100% owned Australian resident subsidiaries formed an income tax consolidated group with effect from 7 July 2015.

***Tax effect accounting by members of the tax consolidated group***

Members of the tax consolidated group have entered into a tax funding agreement. Current and deferred taxes are allocated to members of the tax consolidated group in accordance with the principles of *AASB 112 Income Taxes*. The allocation of taxes under the tax funding agreement is recognised as an increase/decrease in the subsidiaries intercompany accounts with Velocity Property Group Limited.

**(e) Income tax accounting policy**

The income tax expense or benefit for the period is the tax payable on the period's taxable income based on the Australian company income tax rate, adjusted by the changes in deferred tax assets and liabilities, attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable. Income tax expense is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the deferred income tax assets are recovered or the deferred income tax liabilities are settled, based on those tax rates enacted by the end of the reporting period, except for:

- \* when deferred income tax asset or liability arises from the initial recognition of goodwill or 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 nor the taxable profits; or
- \* when the taxable temporary difference is associated with the interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

#### 4. Earnings per share

	30 June 2017 \$	30 June 2016 \$
<b>(a) Reconciliation of earnings used in calculating earnings per share</b>		
Net profit for basic and diluted earnings	2,198,705	1,032,242
Weighted average number of ordinary shares used as the denominator for the calculation of earnings per share	280,808,134	7,153,890
Basic and diluted earnings per share (cents)	<u>0.8</u>	<u>14.4</u>

The drop in earnings per share is attributed to the large number of shares issued throughout the current period. Refer to note 15 for a detailed commentary on movements in the Group's share capital for the current period.

#### **(b) Earnings per share accounting policy**

##### *(i) Basic earnings per share*

Basic earnings per share is calculated by dividing:

\* the profit attributable to owners of the group excluding any costs of servicing equity other than ordinary shares

\* by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the period and excluding treasury shares.

##### *(ii) Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

\* the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and

\* the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

There were no dilutive interests in the current or comparative periods.

#### **FINANCIAL POSITION**

#### **5. Cash and cash equivalents**

Cash	<u>4,853,472</u>	<u>3,316,785</u>
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Cash at bank earns interest at fixed or variable rates based on the bank deposit rates.

## 6. Reconciliation of profit after income tax to net cash inflow from operating activities

	30 June 2017 \$	30 June 2016 \$
Operating profit after tax	2,125,120	1,027,994
Net fair value gain on investment properties	(2,819,878)	(1,729,473)
Depreciation and amortisation	9,122	1,456
Gain on foreign exchange movements	(207,392)	-
Loss on sale of assets	8,186	-
Net cash provided by operating activities before changes in assets and liabilities	(884,842)	(700,023)
Change in operating assets and liabilities:		
Movement in trade and other receivables	284,577	(278,744)
Movement in trading stock	(1,490,609)	(13,206,860)
Movement in prepayments and deposits	(199,680)	(21,721)
Movement in other operating assets	44,157	(56,016)
Movement in trade and other payables	189,562	(432,511)
Movement in tax payable	(2,878)	(59)
Movement in provision for employee benefits	1,711	13,187
Movement in deferred tax liability	628,162	437,691
Net cash from the operating activities	(1,429,840)	(14,245,056)

### (a) Cash and cash equivalents accounting policy

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the statement of cash flow presentation purposes, where applicable, cash and cash equivalents also includes bank overdrafts, which are shown within borrowings in the current liabilities on the statement of financial position. The balance of bank overdraft facilities at the reporting date was \$150 (2016: \$0).

### (b) Outflow from operations

In the consolidated statement of cash flows, cash outflows include payments to suppliers and employees totalling \$17,523,099 (2016: \$28,134,444). These payments include the committed acquisition of new projects totalling \$1,107,716 (2016: \$12,726,056). It also includes payments to suppliers in the course of project development which may be funded ahead of recognising revenue. These costs amount to approximately \$10,476,597 (2016: \$8,169,800). These payments which total \$11,584,313 (2016: \$20,895,856) are partially funded by the project finance facilities provided by Velocity's financiers. Financing arrangements are detailed at note 13.

## 7. Trade and other receivables

	30 June 2017 \$	30 June 2016 \$
<b>Current</b>		
Trade receivables	58,916	154,054
Other receivables	-	189,439
	<b>58,916</b>	<b>343,493</b>

There are no non-current receivables as at the reporting date, being 30 June 2017 (2016: \$0).

### ***(a) Receivables accounting policy***

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days. The recoverability of receivables is assessed at reporting date and a provision is made for any doubtful accounts. Bad debts are written off when identified.

Other receivables are recognised at amortised cost, less any provision for impairment.

### ***(b) Impairment of receivables***

Velocity has not recognised any loss in profit or loss in respect of the impairment of receivables for the year ended 30 June 2017 (2016: \$0) .

### ***(c) Past due but not impaired***

Velocity has no significant amounts within trade and other receivables which are past due and no significant impairment (2016: \$150,000).

## 8. Trading Stock

### **Expected to be realised within 12 months**

Development costs and land held for development and sale	9,850,271	12,664,516
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### **Expected to be realised greater than 12 months**

Development costs and land held for development and sale	18,242,986	16,508,937
	<b>28,093,257</b>	<b>29,173,453</b>

During the year, trading stock transferred to Cost of Goods Sold on the statement of comprehensive income was \$11,659,109 (2016: \$11,425,563).

During the year, borrowing costs relating to the establishment and registration of new borrowing facilities totalled \$92,912 (2016: \$118,019) were capitalised into trading stock. At balance date, trading stock includes capitalised interest of \$1,008,950 (2016: \$972,922).

