

VDM GROUP LIMITED

and its Controlled Entities

ABN 95 109 829 334

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2013

VDM GROUP LIMITED

CORPORATE INFORMATION

Directors	Mr M Perrott AM Dr D Hua Mr X Ru Mr B Nazer Mr M Fry Mr R Mickle	Non-Executive Chairperson Managing Director Non-Executive Director Non-Executive Director Non-Executive Director Non-Executive Director
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Company Secretary Mrs S Drury

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VDM Group Limited shares are listed on the Australian Securities Exchange (ASX)

ASX Code	VMG
ACN	109 829 334
ABN	95 109 829 334

In this report, the following definitions apply:

“**Board**” means the Board of Directors of VDM Group Limited

“**Company**” or “**VDM**” means VDM Group Limited ABN 95 109 829 334

“**VDM Group**” or “**Group**” means VDM Group Limited and its controlled entities

VDM GROUP LIMITED

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VDM GROUP LIMITED

CHAIRMAN'S REPORT

Dear Shareholders,

It has been another disappointing year for the company and with poor trading continuing.

As a director, chairman and shareholder I am particularly disappointed with the result.

The construction industry generally has become more competitive and difficult to work within. This is no excuse for the poor result achieved. We have made necessary changes to senior management but much damage to the company had already occurred.

We believe it fortuitous that H&H Holdings Australia Pty Ltd (H&H) decided to invest in the company. Although their initial proposal, which was approved by shareholders and was at a higher price per share than the ultimate resolution, circumstances within the company changed at a particularly pertinent time. It meant H&H became a major shareholder of the company at a lesser price than had previously been anticipated. Nevertheless they are the major shareholder and, as Chairman, I'm delighted to have them on the register and I'm particularly pleased that Dr Dongyi Hua is our Managing Director. Mr Ru has also joined as a Director and I am grateful for his input to date.

With the introduction of H&H and the appointment of Dr Hua, the focus of the company has changed such that we've been able to remove a number of our loss making businesses and focus on those where we may have a point of difference and can provide a better service at improved margins. At the same time there will be a number of activities where our trading position between Australia and China can be used profitably.

The contacts and relationships which Dr Hua has brought to the company are quite extensive and although it is at an early stage, we're encouraged by the new opportunities which are being presented to the company.

I would especially like to thank my fellow Directors for the time and effort made for our company which has been done in a difficult external and internal environment.

I look forward to welcoming you to our shareholders' meeting.

Regards



MICHAEL D PERROTT AM
Chairman

VDM GROUP LIMITED

MANAGING DIRECTOR'S REPORT

INTRODUCTION

The 2012/13 financial year was completed without my involvement with the company. My duties commenced on the 9th September and my report is prepared accordingly.

OVERVIEW

The financial results of the company for the past financial year have been poor. Recent ASX announcements and press reports have outlined the number of projects which were carried out by the company where costs exceeded revenue. Although this occurred mainly in Western Australia, there were some projects reporting less than the required margin in Queensland. The various consulting businesses have operated with mixed results. Some continue to be successful financially and others not. This is the reason why these activities are being divested by way of Management Buy-Outs or being closed down. VDM Group announced on 20 September 2013 that it had entered into a non-binding sale agreement to sell all the issued share capital of VDM Construction (Eastern Operations (Pty) Ltd. The transaction was completed on 7 October 2013. This will devolve the company's activities in Queensland.

The poor financial results required a significant change to the company with the addition of further funds. As a result, VDM entered into a transaction with H&H whereby H&H agreed to lend \$5,000,000 to VDM Group and, subject to shareholder approval at the forthcoming AGM, the loan will automatically convert into 500,000,000 shares at a price of \$0.01 per share.

Following the issue of the conversion shares to H&H, H&H will have the right to appoint a further nominee Director, to the Board, which the Company understands will be Mr Ming Guo. Also, Barry Nazer and Richard Mickle will resign as directors of the Board at the conclusion of the AGM. In addition, it is intended that I will become Executive Chairman, and Michael Perrott will become Deputy Non-executive Chairman at the conclusion of the AGM.

VDM Group has also entered into an unsecured loan facility of up to \$4,000,000 to be provided by H&H to VDM Group (**New Facility**). Subject to shareholder approval at the forthcoming AGM, VDM Group will grant a general security to H&H in respect of the New Facility.

In addition, VDM Group announced on 29 October 2013 that it proposes to make a pro-rata entitlement offer to its Shareholders to subscribe for Shares at a price of \$0.01 per Share seeking to raise at least \$9,250,000 (**Rights Issue**). Pursuant to the Rights Issue, H&H has agreed to apply for \$4,000,000 of shares through subscribing for some or all of its entitlement and, if required, by underwriting the Rights Issue, conditional upon Hunter Hall Investment Management Limited contributing an aggregate of \$1,000,000 under the Rights Issue. The Rights Issue will have a minimum subscription of \$5,000,000. To the extent that H&H is required to contribute pursuant to its pro-rata entitlement and underwriting obligations under the Rights Issue, any funds that VDM has drawn down pursuant to the New Facility will be set off against H&H's subscription and underwriting commitments pursuant to the Rights Issue in repayment of that part of the New Facility.

Further details of the transactions have been forwarded to shareholders with an explanatory memorandum including an independent expert's report.

I'm pleased to know the company operated safely during last year with an improvement in all safety measures. It will be a continuing fundamental plank of the business that VDM Group will ensure safety is a top priority.

FUTURE

It is my intention to develop the company, ensuring we return to profitability. This means we will need to look at projects where there is satisfactory margin and where, with our restructure involving the introduction of new people and new business methods, we can establish a point of difference to our competitors and provide our customers with improved service at a satisfactory price.

I hope to bring my recent experience in Western Australia and other parts of the world to the fore to affect the changes needed and ensure the company operates profitably. The Board will be of assistance to me as it comprises people with experience in both operations in Australia, China and elsewhere.

As I seek new opportunities, the Board will be closely involved in the decisions I make.

I look forward to meeting you at our Annual General Meeting.



Dr HUA
Managing Director

VDM GROUP LIMITED

DIRECTORS' REPORT

For the year ended 30 June 2013

Your directors submit their report for the year ended 30 June 2013.

DIRECTORS

The names and details of the directors of VDM Group Limited ("VDM Group" or "the Company") in office during the year and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

Current directors

Michael Perrott AM

Non-Executive Chairperson

Appointed 2 July 2009 and appointed Non-Executive Chairperson on 26 November 2010

B.Com, FAIM, FAICD

Mr Perrott has been involved in industries associated with construction, contracting, mining and land development since 1969. He is currently the Chairperson of GME Resources Limited and a Non-Executive Director of Schaffer Corporation Limited. He has previously held the role of Managing Director of Gardner Perrott Group Limited, Chairperson of Port Bouvard Limited and was a Non-Executive Director of Portman Limited. He is also a member of the Board of Notre Dame University and SANE Australia. Mr Perrott holds a Bachelor of Commerce from the University of Western Australia and is a Fellow of the Australian Institute of Management and the Australian Institute of Company Directors.

Current directorships of ASX listed companies:

GME Resources Limited – Non-Executive Director and Chairperson since November 1996

Schaffer Corporation Limited – Non-Executive Director since February 2005

Dongyi Hua Dr

Managing Director

Appointed Director on 28 August 2013 and appointed Managing Director on 9 September 2013

Member of the Nominations & Remuneration Committee

Member of the Audit & Risk Committee

Dr Hua is the former Vice President, Executive Chairman and CEO of CITIC Pacific Mining, a position he held from October 2009 until April 2013. He was previously with Beijing-based CITIC Group, which he joined in 2002. Dr Hua has held executive management positions during the past 15 years for construction and resource development projects across Asia, Africa and Latin America in countries such as China, Angola, the Philippines, Pakistan, Brazil and Algeria. He has extensive experience in project, contractor, cost and risk management. Dr Hua holds a Doctorate of Engineering from the China University of Geosciences. Dr Hua is also the Vice President of the Australian China Business Council Western Australia. Dr Hua is the ultimate legal and beneficial owner of H&H.

Xiangyang Ru

Non-Executive Director

Appointed 28 August 2013

Member of the Nominations & Remuneration Committee

Mr Ru has 15 years' experience in senior management roles across multiple diversified businesses. Mr Ru has held positions as General Manager of Shanghai Jiakai Printing Co, Chairman of Henan Xuchuangli Science Development Co and Chairman of Beijing Hengdejunyi Investment Advisory Co. He has extensive experience in business consulting, machinery equipment and financial leasing as well as significant experience in investment management.

Barry Nazer

Non-Executive Director

Appointed 1 October 2008

Chairperson of the Audit & Risk Committee

Member of the Nominations & Remuneration Committee

BBus, FCPA, FFin, ANZIIF (Fellow), FAICD

Mr Nazer is a non-executive director of Coventry Group Limited and the MG Kailis Group. He has previously held the positions of Chief Financial Officer (CFO) of Bank of Western Australian Limited (BankWest), CFO of WESFI Limited and CFO of Wesbeam Holdings Limited.