### (a) Trading stock accounting policy

Trading stock is measured at the lower of cost and net realisable value. Development costs include land, the costs of acquiring the land, consultants, holding and finance costs incurred from when the land is acquired until the project is fully developed and sold.

Deposits paid for the committed acquisition of trading stock are classified as trading stock.

Projects that are expected to be completed and settlements achieved within 12 months of the end of the reporting date, the trading stock costs relating to those projects are classified above as 'expected to be realised within 12 months'. Trading stock costs incurred on all other projects are classified as 'expected to be realised greater than 12 months'.

#### (i) Net realisable value of trading stock

Net realisable value is based on the estimated selling price in the ordinary course of business (net of selling costs and GST). This assessment reflects current market assessments and previous experience. It is also based on managements intentions in the planned manner of the disposal of the asset, either through development and sale or disposal as is.

The group periodically assesses whether trading stock is held at the lower of cost or net realisable value with an estimate made at least at each reporting date. Where the carrying amount of trading stock exceeds the net realisable value, a provision is raised to reduce its value to net realisable value. Possible reversals of the provision occur when ever an event of change in circumstance indicates that the impairment may be reversed.

### 9. Other

	30 June 2017 \$	30 June 2016 \$
<b>Current assets</b>		
Prepayments	240,000	21,402
Development site deposits & other deposits	31,401	50,000
	<b>271,401</b>	<b>71,402</b>
<b>Non-current assets</b>		
Prepayments	-	44,157

### 10. Investment properties

Acquisition and development costs	7,589,124	2,405,997
Revaluation increments	2,969,878	1,640,129
	<b>10,559,002</b>	<b>4,046,126</b>

#### Reconciliation

Opening balance	4,046,126	1,288,809
Additions through subsequent expenditure	713,236	82,317
Additions through re-classification from trading stock	5,037,948	1,034,871
Revaluation increments	2,819,878	1,640,129
Disposals	(2,058,186)	-
Closing balance	<b>10,559,002</b>	<b>4,046,126</b>

On 3 April 2017, Velocity disposed of a commercial investment property at Bulimba for the approximate book value.

Using current prices in an active market for similar properties, Velocity used a director's valuation process to estimate the fair market value of the residential investment properties. The value was determined to be \$7,214,000 (2016: \$695,000) (level 3). The Director's valuation considers rental income streams, income capitalisation rates and comparable property values.

Independent valuations were sought by Velocity on the commercial investment properties. The independent valuation was \$2,650,000 (2016: \$1,980,000) (level 2).

#### **(a) Investment properties policy**

Investment properties principally comprise of freehold land and buildings held for long-term rental and capital appreciation that are not occupied by the group. Investment properties are initially recognised at cost, including purchase price and any directly attributable costs and are subsequently remeasured annually at fair value. Movements in fair value are recognised directly to profit and loss. Investment properties are derecognised when disposed of or when there is no future economic benefit expected.

Investment properties also include properties under construction for future use as investment properties. Where an investment property is developed, costs include the cost of construction incurred up to the point where the asset is complete, which is the point at which it is capable of being operated as intended. Until completion, these are carried at the lower of fair value or cost.

Transfers are made to investment property when and only when there is a change in use, evidenced by ending of owner occupation or a change of intention to hold the property for long-term rental and capital appreciation which is usually accompanied with an operating lease to another party.

Transfers are made from investment property when, and only when there is a change in use evidenced by commencement of owner-occupation or commencement of development with a view to sale.

#### **11. Trade and other payables**

	<b>30 June 2017</b>	30 June 2016
	<b>\$</b>	<b>\$</b>
<b>Current</b>		
Trade creditors	<b>607,894</b>	376,610
Other creditors	<b>(3,424)</b>	38,298
	<b>604,470</b>	414,908

Trade creditors are non-interest bearing and are normally settled on a 7 to 30 day term. The amount of non-current trade and other payables at 30 June 2017 is \$0 (2016: \$0).

### **(a) Trade and other payables accounting policy**

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. These amounts are unsecured. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

## **CAPITAL STRUCTURE**

### **Capital risk management**

The Group's objective when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide a return for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain an optimal capital structure, Velocity may issue new shares, return capital to shareholders, adjust any dividend payments to shareholders or adjust leverage against the projects through debt (i.e. interest bearing borrowings).

The group has a modest approach to debt. On a per project basis, debt to fund the construction of the Group's projects are mitigated by either having:

- \* sufficient pre-sales in place to cover the construction debt; or
- \* sufficient capital contributed by Velocity at the acquisition and initial development stages of the project.

Velocity manages capital contributions on a per project basis and this may include the use of strategic joint venture and/or finance partners in order to mitigate risks and obtain greater leverage.

### **12. Borrowings**

	<b>30 June 2017</b>	<b>30 June 2016</b>
	<b>\$</b>	<b>\$</b>
<b>Current</b>		
Interest bearing bank loans - secured	<b>13,605,899</b>	12,918,606
Interest bearing non-bank loans - secured	<b>7,057,413</b>	15,851,833
Interest bearing non-bank loans - unsecured	-	1,262,883
	<b>20,663,312</b>	<b>30,033,322</b>
<b>Non-current</b>		
Interest bearing bank loans - secured	<b>907,500</b>	5,282,865
Interest bearing non-bank loans - unsecured	-	25,699
	<b>907,500</b>	<b>5,308,564</b>

### **(a) Borrowings accounting policy**

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method with any difference recognised in profit or loss. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan.

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

Where borrowings are required to be repaid out of specific property settlements, which are not available for redraw, the borrowings are classified as current to the extent settlements are projected to occur within 12 months from reporting date.

**(b) Borrowing costs accounting policy**

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Trading stock is a qualifying asset and all borrowings are attributable to qualifying assets.

**(c) Fair value**

The carrying value of the Group's current and non-current borrowings approximates their fair value due to the current interest rate approximating the market rate.

**(d) Assets pledged as security**

Bank loans are secured by first registered mortgages over various development properties and investment properties held by the Group, general securities agreements over the existing and future assets and undertakings of controlled entities and a limited guarantee and indemnity by Mr Brendon Ansell (Managing Director).

Non-bank loans are bound by a Deed of Security Agreement. The terms of this agreement are that the Group provides the Security Interest over the Secured Property to the Secured Party to secure payment of the borrowings. This Security Interest means a security interest over the Group's present and after-acquired property including but not limited to a security interest over all circulating assets and non-circulating assets. Secured Property means all property, rights and undertakings of the Group whether present or future, legal or equitable, and wherever situated, including, without limitation, all real and personal property, choses in action, goodwill and uncalled capital and called but unpaid capital from time to time and all present and after-acquired property.

The carrying amounts of assets pledged as security for current and non-current borrowings are:

	<b>30 June 2017</b>	30 June 2016
	<b>\$</b>	\$
<i>First mortgage</i>		
Trading stock	<b>28,093,257</b>	29,173,453
Investment properties	<b>10,559,002</b>	4,046,126
	<b>38,652,259</b>	33,219,579

**13. Financing arrangements**

Velocity had access to the following borrowing facilities at the end of the reporting period. The facilities have been split into "working capital" facilities and "project specific" facilities. The working capital facilities are available to Velocity on a come and go basis. The undrawn amount of project specific facilities are available progressively for the purpose of delivering the specific projects they are funding:

	<b>30 June 2017</b>	<b>30 June 2016</b>
	<b>\$</b>	<b>\$</b>
Working capital facilities available - AUD\$	<b>4,050,000</b>	17,140,415
Facilities used at balance date - AUD\$	<b>3,003,123</b>	17,140,415
Available working capital facilities not utilised at balance date - AUD\$	<b>1,046,877</b>	-
Working capital facilities available - SGD\$	<b>7,500,000</b>	-
Facilities used at balance date - SGD\$	<b>7,169,000</b>	-
Available working capital facilities not utilised at balance date - SGD\$	<b>331,000</b>	-
Project specific facilities - AUD\$	<b>18,462,750</b>	21,706,750
Facilities used at balance date - AUD\$	<b>11,510,276</b>	18,201,471
Available project specific facilities not utilised at balance date - AUD\$	<b>6,952,474</b>	3,505,279

Foreign exchange movement and capitalised interest on the Singapore Dollar ('SGD') working capital facility explains the difference between facilities utilised at balance date and the carrying value of borrowings. SGD \$7,500,000 is the permitted draw downs allowed in accordance with the Deed of Security Agreement covering this facility, of which SGD \$7,169,000 has been drawn on as at balance date.

#### **(a) Interest Rate Risk**

At balance date, Velocity had the following exposure to changes in variable interest rates for classes of financial assets and liabilities:

##### **Financial assets:**

Cash	<b>4,853,472</b>	3,316,785
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##### **Financial liabilities:**

Interest bearing liabilities	<b>21,570,812</b>	35,341,886
<b>Net exposure</b>	<b>(16,717,340)</b>	(32,025,101)

Velocity's policy in regards to interest rate hedging is dependent upon the purpose of the funding for short term or long term development projects. Velocity's current policy is weighted to floating rates in the current low interest rate environment.

Funding for project developments from acquisition to completion is approximately 12 to 24 months. The highest debt exposure on these projects is at completion which is when settlements are anticipated and repayment sources are therefore known. Generally, project specific facilities are not available from the Group's bank financiers until 100% pre sales covering the facility are in place.

## (b) Foreign exchange rate risk

Foreign currency transactions are translated into Australian dollars using the relevant exchange rates at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

In the current period, the Group entered into a loan facility denominated in SGD and was exposed to foreign exchange risk through possible foreign exchange rate fluctuations. The carrying amount of the Group's financial liabilities denominated in foreign currency at the reporting date is as follows:

	<b>30 June 2017</b>	30 June 2016
	\$	\$
<b>Current Liabilities - Borrowings</b>		
Interest bearing non-bank loans (SGD \$)	<b>\$7,456,863</b>	-

Based on this exposure, had the AUD \$ weakened by 5% / strengthened by 5% against the SGD \$ with all other variables held constant, the Group's net profit/(loss) before tax for the year would have been \$371,443 lower / \$336,067 higher (2016: \$0 lower / \$0 higher). The percentage change is the expected overall volatility of the currency, which is based on management's assessment of reasonable possible fluctuations taking into consideration movements of the last 12 months and the spot rate at reporting date. The actual foreign exchange gain reported in profit and loss for the year ended 30 June 2017 was \$207,392 (2016: \$0).

At balance date, the terms of the loan agreement and subsequent addendum's in relation to the Singapore facility entered into are:

- \* Fixed interest rate of 5%, interest accrued and capitalised monthly
- \* Loan is secured in accordance with a Deed of Security Agreement referred to in Note 12(d).
- \* 6 month period of notice required before capital and interest repayment by the Group.
- \* Facility drawdown limit of SGD \$7,500,000 with 10 business days drawdown notice required to be given by the Group. At balance date SGD \$7,169,000 had been drawn down by the Group.