Mr Nazer is a Fellow of the Australian Institute of Company Directors.

Current directorships of ASX listed companies:

Coventry Group Limited – Non-Executive Director since September 2003

VDM GROUP LIMITED

DIRECTORS' REPORT

For the year ended 30 June 2013

Michael Fry

Non-Executive Director

Appointed 3 June 2011

Member of the Audit & Risk Committee

Member of the Nominations & Remuneration Committee

BCom

Mr Fry is an experienced company manager across a broad range of industry sectors. Mr Fry has a strong background in accounting and corporate advice having worked with KPMG (Perth), Deloitte Touche Tohmatsu (Melbourne) and boutique corporate advisory practice Troika Securities Ltd (Perth). For much of the past decade, Mr Fry was the Chief Financial Officer and Finance Director at Swick Mining Services Limited, a publicly listed drilling services provider contracting to the mining industry in Australia and North America.

Currently Mr Fry is Chief Financial Officer and Company Secretary of Cougar Metals NL, a publicly listed gold exploration and drilling services company operating in Brazil.

Former directorships of ASX listed companies held in the past three years:

Swick Mining Services Limited - Executive Director October 2006 to July 2010

Richard Mickle

Non-Executive Director

Appointed 3 June 2011

Chairperson of the Nominations & Remuneration Committee

B.Eng, FIEAust, FAICD

Mr Mickle has more than 30 years' experience in the construction and engineering sector, including 24 years at John Holland Group Proprietary Limited, now part of Leighton Holdings Limited. During his time at John Holland Proprietary Limited, Mr Mickle held a number of senior management positions including General Manager of the Western Region. He has experience in a wide range of major developments including transport, resources, industrial and built infrastructure projects. Mr Mickle has been the Managing Director of Appian Group Limited since 2005, a project management group based in Western Australia delivering large scale complex built infrastructure and redevelopment.

Past directors that resigned during the year and until the date of this report

Andrew Broad

Managing Director

Appointed 16 January 2012

Mr Broad was terminated as Managing Director and Chief Executive Officer on 23 August 2013.

Tim Crossley

Non-Executive Director

Appointed 15 November 2010

BAppSc (Hons), MAICD

Mr Crossley resigned as a Non-Executive Director of VDM Group on 24 October 2012.

VDM GROUP LIMITED

DIRECTORS' REPORT

For the year ended 30 June 2013

COMPANY SECRETARY

Samantha Drury

Appointed 23 August 2013

Mrs Drury is the Chief Financial Officer of the Group and is an experienced financial and business manager across a broad range of industry sectors. Mrs Drury has recently returned from the UK where she has worked with London Underground Ltd since 2005, most recently holding the role of Head of Finance Operations & Support. An Australian CPA, Mrs Drury has previously worked with Coopers & Lybrand, Jones Lang LaSalle, and the Worley ABB Joint Venture.

Mrs Drury has gained international expertise having been involved in businesses around Australia and the United Kingdom and brings to VDM a diverse and valuable range of skills, especially in dealing with complex contracts and the integration of companies.

Past company secretaries that resigned during the year and until the date of this report

Michael Fry

Appointed 12 June 2013

Mr Fry was appointed company secretary as an interim measure until Mrs Drury's appointment on 23 August 2013. Mr Fry maintains his role as Non-Executive director.

David Coyne

Appointed 7 May 2012

Mr Coyne resigned as company secretary of VDM Group effective 12 June 2013.

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

As at the date of this report, the interests of the directors in the shares of the Company were:

Directors	Number of Ordinary Shares	Number of Options
M Perrott	6,200,000	3,100,000
D Hua	185,110,976	-
X Ru	-	-
B Nazer	1,228,568	614,284
M Fry	500,000	250,000
R Mickle	-	-

DIVIDENDS

There were no dividends declared and paid during the year ended 30 June 2013.

VDM GROUP LIMITED

DIRECTORS' REPORT

For the year ended 30 June 2013

NATURE AND PRINCIPAL ACTIVITIES

The principal activities during the year within the consolidated entity were:

Eastern and Western construction services

Building

- Remote area camp and village accommodation
- Non process infrastructure including workshops, airports, control buildings, warehouses and ammonium nitrate stores

Civil

- Bulk earthworks
- Land development
- Marine and port infrastructure
- Roads and bridges
- Water and wastewater
- Concrete structures

Eastern and Western consulting services

- Building services consulting
- Civil engineering
- Environmental consulting
- Marine engineering
- Structural engineering
- Traffic engineering
- Infrastructure
- Industrial
- Transport
- Water
- Master planning
- Town planning
- Building design
- Project management

General

VDM Group employs approximately 350 people (2012: 700) across Western Australia and Queensland.

The principal activities changed during the year with the sale of Como Engineers Pty Ltd, which was previously reported in the mechanical and mineral process engineering segment.

VDM GROUP LIMITED

DIRECTORS' REPORT

For the year ended 30 June 2013

OPERATING AND FINANCIAL REVIEW

VDM Group continues to be impacted by the downturn in the resources sector, which has in turn applied pressure on the Company's ability to return to profit.

As a result of the continuing weak market conditions and issues associated with the Customer Notice, previously announced to the market, the Company has commenced an extensive review of its existing contracts and business units. In light of this review, there is likely to be some restructuring of existing operations. Despite this restructure the Company remains committed to the retention of key people and skills with expertise in the design and construction industries.

Rationale for the transaction

The previous share subscription agreement put to Shareholders on 16 August 2013 contemplated a \$15,000,000 capital raising, which would have resulted in a number of significant benefits for VDM and Shareholders. As a result of the new arrangement entered into with H&H, some of these benefits, including the plans for the business to bid for a greater range of projects have been curtailed.

The Board and executive management supported and enabled the completion of the share subscription to H&H for 140,080,961 shares at a price of \$0.01 per share and the loan of \$5,000,000 from H&H to VDM which, subject to shareholder approval at forthcoming AGM, will automatically convert into 500,000,000 shares at a price of \$0.01 per share (Convertible Loan).

In addition, VDM Group has entered into an additional loan facility of up to \$4,000,000 to be provided by H&H to VDM Group (New Facility). Subject to shareholder approval at the forthcoming AGM, VDM Group will grant a general security to H&H in respect of the New Facility.

The Board believes that in the near term the Convertible Loan and New Facility will still deliver a number of significant benefits to VDM and Shareholders including:

- Strengthen the balance sheet and provide working capital to assist with the restructure of the Company, to deal with issues associated the Customer Notice and weak market conditions;
- Improve market confidence in VDM which will have flow on benefits to clients, Shareholders, employees, and suppliers;
- Improve the ability of the Company to renegotiate banking and security facilities; and
- The presence of H&H allows the Company to pursue new opportunities, leveraging off the global experience of H&H in the mining and construction sectors.

In conjunction with the placement, Dr Hua, the owner of H&H, and Mr Ru have been appointed Directors of VDM Group effective 28 August 2013. Dr Hua was also appointed Managing Director of VDM Group on 9 September 2013.

For the year ended 30 June 2013, the loss after tax attributable to the owners of VDM Group was \$84,408,000 (2012: \$54,812,000 loss). The loss included impairment charges for goodwill recognised on re-measurement as at December 2012 of \$19,486,000 (2012: \$3,161,000); The loss from discontinued operations of \$2,749,000 (2012: \$27,792,000); included a write down of asset values to fair value less costs to sell, of \$4,004,000 (2012: \$32,284,000) and included \$14,685,000 de-recognition of deferred tax asset carrying values following an assessment of tax losses that are probable of being utilised over the next 5 years (2012: \$7,548,000 benefit).

Revenue from continuing operations was \$205,206,000, a decrease of 11.1% on revenue recorded in 2012 for the same period.

On a divisional basis, Western Construction recorded revenue of \$127,319,000, 15.9% lower than the \$151,426,000 recorded in the previous year. This has been driven by the downturn in the resources market which continues to impact our ability to generate work. Excluded from revenue during the period is any revenue from claims and variations that is subject to ongoing negotiations with clients, and such negotiations are not yet sufficiently progressed so as to meet the revenue recognition criteria in Australian Accounting Standard AASB 111 Construction Contracts.

Whilst negotiations with clients regarding the outstanding claims and variations remain in progress, the Directors have not recognised this revenue pending completion of client negotiations. The value of contingent revenue exceeds \$12,000,000. All costs associated with the contingent revenue have been fully expensed during the period.

EBIT for Western Operations was a loss of \$46,782,000 (2012: \$9,124,000 loss) including impairment charges of \$17,088,000 (2012: \$311,000) and the exclusion of contingent revenue mentioned above. Included in the period is a provision made against amounts owing on a construction contract where the client has gone into administration. Also included are provisions made against the recoverability of amounts owing from joint venture partners for amounts funded by VDM in prior years on land developments that are unlikely to be repaid in full by the joint venture partners.