Velocity's policy in regards to foreign exchange rate hedging is dependent upon factors such as the financial products available, the capital required to purchase such products and the likelihood of an unfavourable and material movement in foreign exchange rates based on current market

## 14. Commitments

Controlled entities within the Group have entered into land acquisition contracts with a contract value of \$10,600,000 + GST (2016: \$0) in the normal course of business which will settle subsequent to year end with deposits paid of \$1,000,000 (2016: \$0) recorded in trading stock.

Velocity has operating lease commitments of \$176,333 for offices over a 1 year and 11 month period (2016: \$268,333 over a 2 year 11 month period).

## 15. Issued Capital

### (a) Movements in ordinary share capital

Details	No. of shares	\$
Opening balance 1 July 2016	7,153,890	7,154
Shares issued - pre IPO	61,433,377	4,935,894
Share split	240,000,000	-
Shares issued - IPO (net of transaction costs)	53,334,231	10,273,500
Balance 30 June 2017	361,921,498	15,216,548

Velocity's initial public offering (IPO) made under the replacement prospectus dated 16 November 2016 closed successfully on 4 January 2017, with the offer being oversubscribed. 53,334,231 ordinary shares at \$0.20 a share were issued for total consideration of \$10,666,846 before transaction costs. Velocity listed on the ASX on 7 February 2017.

On 19 September 2016, Velocity authorised a share split of its ordinary share capital. The details of the share split were ordinary shareholders received 25 shares for every 1 share held at the transaction date.

On 22 September 2016, a debt to equity conversion occurred where debt of \$4,933,047 was converted to 58,587,267 ordinary shares. The price paid per share was \$0.0842.

On 19 August 2016, 2,846,100 ordinary shares were issued when the Group acquired 100% of the ordinary shares in Velocity Property Oxford Pty Ltd and Oxford Views Pty Ltd. This acquisition represented the final transaction in the corporate restructure that began in prior periods.

### (b) Movements in D Class share capital

Details	No. of shares	\$
Opening balance 1 July 2016	28,673	287
Share redemption	(28,673)	(287)
Balance at 30 June 2017	-	-

On 14 September 2016, Velocity redeemed all of its D Class shares. The price paid per share was \$0.01.

### (c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up the Group in proportion to the number of and amounts paid on shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

### (d) Options

At 30 June 2017, no options (2016: nil) were outstanding over unissued ordinary shares of the Group.

### (e) Contributed equity accounting policy

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**16. Reserves**

	<b>30 June 2017</b>	30 June 2016
	<b>\$</b>	<b>\$</b>
Predecessor accounting reserves	<b>472,862</b>	472,862

The predecessor accounting reserve was created as a result of a corporate restructure undertaken in 2015. As this was a common control transaction whereby all parties to the restructure were ultimately controlled by the same party, no fair value adjustments were recorded on the acquisition and the difference between the net assets acquired and the consideration paid was recognised in the predecessor accounting reserve. This reserve is expected to stay in place for the foreseeable future.

**OTHER NOTES****17. Controlled entities****(a) Significant interests in subsidiaries**

The consolidated financial statements incorporate assets, liabilities and results of the following material subsidiaries in accordance with the accounting policy described in note 1:

Name of entity	<b>Equity Interest</b>	
	<b>2017</b>	2016
	<b>%</b>	<b>%</b>
Velocity Project Marketing Pty Ltd	<b>100</b>	100
Velocity Property Hawthorne Pty Ltd	<b>100</b>	100
46 Cadell Pty Ltd	<b>100</b>	100
Fusion 462 Pty Ltd	<b>100</b>	100
39 Ellerslie Pty Ltd	<b>100</b>	100
48 Orchard Street Pty Ltd	<b>100</b>	100
Vie at Red Hill Pty Ltd	<b>100</b>	100
Velocity Property Red Hill Pty Ltd	<b>100</b>	100
1 Nathan Street Pty Ltd	<b>100</b>	100
Velocity Holdings No 1 Pty Ltd	<b>100</b>	100
Velocity Holdings No 2 Pty Ltd	<b>100</b>	100
Velocity Holdings No 4 Pty Ltd	<b>100</b>	100
Velocity Property No 5 Pty Ltd	<b>100</b>	-
Velocity Property Oxford Pty Ltd	<b>100</b>	-
Oxford Views Pty Ltd	<b>100</b>	-
372 The Esplanade Pty Ltd	<b>50</b>	50

All subsidiaries listed above were incorporated and have their principal place of business in Australia.

Refer to note 15(a) for detailed commentary regarding the transactions that took place around the legal ownership of Velocity Property Oxford Pty Ltd and Oxford Views Pty Ltd.

**(b) ONE Palm Beach Joint Venture**

In 2016, Velocity and the previous owner of the ONE Palm Beach site ("Land Owner") formed a 50/50 joint venture for the purpose of undertaking the development and construction of the project. The joint venture arrangement between the parties is governed by the constitution and shareholders' agreement of 372 The Esplanade Pty Ltd ("372"), the joint venture vehicle. Velocity holds 50% of the ordinary shares of 372 and all of the B class voting shares, which provides Velocity control of the joint venture company. Under the agreement, Velocity will provide funding for the project and will manage the development.

**(c) Acquisition/disposal of controlled entities**

There were no material entities acquired or disposed of during the current or comparative year not already mentioned above.

**(d) Principles of consolidation**

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at the end of the financial year. Control is achieved when the Group has:

- \* Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- \* Exposure, or rights, to variable returns from its involvement with the investee, and
- \* The ability to use its power over the investee to affect its returns.

When the group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- \* The contractual arrangement with the other vote holders of the investee;
- \* Rights arising from other contractual arrangements, and
- \* The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interest having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

## 18. Related party transactions

### (a) Key management personnel transactions

Any transactions with directors, director related entities, close family members and other KMP and their related entities, including the acquisition of products and services, are carried out in the ordinary course of business and on commercial terms which it is reasonable to expect the Group would have adopted in an arms length transaction.

During the current year, Velocity launched its ONE Palm Beach development in Palm Beach, Gold Coast. Apartments were offered to Velocity employees for a 3% discount to the original list price. The discount was not at a material detriment to Velocity as normal commercial commissions to be paid by Velocity to external sales agents historically range from 2.5% - 3%. As such, Velocity management regards the above discount as arm's length as the discount reflects a reasonable commission saving being passed onto the purchaser.

In the current year, KMP and their related entities purchased one apartment in the ONE Palm Beach apartment for a combined total list price of \$1,644,150. This development and subsequently the settlement of this apartment is due to be completed in a future year.

Additionally, an apartment in the Vue at Red Hill development was sold and settled on 4 January 2017 to a close family member of a KMP. The sale price for this apartment was \$750,000 and was carried out at full commercial terms with no discount offered to the original list price.

## 19. Key management personnel and related party disclosures

### Key management personnel (KMP)

#### Directors

Directors were in office for the entire period except where noted.

Mr Brendon Ansell, Managing Director

Mr Philip Raff, Director (Executive, appointed 30/08/16)

Mr Michael Pearson, Chairman (Independent, appointed 24/10/16)

Mrs Cherie Leatham, Director (Independent, appointed 24/10/16)

Mr Phillip Young, Director (Executive, appointed 30/08/16, resigned 24/10/16)

#### Key management personnel

Mr Phillip Young, Company Secretary & Chief Financial Officer

### (a) Key management personnel compensation

	30 June 2017 \$	30 June 2016 \$
Short-term employee benefits (salaries)	539,192	55,385
Post-term employment benefits (superannuation guarantee)	38,968	5,262
	<u>578,161</u>	<u>60,647</u>

Detailed remuneration disclosures are provided in the remuneration report.

**(b) Equity instrument disclosures relating to key management personnel**

The number of shares in Velocity held during the financial year by each Director and other KMP of the Group, including their related parties are 118,003,571 (2016: 3,584,099).

**(c) Loans to key management personnel and related parties**

There were no loans provided to KMP during the financial year.

**(d) Loans from key management personnel & related parties**

The following loans from KMP and their related parties existed at the end of the financial year:

	<b>30 June 2017</b>	<b>30 June 2016</b>
	<b>\$</b>	<b>\$</b>
Loans from key management personnel and their related parties	<u>-</u>	<u>780,524</u>

All loans from key management personnel and their related parties were repaid during the current financial year and at balance date there were no loans from key management personnel or their related parties.

**(e) Interest paid from related party loans**

The following interest payments were made by Velocity to key management personnel and their related parties in relation to loans they provided throughout the financial year:

Interest payments to key management personnel and their related parties	<u><b>22,619</b></u>	<u>48,896</u>
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**(f) Other transactions with key management personnel**

The following amounts arose as a result of transactions for the payments of goods and services with key management personnel and their related parties:

Transactions with key management personnel and their related parties	<u>-</u>	<u>441,511</u>
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Transactions in the prior period relate to the payment for goods and services to entities controlled by key management personnel. From 1 July 2016 these agreements were formalised by executive employment, general employment or consultancy agreements. Detailed remuneration disclosures are contained above in Note 19(a).

## **(g) Indemnity payouts to key management personnel**

Under the Company's constitution, directors and officers are entitled to be indemnified out of the assets of the Company against certain losses incurred in relation to the execution of their duties. During the period, there were no situations where the indemnity was required to be used.

## **20. Remuneration of auditors**

During the financial year, the following fees were paid or payable for services provided by Crowe Horwath, the auditor of the Group.

### **Crowe Horwath**

	<b>30 June 2017 \$</b>	<b>30 June 2016 \$</b>
<i>Audit services</i>		
Audit and review of financial statements	<b>52,625</b>	26,000
Investigating accountants report & advice	<b>62,000</b>	-
Total remuneration for audit services	<b>114,625</b>	26,000
<i>Taxation &amp; other services</i>		
Tax compliance and advice	<b>41,622</b>	105,321
Other services	<b>7,339</b>	7,339
Total remuneration for taxation & other services	<b>48,961</b>	<b>112,660</b>
Total remuneration to Crowe Horwath	<b>163,586</b>	138,660

## **21. Financial risk management**

Velocity's principal financial instruments comprise cash, receivables, payables, loans and borrowings.

Velocity manages its exposure to key financial risks, including interest rate, foreign exchange rate, liquidity and credit risk in accordance with the Group's financial risk management framework. The board has overall responsibility for the establishment and oversight of the risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

Risk management policies are established and include the identification and analysis of the risk exposure of the Group, to set appropriate limits and controls and to monitor risks and adherence to limits.

The Group's Audit and Risk Management Committee oversees how management monitors compliance with the Group's risk management framework and reviews the adequacy of the framework in relation to the risks faced by the Group. Management undertakes periodic reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Management Committee.

The main risks arising from the Group's financial instruments are interest rate risk, foreign exchange rate risk, liquidity risk and credit risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels or exposure to interest rates and foreign exchange rates and assessments of market forecasts for these rates. Liquidity risk is monitored through the development of future rolling cash flow forecasts. Credit risk is managed through thorough due diligence of counterparties and ensuring there is no significant concentration of credit risk.

#### **(a) Interest rate risk**

Interest rate risk is the risk that the fair value of a financial instrument or future cash flows associated with it will fluctuate because of changes in market interest rates. The exposure to market interest rates primarily relates to interest-bearing loans and borrowings issued at variable rates.