VDM GROUP LIMITED

DIRECTORS' REPORT

For the year ended 30 June 2013

Eastern Construction recorded revenue of \$59,718,000, 4.0% higher than the \$57,438,000 recorded in the previous year driven by government infrastructure work. EBIT for this Division was a loss of \$4,313,000 (2012: \$1,934,000 loss), which included a goodwill impairment charge of \$1,905,000 (2012: nil). The results of this Division were impacted a reduced volume of work for the level of overhead and changes in delivery on key projects that have resulted in losses on the projects being recognised.

Consulting recorded revenue of \$19,022,000, 30.0% lower than the \$27,142,000 recorded in the previous year. The reduction in revenue is due to the sale of the consulting businesses in New South Wales, Victoria and the Northern Territory in the second half of financial year 2012, coupled with reducing volumes of work, linked to the slowdown of the economy. EBIT for this Division was a loss of \$2,586,000 (2012: \$345,000 loss), driven by an increase in our bad debt provision. VDM Group is actively pursuing options to divest parts of the consulting business through various strategies including management buy-outs. As at signing of the accounts, no agreement had been signed.

VDM Group's net assets decreased by 97.3% compared to the previous year, which is consistent with the current year's loss after tax. During the year, VDM Group disposed of property, plant and equipment valued at \$6,271,000. The net assets attributable to discontinued operations was \$4,999,000.

Business strategy

Following the share placement and the conversion of the convertible loan (which is subject to shareholder approval), H&H would hold 685,110,976 shares in VDM Group, representing 43.5% of all shares on issue at that time. At that time H&H is entitled to appoint a further nominee Director, which the Company understands will be Mr Ming Guo.

H&H's goal is to build Shareholder wealth by accelerating VDM Group's current strategy and expanding VDM Group's capabilities in order to capture a larger portion of the resource value chain. It should be noted that the proposed changes to the strategy recommended by H&H will be subject to comprehensive review and endorsement by the Board of VDM Group prior to the changes in strategy being adopted by VDM Group.

Restructuring of the business is likely to take 3-6 months, with growth opportunities only to be targeted when this is complete. The timing for requirement of any further capital will be assessed on an ongoing basis, however, the Company is confident that a restructure can be successfully executed and that new opportunities should be pursued shortly thereafter.

As a result, the Company has entered into an additional loan facility of up to \$4,000,000 to be provided by H&H to VDM Group.

In addition, VDM Group announced on 29 October 2013 that it proposes to make a pro-rata entitlement offer to its Shareholders to subscribe for Shares at a price of \$0.01 per Share seeking to raise at least \$9,250,000 (**Rights Issue**). Pursuant to the Rights Issue, H&H has agreed to apply for \$4,000,000 of shares through subscribing for some or all of its entitlement and, if required, by underwriting the Rights Issue, conditional upon Hunter Hall Investment Management Limited contributing an aggregate of \$1,000,000 under the Rights Issue. The Rights Issue will have a minimum subscription of \$5,000,000. To the extent that H&H is required to contribute pursuant to its pro-rata entitlement and underwriting obligations under the Rights Issue, any funds that VDM has drawn down pursuant to the New Facility will be set off against H&H's subscription and underwriting commitments pursuant to the Rights Issue in repayment of that part of the New Facility.

Additional capital will strengthen VDM Group's initiatives to attract new contracts and support these contracts. H&H believes that with some additional capital and H&H's strong relationships in engineering and construction, in particular those that are Chinese related, they can accelerate the growth and sustainability of its project pipeline in engineering and construction. In particular, H&H sees the opportunity to leverage VDM Group's magnetite experience and track record to win new work from Chinese magnetite developers in the future.

In addition to enhancing VDM Group's current operations, H&H is proposing that in time VDM Group consider expanding its exposure to the resources value chain through the establishment of 2 new divisions: Procurement Services and Mining.

Procurement Services

H&H plans to establish VDM Group's Procurement Services capability (e.g. equipment, materials, electrical systems, etc.) through an International Procurement Centre in Shanghai, thereby extending VDM Group's capabilities and service offering to existing and new customers. This is expected to be achieved through access to capable and cost competitive goods and services in China.

Mining

H&H proposes to leverage VDM Group's current engineering, and construction capabilities to expand into mining. Under H&H's strategy changes, H&H proposes that VDM Group will look for opportunities to apply for mining rights or invest directly into mining projects with intentions to take the project through to production or exit at an optimal return for Shareholders.

VDM GROUP LIMITED

DIRECTORS' REPORT

For the year ended 30 June 2013

H&H proposes that VDM Group will seek to utilise its in-house skills of engineering and construction to enhance value, and over time introduce funding partners.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 28 February 2013, VDM Group announced that it had entered into a non-binding sale agreement to sell one of its wholly owned business units, Como Engineers Pty Limited (Como) by way of a buy-out by the existing Como management team. The sale to CE Acquisitions Pty Ltd, a company related to the existing Como management team, was completed on 10 April 2013 for a consideration of \$5,450,000 (pre transaction costs). Como was previously reported in the mechanical and mineral process engineering segment. The business has been recognised as a discontinued operation and is no longer disclosed in the segment note.

On 17 January 2013, VDM Group accepted an offer of \$3,000,000 for the sale of freehold land and buildings classified as a non-current asset held for sale. The sale was completed on 15 March 2013.

During the year, management restructured its internal reporting and now present discrete information based on the location and the nature of the services provided. As such, the results are reported under three divisions: eastern construction, western construction, and consulting.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 29 May 2013, VDM Group announced that it had entered into a binding share subscription agreement under which H&H agreed to subscribe for 600,000,000 new fully paid ordinary shares at 2.5 cents per share to raise \$15,000,000.

On 27 August 2013, VDM Group announced that the company was in dispute with a major customer in regard to the status of a material contract. VDM Group received a notice from the customer purporting to exercise its right to take the whole of the remaining works under the contract out of the hands of VDM Group (Customer Notice). The effect of this notice may materially impact the operating performance and short term future cash flows of VDM Group.

Following receipt of the Customer Notice, VDM Group was notified by H&H that it considered the matter to be a material adverse change within the definition of the existing share subscription agreement. As a result, an alternative capital raising was agreed with H&H on 27 August 2013 to provide capital of \$6,401,000 immediately, via a Placement of 140,080,961 shares at 1.0 cent per share to raise \$1,401,000 and a Convertible Loan of \$5,000,000 issued to H&H with a conversion price of 1.0 cent per share (conversion subject to shareholder approval at the forthcoming AGM).

In conjunction with the placement, Dr Hua, the owner of H&H, and Mr Ru have been appointed Directors of VDM Group effective 28 August 2013. Dr Hua was also appointed Managing Director of VDM Group effective from 9 September 2013.

As announced on 23 August 2013, Mr Broad was terminated as Managing Director and Chief Executive Officer.

On 9 August 2013, VDM Group received \$1,350,000 to enable the discharge of its mortgage and sale of its shares in Quartz South Hedland Pty Ltd.

VDM Group announced on 20 September 2013 that it had entered into a non-binding sale agreement with an outside party to sell all the issued share capital of VDM Construction (Eastern Operations) Pty Ltd for \$2,750,000. A binding share sale agreement was executed on 7 October 2013.

VDM Group is actively pursuing options to divest parts of the consulting business via management buy-outs. As at signing of the accounts, no agreement had been signed.

VDM Group also entered into an unsecured loan facility of up to \$4,000,000 to be provided by H&H to VDM Group (**New Facility**). Subject to shareholder approval at the forthcoming AGM, VDM Group will grant a general security to H&H in respect of the New Facility.

In addition, on 29 October 2013, VDM Group announced it is proposing to make a pro-rata entitlement offer to its Shareholders to subscribe for Shares at a price of \$0.01 per Share seeking to raise at least \$9,250,000 (**Rights Issue**). Pursuant to the Rights Issue, H&H has agreed to apply for \$4,000,000 of shares through subscribing for some or all of its entitlement and, if required, by underwriting the Rights Issue, conditional upon Hunter Hall Investment Management Limited contributing an aggregate of \$1,000,000 under the Rights Issue. The Rights Issue will have a minimum subscription of \$5,000,000. To the extent that H&H is required to contribute pursuant to its pro-rata entitlement and underwriting obligations under the Rights Issue, any funds that VDM has drawn down pursuant to the New Facility will be set off against H&H's subscription and underwriting commitments pursuant to the Rights Issue in repayment of that part of the New Facility. Further details of the Rights Issue will be provided to shareholders in due course.

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DIRECTORS' REPORT

For the year ended 30 June 2013

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Where the Directors have omitted information due to the likelihood of unreasonable prejudice the Directors have disclosed their evaluation for concluding as such.

ENVIRONMENTAL REGULATION AND PERFORMANCE

VDM Group's operations are subject to environmental regulations under Commonwealth and State legislation. The Board believes that VDM Group has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to VDM Group.

SHARE OPTIONS

As at the date of this report, there were 464,992,686 unissued ordinary shares under option (2012: 465,083,311). There were no options exercised during the financial year and up to the date of this report.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

VDM Group has agreed to indemnify all the directors and executive officers for any costs or expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities of the consolidated entity for which they may be held personally liable.

The Company has paid a premium to insure the directors and officers of the Company and its controlled entities. Details of the premium are subject to a confidentiality clause under the contract of insurance.