In assessing interest rate risk, Velocity considers its loan maturity and cash flow profile and the outlook for interest rates over the medium term. To manage this, Velocity may enter into hedging strategies that combine interest rate caps and floors, as well as floating to fixed interest rate swap contracts. However, the forecast cash position together with the forecast for low interest rates for the medium term has resulted in the Group retaining all of its Australian bank debt at a floating rate of interest. The Singapore finance facility has a fixed interest rate of 5%.

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

At balance date, the following variable rate cash and bank loans were outstanding:

	Weighted average interest rate	Balance \$
<b>2017</b>		
Cash	1.25%	4,853,472
Bank Loans	4.28%	(14,513,399)
<b>Net variable rate financial liabilities</b>		<u>(9,659,927)</u>
	Weighted average interest rate	Balance \$
<b>2016</b>		
Cash	1.00%	3,316,785
Bank Loans	3.98%	(18,201,471)
<b>Net variable rate financial liabilities</b>		<u>(14,884,686)</u>

## **(b) Foreign currency risk**

Foreign currency is the risk that the fair value of future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates solely to a fixed interest rate loan from a foreign non-related lender.

At balance date, the Group had the following exposure to Singapore dollar foreign currency that is not hedged:

	<b>30 June 2017 \$</b>	<b>30 June 2016 \$</b>
Borrowings - SGD\$	<b><u>7,456,863</u></b>	<b>-</b>

A detailed description of the Group's foreign currency financing arrangements are contained in Note 13(b).

## **(c) Credit risk**

Credit risk is the risk that a counterparty will not meet its contractual obligations leading to a financial loss. Credit risk arises from cash and cash equivalents and receivables. The Group's exposure to credit risk is influenced mainly by the individual characteristic of each customer.

Receivables primarily take the form of:

- \* Contracts over the sale of developed products;
- \* Rental income outstanding; and
- \* Deposits with financial institutions.

In respect to contracts for the sale of developed products, purchasers of lots or apartments off-the-plan are required to make a deposit on signing of the contract with the balance to be paid when the developed lot or apartment is released to the customer. The deposit held is generally 10% of the contract price.

In respect of rental income, enforceable leases are signed and lodged between the Group and tenants of the Group's investment properties.

The Group manages risk related to cash deposits with financial institutions by only depositing funds in institutions which have sufficient credit worthiness in line with the Group Policy.

## **(d) Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group manages its liquidity by monitoring forecast cash flows on a monthly basis and matching the maturity profiles of financial assets and liabilities. These are reviewed by the Chief Financial Officer and presented to the Board as appropriate. The objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans for project specific developments. The project specific facilities will operate in line with the development of each project.

The maturity profile of all debt facilities is monitored on a regular basis by the Chief Financial Officer and ongoing financing plans are presented to the Board for approval well in advance of maturity.

The tables below analyse the Group's financial assets and liabilities into relevant maturity groupings based on their contractual maturities for all non-derivative instruments.

The amounts disclosed in the table are the contractual undiscounted cash flows. Where the impact of the discounting is not significant on balances due within 12 months, the amounts disclosed equal their carrying balances.

#### **Maturity analysis of consolidated financial assets and financial liabilities**

	<b>Less than 1 year \$</b>	<b>Between 1 - 5 years \$</b>	<b>Over 5 years \$</b>	<b>Total \$</b>
<b>30 June 2017</b>				
<b>Financial assets</b>				
Cash	4,853,472	-	-	4,853,472
Trade receivables	58,916	-	-	58,916
	<b>4,912,388</b>	<b>-</b>	<b>-</b>	<b>4,912,388</b>
<b>Financial liabilities</b>				
Trade payables	604,470	-	-	604,470
Bank loans	13,605,899	-	907,500	14,513,399
Redeemable preference shares	-	3,196,821	-	3,196,821
Secured non-bank loans	-	-	7,057,413	7,057,413
	<b>14,210,369</b>	<b>3,196,821</b>	<b>7,964,913</b>	<b>25,372,103</b>
<b>Net maturity</b>	<b>(9,297,981)</b>	<b>(3,196,821)</b>	<b>(7,964,913)</b>	<b>(20,459,715)</b>
	<b>Less than 1 year \$</b>	<b>Between 1 - 5 years \$</b>	<b>Over 5 years \$</b>	<b>Total \$</b>
<b>30 June 2016</b>				
<b>Financial assets</b>				
Cash	3,316,785	-	-	3,316,785
Trade receivables	343,492	-	-	343,492
	<b>3,660,277</b>	<b>-</b>	<b>-</b>	<b>3,660,277</b>
<b>Financial liabilities</b>				
Trade payables	414,908	-	-	414,908
Bank loans	9,164,606	9,036,866	-	18,201,472
Redeemable preference shares	-	729,679	-	729,679
Secured non-bank loans	1,062,883	11,071,939	5,005,593	17,140,415
	<b>10,642,397</b>	<b>20,838,484</b>	<b>5,005,593</b>	<b>36,486,474</b>
<b>Net maturity</b>	<b>(6,982,120)</b>	<b>(20,838,484)</b>	<b>(5,005,593)</b>	<b>(32,826,197)</b>

## 22. Segment reporting accounting policy

The Group has identified its operating segments based on the internal reports that are reviewed and used by the chief operating decision makers in assessing performance and determining the allocation of resources.

The Group will also consider other factors such as the level of segment information used by the board of directors in assessing performance and determining the allocation of resources. Operating segments are determined on the basis of financial information reported to the Board which is at the consolidated entity level.