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year, and the number of meetings attended by each director, were as follows:

Board of Directors	Meetings	
	Attended	Maximum Possible
Current directors		
M Perrott (Chairperson)	17	17
B Nazer	16	17
M Fry	17	17
R Mickle	16	17
Past directors		
A Broad	17	17
T Crossley ³	2	3

Nominations and Remuneration Committee	Meetings	
	Attended	Maximum Possible
Current directors		
R Mickle (Chairperson) ¹	2	2
B Nazer	1	2
M Fry ²	1	1
Past directors		
A Broad	1	2
T Crossley ³	1	2

Audit and Risk Committee	Meetings	
	Attended	Maximum Possible
Current directors		
B Nazer (Chairperson)	5	5
M Fry	5	5

Notes:

1. Appointed Chairperson of the Nominations and Remuneration Committee on 24 October 2012.
2. Appointed to the committee on 1 January 2013.
3. Resigned as a Non-Executive Director 24 October 2012.

VDM GROUP LIMITED
DIRECTORS' REPORT
For the year ended 30 June 2013

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The directors received an Independence Declaration from the auditor of VDM Group Limited, attached on page 26.

The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act.

Refer to Note 36 for disclosure relating to the cost of non-audit services conducted during the year.

Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

VDM GROUP LIMITED

DIRECTORS' REPORT

For the year ended 30 June 2013

REMUNERATION REPORT (AUDITED)

This remuneration report outlines director and executive remuneration arrangements of the Company and VDM Group in accordance with the requirements of the Corporations Act 2001 (the Act) and its regulations. This information has been audited as required by section 308(3C) of the Act.

For the purposes of this report, key management personnel (KMP) of VDM Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and VDM Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company.

For the purposes of this report, the term 'executive' encompasses the executive director and senior executives of the Parent and of VDM Group companies.

1. Individual KMP disclosures

Details of KMP including the executives of the Company and VDM Group are set out below.

Current directors

M Perrott	<i>Non – Executive Chairperson</i>
D Hua	<i>Managing Director — appointed director on 28 August 2013 and Managing Director on 9 September 2013</i>
X Ru	<i>Non – Executive Director — appointed 28 August 2013</i>
B Nazer	<i>Non – Executive Director</i>
M Fry	<i>Non – Executive Director</i>
R Mickle	<i>Non – Executive Director</i>

Past directors

A Broad	<i>Managing Director — terminated 23 August 2013</i>
T Crossley	<i>Non – Executive Director – resigned 24 October 2012</i>

Current executives

R Gregg	<i>Executive General Manager – Eastern Construction and Consulting</i>
S Drury	<i>Chief Financial Officer and Company Secretary – appointed 24 June 2013</i>

Past executives

J Kemp	<i>General Manager – Western Construction – appointed 7 November 2012 and resigned on 6 September 2013</i>
R Gonzales	<i>Executive General Manager – Development – terminated 25 January 2013</i>
T Fallon	<i>Executive General Manager – Western Operations – resigned 27 November 2012</i>
D Coyne	<i>Chief Financial Officer – resigned 12 June 2013</i>

2. No vote on remuneration report at the 2012 Annual General Meeting

At the 2012 Annual General meeting (AGM) VDM Group received 27.5% of votes cast against the 2012 remuneration report. In response to the no vote, the Non-Executive Directors (NEDs) agreed to reduce their fees by 10% during the period November 2012 to 30 June 2013.

In light of company performance, the former Managing Director (Mr Broad) offered to reduce his salary by 12% during the period November 2012 to 30 June 2013, which was accepted by the Nominations and Remuneration Committee.

3. Board oversight of remuneration

Nominations and Remuneration Committee

The Nominations and Remuneration Committee is responsible for making recommendations to the Board on the remuneration arrangements for directors and executives.

The Nominations and Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high performing director and executive team.

The Nominations and Remuneration Committee comprises four non-executive directors and one executive director.

VDM GROUP LIMITED

DIRECTORS' REPORT

For the year ended 30 June 2013

Remuneration approval process

The Board approves the remuneration arrangements of the Managing Director and executives and all awards made under the long-term incentive (LTI) plan, following recommendations from the Nominations and Remuneration Committee. The Board also sets the aggregate remuneration of NEDs which is then subject to shareholder approval.

The Nominations and Remuneration Committee approves, having regard to the recommendations made by the Managing Director, the level of the VDM Group short-term incentive (STI) pool.

Remuneration strategy

VDM Group's remuneration strategy is designed to attract, motivate and retain employees and NEDs by identifying and rewarding high performers and recognising the contribution of each employee to the continued growth and success of VDM Group.

To this end, key objectives of the Company's reward framework are to ensure that remuneration practices:

- Are aligned to the VDM Group's business strategy;
- Offer competitive remuneration benchmarked against the external market;
- Provide strong linkage between individual and group performance and rewards; and
- Align the interests of executives with shareholders through measuring total shareholder return (TSR).

Remuneration structure

In accordance with good corporate governance practice, the structure of NED and executive remuneration is separate and distinct.

4. Non-Executive Director remuneration arrangements

Remuneration policy

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

The amount of aggregate remuneration sought to be approved by shareholders and the fee structure is reviewed annually against fees paid to NEDs of comparable companies. The Board considers advice from external consultants when undertaking the annual review process.

The constitution and the ASX listing rules specify that the NED fee pool shall be determined from time to time by a general meeting. The latest determination was at the 2010 AGM held on 19 November 2010 when shareholders approved an aggregate fee pool of \$600,000 per year. This amount includes superannuation and fees paid to directors in their capacity as members of the Board and its committees.

The Board will not seek any increase for the NED fee pool at the 2013 Annual General Meeting.

Structure

The remuneration of NEDs consists of directors' fees and committee fees. NEDs do not receive retirement benefits, other than superannuation and they do not participate in any incentive programs.

The NED fees have not changed since Aug 2010 where it was agreed that each NED received an annual base fee of \$75,000 for being a director of VDM Group. The Chairperson of the Board received an additional \$65,000. These fees were inclusive of Board committee participation, except an uplift of \$10,000 for the Chairperson of the Audit and Risk Committee role which is considered to be substantially active. The Nominations and Remuneration Committee recommended that additional remuneration be paid if activity on any Board Committees is substantially active.

In November 2012, the NEDs agreed to reduce their fees by 10% till 30 June 2013 in light of company performance.

The remuneration of NEDs for the year ended 30 June 2013 and 30 June 2012 is detailed in tables 1 and 2 respectively of this report.

VDM GROUP LIMITED

DIRECTORS' REPORT

For the year ended 30 June 2013

5. Executive remuneration arrangements

Remuneration levels and mix

VDM Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within VDM Group and aligned with market practice.

VDM Group's policy is to position total employment cost (TEC) close to the median of its defined talent market to ensure a competitive offering. VDM Group undertakes an annual remuneration review to determine the total remuneration positioning against the market.

The Managing Director's remuneration mix comprises 40% fixed remuneration as a proportion of total remuneration, 30% maximum STI and 30% maximum LTI.

Structure

The executive remuneration framework consists of the following components:

- Fixed remuneration; and
- Variable remuneration

The table below illustrates the structure of VDM Group's executive remuneration arrangements:

Remuneration component	Vehicle	Purpose	Link to performance
Fixed remuneration	<ul style="list-style-type: none"> • Represented by total employment cost (TEC) • Comprises base salary, superannuation contributions and other benefits 	<ul style="list-style-type: none"> • Set with reference to role, market and experience • Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for VDM Group 	<ul style="list-style-type: none"> • No direct link to company performance
STI component	<ul style="list-style-type: none"> • Paid in cash 	<ul style="list-style-type: none"> • Rewards executives for their contribution to achievement of VDM Group and business unit outcomes, as well as individual key performance indicators (KPIs) 	<ul style="list-style-type: none"> • Earnings before Interest and Tax • Linked to safety performance improvement • Linked to other internal non-financial measures including project performance and business development
LTI component	<ul style="list-style-type: none"> • Awards are made in the form of performance shares 	<ul style="list-style-type: none"> • Rewards executives for their contribution to the creation of shareholder value over the longer term 	<ul style="list-style-type: none"> • Vesting of awards is dependent on VDM Group's TSR performance relative to ASX 200 Industrial Index

VDM GROUP LIMITED

DIRECTORS' REPORT

For the year ended 30 June 2013

Fixed remuneration

Executive contracts of employment do not include any guaranteed base pay increases. TEC is reviewed annually by the Nominations and Remuneration Committee. The process consists of a review of company, business unit and individual performance, relevant comparative remuneration internally and externally and, where appropriate, external advice independent of management.

The fixed component of executives' remuneration is detailed in the preceding table.

Variable remuneration — short term incentive (STI)

VDM Group operates an annual STI program that is available to executives and awards a cash bonus subject to the attainment of clearly defined VDM Group, business unit and individual measures.

The total potential STI available is set at a level so as to provide sufficient incentive to executives to achieve the operational targets and such that the cost to VDM Group is reasonable in the circumstances.

Actual STI payments awarded to each executive depend on the extent to which specific targets set at the beginning of the financial year are met. The targets consist of a number of key performance indicators (KPIs) covering both financial and non-financial, corporate and individual measures of performance.

Performance measures	Proportion of STI award measure applies to
Financial measure: <ul style="list-style-type: none"> • VDM Group Earnings before Interest and Tax (EBIT) 	60-80%
Non-financial measures: <ul style="list-style-type: none"> • Lost Time Injury Frequency Rate (LTIFR) • Market and competitive positioning • Project performance against tender expectations • Implementation of key growth initiatives • Risk management • Leadership/ team contribution 	20-40%

These measures were chosen as they represent the key drivers for the short-term success of the business and provide a framework for delivering long-term value.

The aggregate of annual STI payments available for executives across the VDM Group is subject to the approval of the Nominations and Remuneration Committee. On an annual basis, after consideration of performance against KPIs, the Nominations and Remuneration Committee, in line with their responsibilities, determine the amount, if any, of the short-term incentive to be paid to each executive. This process usually occurs within three months after the reporting date. Payments made are delivered as a cash bonus in the following reporting period.

For the 2012 financial year, \$300,000 of the \$350,000 STI bonus pool was paid to executives in November 2012. In April 2013, a review was undertaken of Mr Broads STI which resulted in a further \$70,000 being paid. In total, bonuses of \$370,000 were paid to KMP for the 2012 financial year.

The KMP did not meet the specific KPI targets set at the beginning of the year and as such there were no STI payments approved by the Nominations & Remuneration Committee for the 2013 financial year.

Variable remuneration — long term incentive (LTI)

During the course of the 2012 financial year, the KMP of the Company were invited by the Board to participate in the VDM Group LTI plan.

Under the LTI plan, KMP may be offered performance rights under the VDM Group Equity Incentive Plan every 12 months during their term of employment.

Each performance right entitles the KMP to acquire one fully paid ordinary share in the Company for no consideration (subject to the predetermined performance and vesting conditions below).

VDM GROUP LIMITED

DIRECTORS' REPORT

For the year ended 30 June 2013

Each offer will be made on the following basis:

- The maximum number of performance rights available for each offer is up to 67.5% of the KMP's annual TEC divided by the VWAP share price for the 5 days immediately preceding the relevant offer date.
- VDM's TSR ranking will be determined by comparing VDM's TSR over the performance period against the average TSR for the ASX 200 Industrial group over two years, commencing on the effective offer date.
- The actual number of performance rights offered will be determined in accordance with VDM's Total Shareholder Return (TSR) ranking as follows:

Relative TSR performance ranking	Percentage of award that will vest
Below the 50 th percentile	0%
At the 50 th percentile or above	100%

- For the purpose of the rights issued during the 2012 financial year, the grant date was 1 December 2011.
- The performance rights vest over a period of three years. 50% of the rights vest two years from the effective offer date, and the remaining 50% vest three years from the grant date.
- Vesting of the rights is subject to VDM Group being profitable during the two year period from the effective offer date.
- In the event that VDM Group is not profitable during this two year period, but the TSR 50% hurdle has been exceeded, the Board has the discretion to allow up to 50% of the rights that would have otherwise been available to vest to an employee.
- The employee is able to exercise the performance rights up to one year after vesting before the performance rights lapse.

Where the KMP ceases employment during the term of their employment prior to the vesting of their award, the performance rights which have not vested or been granted will automatically lapse unless the Board determines otherwise in its absolute discretion.

Average TSR for the ASX 200 Industrial group was considered the most appropriate benchmark to rank VDM's TSR. This benchmark was chosen as the Directors believe it enables the best comparison of the Group's performance compared to the performance of similar companies in the industrial sector. TSR and profitability were chosen to link LTI's with shareholder wealth.

A total of 34,391,304 performance rights were offered during the 2012 financial year. During the 2013 financial year, 16,565,217 performance rights lapsed as a result of KMP resigning during the year. A further 11,956,522 performance rights lapsed following the termination of Mr Broad on 23 August 2013 and will be reflected in the 2014 remuneration report. The performance rights offered to Mr Broad were approved by shareholders at the Annual General Meeting of the Company on 29 November 2012 and were revalued at \$0.012 per right.

KMP did not meet the predetermined performance and vesting conditions in the 2013 financial year. As a result, no additional performance rights were approved by the Nominations & Remuneration Committee in 2013.

VDM GROUP LIMITED

DIRECTORS' REPORT

For the year ended 30 June 2013

Company performance and the link to remuneration

Company performance and its link to short-term incentives

The financial performance measure driving the majority of the STI payment outcomes is Earnings before Interest and Tax (EBIT). The table below shows VDM Group Limited's gross EBIT history for the past five years (including the current period).

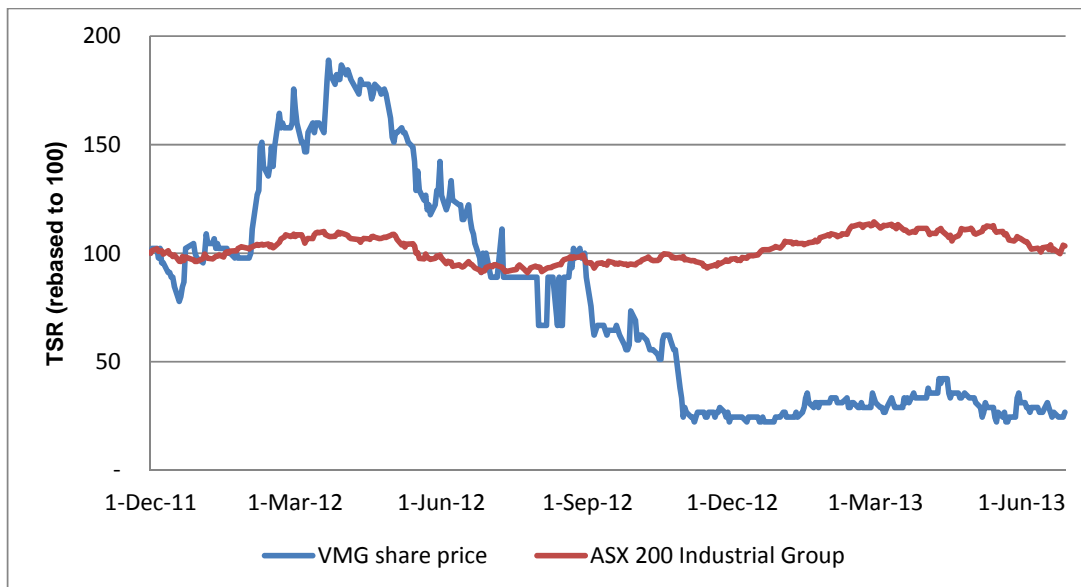
	EBIT \$'000	Closing share price (cents per share)
2013	(66,957)	0.01
2012	(29,759)	0.05
2011	(62,810)	0.07
2010	25,594	0.15
2009	(108,580)	0.06

As a result of the negative EBIT performance in 2013, no STI awards were made in the 2013 financial year.

Company performance and its link to long-term incentives

The performance measure which drives LTIs vesting is the Company's TSR performance relative to the ASX-200 Industrial group. 34,391,304 performance rights were offered during the 2012 financial year. During the 2013 financial year, 16,565,217 performance rights lapsed as a result of KMP resigning during the year.

The graph below shows VDM Group Limited's TSR performance relative to the ASX-200 Industrial group since grant date on 1 December 2011.



VDM GROUP LIMITED

DIRECTORS' REPORT

For the year ended 30 June 2013

Executive contractual arrangements

Remuneration arrangements for KMP are formalised in employment agreements. Details of these contracts are provided below.

Managing Director

The Managing Director is employed under a rolling contract.

With effect from 9 September 2013, the remuneration of the Managing Director is as follows:

- Fixed remuneration of \$625,000 per annum (representing 40% as a proportion of total maximum remuneration);
- Maximum STI opportunity is 75% of TEC (representing 30% as a proportion of total maximum remuneration); and
- Maximum LTI opportunity is 75% of TEC (representing 30% as a proportion of total maximum remuneration).

The Managing Directors termination provisions are as follows:

	Notice period	Payment in lieu of notice	Treatment of STI on termination	Treatment of LTI on termination
Employer-initiated termination	6 months	6 months	Pro-rated for time and performance subject to Board discretion	Unvested awards forfeited subject to Board discretion
Termination for serious misconduct	None	None	Pro-rated for time and performance subject to Board discretion	Unvested awards forfeited
Employee-initiated termination	3 months (resignation is effective immediately if shareholder approval is not obtained in respect of the convertible loan (refer to note 35))	3 months	Pro-rated for time and performance subject to Board discretion	Unvested awards forfeited subject to Board discretion

Other KMP

The Company may terminate all other KMP by providing between 6 weeks to three months written notice or providing payment in lieu of the notice period. The Company may terminate a contract at any time without notice if serious misconduct has occurred.

Payments applicable to outgoing executives

Mr Gonzales received a termination payment of \$35,649, in accordance with the conditions agreed upon at the termination of his employment contract.