Management currently identifies the consolidated entity as having only one operating segment, being the acquisition of prime sites for development into quality residential, commercial and mixed-use apartments. Accordingly, all significant operating decisions are based upon analysis of the consolidated entity as one segment. The financial results from the segment are equivalent to the financial statements of the Group.

## 23. Parent entity financial information

The individual financial statements for the parent entity, Velocity Property Group Limited, show the following aggregate amounts:

	<b>30 June 2017 \$</b>	<b>30 June 2016 \$</b>
<b>Loss for the year</b>	<b>(2,328,158)</b>	(605,203)
<b>Total comprehensive loss</b>	<b>(2,328,158)</b>	(605,203)
<b>Balance Sheet</b>		
Current assets	<b>21,673,379</b>	263,261
Non-current assets	<b>836,072</b>	16,503,214
Total assets	<b>22,509,452</b>	16,766,475
Current liabilities	<b>9,576,270</b>	70,298
Non-current liabilities	<b>1,441,632</b>	17,301,380
Total liabilities	<b>11,017,902</b>	17,371,678
Net assets / (liabilities)	<b>11,491,550</b>	(605,203)
<i>Shareholders' equity</i>		
Retained earnings / (losses)	<b>(3,724,998)</b>	(612,644)
Issued capital	<b>15,216,548</b>	7,441
Total Equity	<b>11,491,550</b>	(605,203)

The parent entity profit or (loss) contains intercompany interest with subsidiaries.

## **24. Fair value measurements**

When an asset or liability is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It assumes the transaction will take place either:

- \* in the principal market for the asset or liability, or
- \* in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within fair value hierarchy, described as follows, based on the lowest input that is significant to the fair value measurement as a whole:

- \* Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- \* Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- \* Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation at the end of each reporting period.

The Group does not have any financial instruments measured at fair value. The fair value of cash, trade and other payables and trade and other receivables approximate their carrying values, largely due to the short-term maturities of these instruments.

## **25. Rounding of Amounts**

The Group is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191. Amounts in the financial statements have been rounded to the nearest dollar.

## 26. Impairment of assets accounting policy

At each reporting date, the Group assesses whether there is any indication that a non-financial asset may be impaired. Where an indicator of impairment exists, or when annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined from the cash generating unit to which the asset belongs. In assessing value in use, the estimated cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset.

## 27. New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting periods and beyond. The Group's assessment of the impact of these new standards and interpretations is set out below:

Reference	Application date of standard	Impact on Group financial report	Application start date for the Group
AASB 9 - Financial Instruments	1 January 2018	Aside from interest bearing borrowings, the Group doesn't hold any financial instruments of material value. Therefore, Velocity does not expect any material impact to the financial statements in regards to the implementation of this standard.	1 July 2018
AASB 15 - Revenue from contracts with customers	1 January 2018	The Group's current revenue policy is to recognise income from property sales at settlement which is when all performance obligations have already been met. Therefore, Velocity does not expect any material impact to the financial statements in regards to the implementation of this standard.	1 July 2018

AASB 16 - Leases	1 January 2019	As all current operating leases in place expire before 1 July 2019 and the fact that the implementation of this standard will not have a material impact on the net asset position of the Group, Velocity does not expect any material impact to the financial statements in regards to the implementation of this standard.	1 July 2019
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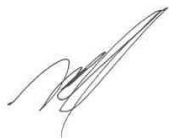
## Directors' Declaration

In accordance with a resolution of the directors of Velocity Property Group Limited, the directors declare that:

In the Directors' opinion:

- 1) The financial statements and notes of Velocity Property Group Limited for the year ended 30 June 2017 are in accordance with the Corporations Act 2001, including:
  - a) giving a true and fair view of the financial position as at 30 June 2017 and of its performance for the year ended on that date; and
  - b) complying with Australian Accounting Standards, which, as stated in accounting policy note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS).
- 2) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- 3) The directors have been given the declarations required by s 295A of the *Corporations Act 2001* from the Managing Director and Chief Financial Officer.

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



**Brendon Ansell**  
**Director**



**Michael Pearson**  
**Director**

Brisbane  
21 August 2017

## Velocity Property Group Limited

### Independent Auditor's Report to the Members of Velocity Property Group Limited

#### Report on the audit of the financial report

##### Opinion

We have audited the financial report of Velocity Property Group Limited (the Company and its subsidiaries (the Group)), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- (a) Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended.
- (b) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

##### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional 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.

Crowe Horwath Brisbane is a member of Crowe Horwath International, a Swiss verein. Each member of Crowe Horwath is a separate and independent legal entity. Liability limited by a scheme approved under Professional Standards Legislation other than for the acts or omissions of financial services licensees.

The title 'Partner' conveys that the person is a senior member within their respective division, and is among the group of persons who hold an equity interest (shareholder) in its parent entity, Findex Group Limited. The only professional service offering which is conducted by a partnership is the Crowe Horwath external audit division. All other professional services offered by Findex Group Limited are conducted by a privately owned organisation and/or its subsidiaries.