Mr Broad received an employer-initiated termination payment of 6 months payment in lieu of notice in accordance with the terms of his employment contract, which amounted to \$312,500. The termination payment will be reflected in the 2014 remuneration table.

VDM GROUP LIMITED

DIRECTORS' REPORT

For the year ended 30 June 2013

Remuneration of directors and key management personnel

Table 1: Remuneration for the year ended 30 June 2013

	SHORT TERM			POST	EQUITY	Termination	Total	Performance
	Base	Cash	Non-	EMPLOYMENT	SETTLED			
	Salary & Fees	Bonus	Monetary Benefits	Super Contributions	SHARE BASED PAYMENT Value of Performance Rights			
	\$	\$	\$	\$	\$	\$	\$	%
Current non-executive directors								
M Perrott	131,488	-	-	-	-	-	131,488	-
B Nazer	73,891	-	-	6,650	-	-	80,541	-
R Mickle	59,005	-	-	5,311	-	-	64,316	-
M Fry	59,005	-	-	5,311	-	-	64,316	-
Past non-executive directors								
T Crossley ¹	23,288	-	-	2,096	-	-	25,384	-
Past executive directors								
A Broad ⁷	556,730	70,000 ⁹	-	25,000	(20,635) ⁸	-	631,095	8%
Current key management personnel								
R Gregg	410,620	-	-	53,128	97,222	-	560,970	17%
S Drury ³	-	-	-	-	-	-	-	-
Past key management personnel								
J Kemp ²	233,331	-	-	-	-	-	233,331	-
R Gonzales ⁴	216,649	-	-	24,392	(56,468)	35,649	220,222	(26%)
D Coyne ⁵	384,206	-	-	25,000	(37,646)	-	371,560	(10%)
T Fallon ⁶	239,418	-	-	8,235	(65,252)	-	182,401	(36%)
	2,387,631	70,000	-	155,123	(82,779)	35,649	2,565,624	0%

Notes:-

1. T Crossley resigned with effect from 24 October 2012.
2. J Kemp was appointed with effect from 7 November 2012 and resigned on 6 September 2013.
3. S Drury was appointed with effect from 24 June 2013.
4. R Gonzales was terminated with effect from 25 January 2013.
5. D Coyne resigned with effect from 12 June 2013.
6. T Fallon resigned with effect from 27 November 2012.
7. A Broad was terminated as Managing Director and Chief Executive Officer on 23 August 2013.
8. The performance rights granted to Mr Broad of 11,956,522 in 2012 were approved at the Annual General Meeting on 29 November 2012. The performance rights granted to Mr Broad were revalued at \$0.012 per right based on the underlying share price at that time.
9. The bonus paid to A Broad relates to a correction of the 2012 STI.

VDM GROUP LIMITED

DIRECTORS' REPORT

For the year ended 30 June 2013

Table 2: Remuneration for the year ended 30 June 2012

	SHORT TERM			POST	EQUITY	Termination	Total	Performance
	Base	Cash	Non-	EMPLOYMENT	SETTLED			
	Salary & Fees	Bonus	Monetary Benefits	Super Contributions	SHARE BASED PAYMENT Value of Performance Rights			
	\$	\$	\$	\$	\$	\$	\$	%
Current non-executive directors								
M Perrott	140,000	-	-	-	-	-	140,000	-
B Nazer	77,981	-	-	7,019	-	-	85,000	-
T Crossley	68,807	-	-	6,193	-	-	75,000	-
M Fry	75,000	-	-	6,750	-	-	81,750	-
R Mickle	75,000	-	-	6,750	-	-	81,750	-
Current executive directors								
A Broad ¹	525,000	150,000	-	25,000	115,028	-	815,028	33%
Past non-executive directors								
J van der Meer ³	297,400	-	-	52,618	-	-	350,018	-
Current key management personnel								
R Gonzales	372,509	50,000	-	23,100	56,468	-	502,077	21%
R Gregg	341,824	50,000	-	47,230	56,468	-	495,522	21%
T Fallon ⁶	486,770	25,000	-	16,004	65,252	-	593,026	15%
D Coyne ²	51,722	-	-	3,943	37,646	-	93,311	40%
Past key management personnel								
G Simpson ⁴	90,882	-	-	11,022	-	82,965	184,869	-
L Troncione ⁵	118,578	50,000	-	30,142	-	175,000	373,720	13%
	2,721,473	325,000	-	235,771	330,862	257,965	3,871,071	17%

Notes:

1. A Broad was appointed Managing Director on 16 January 2012.
2. D Coyne was appointed on 7 May 2012. The value of the performance rights are calculated from 1 December 2011.
3. J van der Meer resigned from the Board on 24 November 2011 and no longer meets the definition of KMP after this date.
4. G Simpson resigned on 31 August 2011.
5. L Troncione resigned on 26 October 2011.
6. T Fallon has resigned with effect from 27 November 2012.

VDM GROUP LIMITED

DIRECTORS' REPORT

For the year ended 30 June 2013

6. Additional statutory disclosure

This section sets out the additional disclosures required under the Corporations Act 2001.

The table below discloses the performance rights granted to executives as remuneration during the year ended 30 June 2013. Performance Rights do not carry any voting or dividend rights and will automatically become vested performance rights once the vesting conditions have been met.

Table 3: Performance rights awarded and vested during the year ended 30 June 2013

	Rights awarded during the year (No.)	Terms and conditions for each grant during the year				No. vested during the year	No. lapsed during the year
		Grant date	Fair value per right at award date (\$)	First vesting date	Second vesting date		
Past executive directors							
A Broad ¹	-	-	-	-	-	-	-
Current key management personnel							
R Gregg	-	-	-	-	-	-	-
Past key management personnel							
R Gonzales ²	-	1 December 2011	\$0.0398	1 December 2013	1 December 2014	-	5,869,565
T Fallon ³	-	1 December 2011	\$0.0398	1 December 2013	1 December 2014	-	6,782,609
D Coyne ⁴	-	7 May 2012	\$0.0398	1 December 2013	1 December 2014	-	3,913,043
	-					-	16,565,217

Notes:

1. Performance rights issued to A Broad in 2012 were approved at the 2012 Annual General Meeting.
2. R Gonzales was terminated with effect from 25 January 2013.
3. T Fallon resigned with effect from 27 November 2012.
4. D Coyne resigned with effect from 12 June 2013.

A further 11,956,522 performance rights lapsed during 2014 following the termination of A Broad on 23 August 2013.

VDM GROUP LIMITED

DIRECTORS' REPORT

For the year ended 30 June 2013

Table 3: Performance rights awarded and vested during the year ended 30 June 2012

	Terms and conditions for each grant during the year						No. vested during the year	No. lapsed during the year
	Rights awarded during the year (No.)	Grant date	Fair value per right at award date (\$)	First vesting date	Second vesting date			
Current executive directors								
A Broad ¹	11,956,522	1 December 2011	\$0.0398	1 December 2013	1 December 2014	-	-	
Current key management personnel								
R Gonzales	5,869,565	1 December 2011	\$0.0398	1 December 2013	1 December 2014	-	-	
R Gregg	5,869,565	1 December 2011	\$0.0398	1 December 2013	1 December 2014	-	-	
T Fallon ³	6,782,609	1 December 2011	\$0.0398	1 December 2013	1 December 2014	-	-	
D Coyne ²	3,913,043	7 May 2012	\$0.0398	1 December 2013	1 December 2014	-	-	
	34,391,304					-	-	

Notes:

1. Performance rights issued to A Broad are subject to shareholder approval at the 2012 Annual General Meeting.
2. Performance rights issued to D Coyne are effective on the date employment commenced with the company.
3. T Fallon has resigned with effect from 27 November 2012 and his performance rights will lapse upon his date of termination.

Signed in accordance with a resolution of the directors.



Dr Hua
Managing Director
 Perth, Western Australia
 29 October 2013

VDM GROUP LIMITED

AUDITOR'S INDEPENDENCE DECLARATION

For the year ended 30 June 2013





Ernst & Young
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Auditor's Independence Declaration to the Directors of VDM Group Limited

In relation to our audit of the financial report of VDM Group Limited for the financial year ended 30 June 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.


Ernst & Young


T Dachs
Partner
Perth
29 October 2013

VDM GROUP LIMITED

CORPORATE GOVERNANCE STATEMENT

For the year ended 30 June 2013

CORPORATE GOVERNANCE STATEMENT

ASX Principles and Recommendations

The Board of Directors ("Board") of VDM Group Limited ("VDM" or "Company") is responsible for the corporate governance of the Company and to ensure that VDM and its controlled entities ("VDM Group") are properly managed and controlled. In this regard, the Board is committed to maintaining and promoting the principles of good corporate governance.

The Directors of VDM Group are of the view that VDM Group has complied in all substantial respects with corporate governance best practice in Australia, including the ASX Corporate Governance Council Corporate Governance Principles and Recommendations ("Guidelines"). ASX Listing Rules require VDM Group to disclose in its Annual Report its practices and policies relating to the Guidelines.

This statement reflects the corporate governance practices and policies in place for VDM Group during the 2013 financial year.