Key Audit Matter	How we addressed the Key Audit Matter
<p><b>Valuation of Trading Stock</b></p> <p>Trading Stock represents the most significant item on the consolidated statement of financial position and is considered a key driver and focus of the Group's operations.</p> <p>Significant judgement is applied by the Directors in determining the carrying amount of Trading Stock, as follows:</p> <ul style="list-style-type: none"> <li>Capitalised development expenditure incurred is accumulated in respect of each identifiable project by applying the conditions as disclosed in Note 8 to the Financial Statements, and</li> <li>An assessment is made by the directors to determine the extent to which capitalised costs are expected to be recovered through successful development and sale of the properties, and over what timeframes, in order to determine the recoverable amount of Trading Stock at the balance sheet date.</li> </ul> <p>Based on the size of the Trading Stock balance and the judgements applied in determining its carrying amount at 30 June 2017, we have determined this matter to be a key audit matter.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>Conducting discussions with management in regards to the Group's policies around capitalisation and recognition of development expenditure,</li> <li>Evaluation of the design effectiveness of key controls in relation to the recognition and measurement of Trading Stock, and</li> <li>Assessment of the recoverability of the capitalised costs through review of project status reports, pre-sales contracts, and feasibility reports, among others.</li> </ul>
<p><b>Valuation and Classification of Investment Properties</b></p> <p>The Directors have designated a number of developments as Investment Properties.</p> <p>Judgement is applied in determining whether a property qualifies as an investment property, in accordance with AASB 140 <i>Investment Property</i>. The Directors have developed criteria so it can exercise that judgement consistently, as disclosed in Note 10 to the Financial Statements.</p> <p>Furthermore, the carrying amount of the Group's Investment Properties is determined by reference to external valuation, in the case of commercial properties, and directors' valuations for residential properties. These valuations are dependent on certain key assumptions that require significant judgement.</p> <p>At 30 June 2017, the fair value and carrying amount of the Group's Investment Properties is \$10million, with a revaluation gain of \$2.8million recorded in the consolidated statement of profit or loss for the year ended 30 June 2017.</p> <p>Based on the judgements applied in determining the classification and fair value of the Investment Properties at 30 June 2017, we have determined this matter to be a key audit matter.</p>	<p>Our procedures included, but are not limited to:</p> <ul style="list-style-type: none"> <li>Conducting discussions and challenging management regarding the criteria used to determine the classification of investment properties in accordance with AASB 140 <i>Investment Property</i>,</li> <li>Reviewing evidence of management's intentions for the Investment Properties to ensure these are held for either long-term rental or capital appreciation, and are not owner-occupied, and</li> <li>Evaluating and challenging key assumptions adopted by the directors and external valuer in determining the fair values of the Investment Properties through obtaining evidence of recent sales of similar properties, lease agreements in place in the commercial properties, and comparable sales market data on similar properties, among others.</li> </ul>

## **Other information**

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 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 Group are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or 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 the 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.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_files/ar2.pdf](http://www.auasb.gov.au/auditors_files/ar2.pdf). This description forms part of our auditor's report.

## **Report on the remuneration report**

### ***Opinion on the remuneration report***

We have audited the Remuneration Report included on pages 8 to 12 of the annual report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Velocity Property Group Limited and controlled entities, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

**Responsibilities**

The directors of the Group 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.

**Crowe Horwath Brisbane**

**Cameron Henry**  
Partner

Signed at Brisbane, 21 August 2017

## Shareholder Information

The shareholder information set out below was applicable as at 2 August 2017. Shareholder information should be read in conjunction with the 2017 financial report.

### 1. Shareholding

#### (a) Distribution of shareholders

Analysis of numbers of equity security holders by size of holding:

Holding distribution	Ordinary Shares	
	No. of holders	Securities
1 to 1,000	-	-
1,001 to 5,000	8	28,485
5,001 to 10,000	79	790,000
10,001 to 100,000	320	19,955,485
100,001 and Over	592	341,147,528
	<u>999</u>	<u>361,921,498</u>

There were no options held at 2 August 2017.

#### (b) Non-marketable parcel of securities

There were nil holders of less than a marketable parcel of ordinary shares based on the closing market price as at 2 August 2017.

#### (c) Voting rights

The voting rights attaching to the ordinary shares are set out in the company's constitution at clause 16.14 and 16.15. The constitution states that:

- (i) at a meeting of members, each member entitled to vote may vote in person, or by proxy or attorney; and
- (ii) on a show of hands each member present has one vote, and on a poll each member present has one vote for each fully paid share held.

### 2. Substantial shareholders

Substantial holders of ordinary shares in the company are set out below:

	Number	%
MR BRENDON CRAIG ANSELL	53,792,146	14.86
EVERGREEN STREET PTY LTD	32,161,425	8.89
MR PHILIP JOHN RAFF	31,750,000	8.77
VUE AT RED HILL PTE LTD	19,130,500	5.29

### 3. Twenty largest shareholders

The names of the 20 largest holders of ordinary shares are listed below:

<b>Name</b>	<b>Ordinary shares</b>	<b>% Held to issued shares</b>
MR BRENDON CRAIG ANSELL	53,792,146	14.86
EVERGREEN STREET PTY LTD	32,161,425	8.89
MR PHILIP JOHN RAFF	31,750,000	8.77
VUE AT RED HILL PTE LTD	19,130,500	5.29
LANGSTON DEVELOPMENT LIMITED	14,203,460	3.92
CRESCENTA INVESTMENT LTD	8,420,000	2.33
LABELLE CAPITAL INC	6,544,820	1.81
SOON PIANG LINCOLN TEO	4,718,609	1.30
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	4,500,007	1.24
ENG SENG LAU	3,836,313	1.06
VIVEK VERMA	3,571,429	0.99
BEI JIE THANE SNG	2,351,584	0.65
THIM FATT CHAN	2,142,857	0.59
CHOON SENG NEO	2,000,000	0.55
SOO KOK NG	1,428,571	0.39
DAI WEI YEO	1,390,078	0.38
MDM CHYE HONG CHOO	1,297,170	0.36
TECK LEE LEONG	1,282,813	0.35
BENEDICT SHEAU YANN LYE	1,195,992	0.33
JING CHING YEAP	1,142,857	0.32
	<b>196,335,631</b>	<b>54.25</b>