Each year the Board reviews the Company's corporate governance practices and policies to ensure that they reflect corporate governance developments and assist VDM Group in maintaining robust corporate performance and accountability.

Each year the Board reviews and confirms all charters, codes and policies relating to the Guidelines. As a result of the recent review the majority of the Corporate Governance practices and policies were reaffirmed with only minor alterations.

The major change to the policies was the introduction of a Policy for Equal Employment Opportunities.

The corporate governance charters, codes and policies currently adopted by the Company can be viewed on the Company's website <<http://www.vdmgroup.com.au>>.

The Company's corporate governance statement is structured with reference to the Principles and Recommendations of the Guidelines, which are as follows:

PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Recommendation 1.1 – Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.

The Company complies with this recommendation.

The Company has established a Board Charter, which sets out the role, composition and responsibilities of the Board within the governance structure of the VDM Group. The Board Charter sets out the following key responsibilities and functions of the Board:

- to develop, review and monitor the VDM Group's long-term business strategies and provide strategic direction to senior executives
- to ensure policies and procedures are in place to safeguard the VDM Group's assets and business and to enable the VDM Group to act ethically and prudently
- to develop and promote a system of corporate governance which ensures the VDM Group is properly managed and controlled
- to identify the VDM Group's principal risks and ensure that it has in place appropriate systems of risk management, internal control, reporting and compliance and that management is taking appropriate action to minimise those risks
- to review and approve the VDM Group's financial statements
- to monitor management's performance and the VDM Group's consolidated financial results on a regular basis
- to appoint, appraise and determine the remuneration and benefits of the chief executive officer
- to delegate powers to the chief executive officer as necessary to enable the day-to-day business of the VDM Group to be carried on, and to regularly review those delegations
- to ensure that the VDM Group has in place appropriate systems to comply with relevant legal and regulatory requirements that impact on its operations
- to determine the appropriate capital management for the VDM Group including share and loan capital and dividend payments
- to determine and regularly review an appropriate remuneration policy for employees of the VDM Group.

VDM GROUP LIMITED

CORPORATE GOVERNANCE STATEMENT

For the year ended 30 June 2013

The Board has developed and reviews at least every 12 months a formal instrument of delegation to the chief executive officer. The instrument contains all necessary powers to enable the chief executive officer to conduct business of the VDM Group on a day-to-day basis. The Board requires the chief executive officer to report at least every 12 months on the exercise of certain delegated powers, in particular sub-delegated authorities, to other senior executives.

The Board has established the following committees to streamline the discharge of its responsibilities:

- Audit and Risk Committee
- Nominations and Remuneration Committee

Each new non-executive director is required to sign and return a letter of appointment which sets out the key terms of the director's appointment. The content of the letters of appointment for new non-executive directors is consistent with the ASX principles.

The Company also has formal employment contracts with its managing director, senior executives and chief financial officer which describe, amongst other things, their term of office, duties, rights, responsibilities and entitlements on termination.

Recommendation 1.2 – Companies should disclose the process of evaluating the performance of senior executives.

The chief executive officer conducts a formal review each year assessing the performance of senior executives and reports back to the Board.

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

Recommendation 2.1 – A majority of the Board should be independent directors.

The Company complies with this recommendation, as six of the seven directors are independent.

The Board considers that its structure has been appropriate in the context of the VDM Group's current operations. The Board considers that each of the directors possess skills and experience required for managing and developing the VDM Group and believes any additional information or advice can be more appropriately and economically obtained from independent external expert consultants.

Assessment of Directors Independence

The Board is comprised of both executive and non-executive directors with a majority of non-executive directors. Non-executive directors bring a fresh perspective to the Board's consideration of strategic, risk and performance matters and are best placed to exercise independent judgment and review and constructively challenge the performance of management.

The Board Charter states that an independent director:

- is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company
- within the last three years has not been employed in an executive capacity by the VDM Group, or been a director after ceasing to hold any such employment
- within the last three years has not been a principal of a material professional advisor or a material consultant to the VDM Group or an employee materially associated with the service provided
- is not a material supplier or customer of the VDM Group or an officer of or otherwise associated directly or indirectly with a material supplier or customer, has no material contractual relationship with the VDM Group other than as a director of the Company
- has not served on the Board for a period, which could or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company
- is free from any interest and any business or other relationship which could or could reasonably be perceived to, materially interfere with the directors' ability to act in the best interests of the Company.

VDM GROUP LIMITED

CORPORATE GOVERNANCE STATEMENT

For the year ended 30 June 2013

The Board has adopted ASSB Standard 1031 to determine the levels of materiality. A relationship is presumed immaterial when it generates less than 5% and presumed material when it generates more than 10% of revenue of the VDM Group over a 12 month period in the absence of evidence or convincing argument to the contrary. In considering such evidence or argument, VDM Group considers the strategic value and other material but non-quantitative aspects of the relationship in question. The threshold for materiality for the purposes of assessing the materiality of relationships between a non-executive director and VDM Group (other than in their capacity as a director) shall be judged according to the significance of the relationship to the director in the context of their activities as a whole.

The independent directors of the Company are:

- M Perrott AM (Chairperson)
- B Nazer (Chairperson of the Audit and Risk Committee)
- R Mickle (Chairperson of the Nominations and Remuneration Committee)
- M Fry
- X Ru

Independent Decision-making

Each director has the right under the Board Charter to seek independent professional advice on matters of concern. Such advice will be at the expense of the VDM Group, if approval is first given by the chairperson. During the financial year no directors sought to obtain such independent legal accounting and other professional advice.

Recommendation 2.2 – The chairperson should be an independent director.

The Company complies with this recommendation.

Recommendation 2.3 – The roles of chairperson and chief executive officer should not be exercised by the same individual.

The Company complies with this recommendation.

Recommendation 2.4 – The Board should establish a nomination committee.

The Company complies with this recommendation.

The purpose of the Nominations and Remuneration Committee is to assist and advise the Board on matters relating to the appointment and remuneration of directors, the chief executive officer and other senior executives and employees of the VDM Group.

The role of the committee in relation to nomination is to:

- review the size and composition of the Board
- review and advise the Board on the range of skills available on the Board and appropriate balance of skills for future Board membership
- review and consider succession planning for the chief executive officer, the chairperson and other directors and key executives
- develop criteria and procedures for the identification of candidates for appointment as directors, with the criteria including a consideration of the candidate's:
 - skills, experience, expertise and personal qualities
 - capability to devote the necessary time and commitment to the role
 - potential conflicts of interest and independence
- apply the criteria and procedures to identify prospective candidates for appointment as a director and make recommendations to the Board
- make recommendations to the Board regarding any directors who should not continue in office, having regard to the results of a formal performance appraisal of directors and/or consideration of the appropriate composition of the Board
- nominate for approval by the Board external experts (where appropriate) to advise on the matters listed above
- review the time required from a non-executive director and whether directors are meeting this requirement
- evaluate management's recommendations on the appointment of key executives
- develop a plan for identifying, assessing and enhancing director competencies
- ensure that there is an appropriate induction program for new directors and members of senior management and reviewing its effectiveness.

VDM GROUP LIMITED

CORPORATE GOVERNANCE STATEMENT

For the year ended 30 June 2013

The role of the committee in relation to remuneration is to:

- determine remuneration policies and remuneration of directors
- determine remuneration and incentive policies and packages of key executives
- determine the VDM Group's recruitment, retention and termination policies and procedures for senior management
- determine and review incentive plans and require that equity-based incentive plans involving the issue of new securities to executives, other than directors, be approved by shareholders, prior to implementation and that such plans prohibit hedging of unvested options
- determine and review superannuation arrangements of the VDM Group
- determine and review professional indemnity and liability insurance for directors and senior management.

The charter of the Nominations and Remuneration Committee provides that at least three directors, with the majority being independent directors, shall comprise the committee. The chairperson of the committee shall be the chairperson of the Board or an independent director. The Board has adopted a formalised policy for the appointment of non-executive directors. The current committee comprises:

- R Mickle (Chairperson)
- B Nazer
- M Fry
- D Hua
- X Ru

Recommendation 2.5 – Companies should disclose the process of evaluating the performance of the Board, its committees and individual directors.

At the commencement of each financial year the Board establishes performance targets. Each year the Board undertakes for the previous financial year a self-assessment of its collective performance and the assistance provided to it by its various Board committees. Senior executives and executive directors are assessed against previously agreed key performance indicators by the chief executive officer and the findings communicated to the independent directors. The performance of the chief executive officer is reviewed by the Nominations and Remuneration Committee.

PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Recommendation 3.1 – Companies should establish a code of conduct and disclose the code or a summary of the codes as to:

- practices necessary to maintain confidence in the Company's integrity
- the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practice.

The Company complies with this recommendation.

The Company has a Code of Conduct ("Code") which is endorsed by the Board and applies to all directors and employees. The Code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Company's integrity.

The objective of the Code is to:

- provide a benchmark for professional behaviour throughout the VDM Group
- support the VDM Group's business reputation and corporate image within the community
- make employees aware of the consequences if they breach the Code.

In summary, the Code requires that at all times the VDM Group personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and the VDM Group policies.

The Code contains statements of commitments to employees, clients, shareholders, governments and communities. In addition, the Code deals with compliance with and respect for the law, fair dealing, equal opportunity and anti-discrimination, occupational health and safety, disclosure of the VDM Group's information and securities dealing, conflicts of interest, gifts, prizes and entertainment, improper use or theft of property or assets.

The Code of Conduct is available on the Company's website.

VDM GROUP LIMITED

CORPORATE GOVERNANCE STATEMENT

For the year ended 30 June 2013

Recommendation 3.2 – Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity for the Board to assess annually both the objectives and progress in achieving them.

The Company complies with this recommendation.

The Company has a Diversity Policy which is endorsed by the Board. VDM Group is committed to providing a diverse work environment in which everyone is treated fairly and with respect. This policy applies to directors and employees of VDM Group.

The Board will establish measurable objectives for achieving gender diversity and will review these objectives annually. The Nominations and Remuneration Committee will have the responsibility of assessing and reporting to the Board VDM Group's progress towards achieving the measurable objectives on an annual basis. The Nominations and Remuneration Committee will also have the responsibility of recommending to the Board the extent to which the achievement of measurable diversity objectives will be linked to the key performance indicators for the Board, chief executive officer and senior executives.

The Diversity Policy is available on the Company's website.

Recommendation 3.3 – Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them.

The Company complies with this recommendation.

The measurable objectives set by the Board for achieving gender diversity of the Code is to:

- Establish a Diversity sub-committee
- Appoint a member of the executive management group responsible for diversity
- Ensure recruitment policies and procedures reflect VDM Group's position on diversity
- Diversity sub-committee to provide an initial report to the Nominations and Remuneration Committee by August 2011, and then to report to the Committee on an half yearly basis
- Establish programs which aim to increase female participation in the construction, contracting and engineering sectors and women in leadership roles
- Implement regular diversity education and training for all employees and contractors, and periodically conduct awareness sessions on issues related to equal opportunities in the workplace
- Issue guidance notes on the VDM Group's commitment to diversity to all external agencies engaged to provide recruitment services

The Company has achieved all objectives set by the Board.

Recommendation 3.4 – Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the Board.

The Company complies with this recommendation.

The proportion of women:

- employees at VDM Group: 21% (2012: 22%)
- in senior executive positions: 25% (2012: 0%)
- on the Board: 0% (2012: 0%)

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Recommendation 4.1 – The Board shall establish an audit committee.

The Company complies with this recommendation.

The Audit and Risk Committee's primary responsibilities are to assist the Board in:

- fulfilling its overview of the audit process
- overseeing financial reporting
- fulfilling its overview of the systems of internal control which the Board and management have established
- its processes of risk management and in monitoring compliance with corporate policies, the code of conduct and corporate governance and risk management policies generally.

VDM GROUP LIMITED

CORPORATE GOVERNANCE STATEMENT

For the year ended 30 June 2013

The charter of the Audit and Risk Committee provides for at least three directors to comprise the committee, but recognises that this may not be practicable at all times given its size and composition. The chairperson of the committee is appointed by the Board. The committee chairperson is an independent non-executive director. The chief financial officer and any other individual may attend meetings at the invitation of the chairperson of the committee, but are not members of the committee. The current committee comprises:

- B Nazer (Chairperson)
- M Fry
- D Hua

Recommendation 4.2 – The Audit Committee should be appropriately structured.

The Company considers that it complies with this requirement.

The Audit Committee:

- consists only of independent directors
- is chaired by an independent chairperson who is not chairperson of the Board
- has at least two members.

Recommendation 4.3 – The Audit Committee should have a formal operating charter.

The Company complies with this recommendation.

The charter sets out the committee's purpose, membership role, responsibilities and functions relating to financial reporting, auditors and risk, as well as committee administrative procedures.

The charter of the Audit Committee is available on the Company's website.

PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE

Recommendation 5.1 – Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior management level for that compliance and disclose those policies or a summary of those policies.

The Company complies with this recommendation.

The purpose of the Market Disclosure Policy is to establish procedures for:

- identifying material price-sensitive information
- reporting such information to the reporting officer for review
- ensuring the Company achieves best practice in complying with its continuous disclosure obligations under the Corporations Act and ASX Listing Rules
- ensuring the VDM Group, the Board and key senior management do not contravene the Corporations Act or ASX Listing Rules.

The rules set out in the policy are designed to ensure that announcements made by the Company are:

- made in a timely manner
- factual
- do not omit material information
- are expressed in concise and clear language that allows shareholders and the market to assess the impact of the information when making investment decisions.

This policy applies to directors, executive officers and members of senior management who are most likely to be in possession of, or become aware of, the relevant information. All staff have been made aware of the existence of the policy so that they can assist with reporting of potentially sensitive information to the appropriate persons within the VDM Group.

The Market Disclosure Policy is available on the Company's website.

VDM GROUP LIMITED

CORPORATE GOVERNANCE STATEMENT

For the year ended 30 June 2013

PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS

Recommendation 6.1 – Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

The Company complies with this recommendation.

The Communications Policy is based on compliance with the Company's disclosure obligations and aims at all times to achieve best practice. The Communications Policy commits the Company to facilitating shareholder participation in the member meetings and to dealing promptly with shareholder enquiries. The Company believes that communicating with shareholders by electronic means, particularly through its website, is an efficient way of distributing information in a timely, convenient manner.

The Company's Communication Policy is available on the Company's website.

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

Recommendation 7.1 – Companies should establish policies for the oversight and management of material business risks.

The Company complies with this recommendation.

The Risk Management Policy is designed to assist in the development of organisational capabilities in risk management for internal control purposes.

Recommendation 7.2 – The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively.

Risk management is regarded as an integral part of the Company's strategic planning, business planning and investment/project appraisal procedures. The focus of risk management is the identification and treatment of risks with the objective to add maximum sustainable value to all of the activities of the organisation.

The Risk Management Policy has been established to assist in the development of organisational capabilities in risk management. The Risk Management Policy sets out the following rules and responsibilities:

- The Board is ultimately responsible for the risk management and internal control framework of the VDM Group.
- The Board shall regularly review the effectiveness of the risk management and internal control framework.
- The Board will review and discuss strategic risks and opportunities arising from changes in the VDM Group's business environment regularly and on an as-needs basis.
- The Board has delegated some of its responsibilities to the Audit and Risk Committee; however, maintains the overall responsibility for the process.
- The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to management. Management is required to report back to the Board through the Audit and Risk Committee on the efficiency and effectiveness of risk management.

The Company maintains a risk register which is currently a quarterly agenda item for Board meetings.

Recommendation 7.3 – The Board should disclose whether it has received assurance from the chief executive officer and the chief financial officer that:

- the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control
- the system is operating effectively in all material respects in relation to the financial reporting risks.

In accordance with the Board's policy, the chief executive officer and the chief financial officer made the attestations required by Recommendation 7.3 prior to the Board signing the annual report.

VDM GROUP LIMITED

CORPORATE GOVERNANCE STATEMENT

For the year ended 30 June 2013

PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

Recommendation 8.1 – The Board should establish a remuneration committee.

The Company complies with this recommendation.

The Nominations and Remuneration Charter sets out the committee's purpose, membership including procedures for attendance by non-members, its role and administrative procedures.

The purpose of the Nominations and Remuneration Committee is to assist and advise the Board on matters relating to the appointment and remuneration of directors, the chief executive officer and other senior executives and employees of the VDM Group.

The commentary under Recommendation 2.4 summarises the role of the committee in relation to remuneration. Each member of the executive team signs a formal employment contract at the time of their appointment covering a range of matters including duties, rights, responsibilities and entitlements on termination. The current remuneration of the directors and selected senior executives is published in the Directors' Report and Notes to the Financial Statements. These Notes also describe the Company's remuneration principles and policies.

The Charter of the Nominations and Remunerations Committee is available on the Company's website.

Recommendation 8.2 – The remuneration committee should be structured so that it:

- consists of a majority of independent directors
- is chaired by an independent chair
- has at least three members.

The Company complies with this recommendation.

Recommendation 8.3 – Clearly distinguish the structure of non-executives directors' remuneration from that of executives.

The non-executive directors of the Company are entitled to a fee that is determined by the Nominations and Remuneration Committee. The fee may include superannuation contributions. Additional fees are periodically payable for participation on Board committees. Non-executive directors do not participate in equity plans of the Company and do not receive retirement benefits other than statutory entitlements.

Guidelines for Information

Recommendations 1.3, 2.6, 3.3, 4.4, 5.2, 6.2 and 7.4 – The Company should provide the information in the Guide for reporting principles.

The Company considers that the level of information disclosed satisfies these recommendations.

The Company's website <<http://www.vdmgroup.com.au>> contains the following corporate governance charters, codes and policies:

- Board Charter
- Audit and Risk Committee Charter
- Nominations and Remunerations Committee Charter
- Guidelines for the Operation of the Board of Directors
- Code of Conduct
- Appointment and Selection of non-executive directors
- Communications Policy
- Market Disclosure Policy
- Securities Dealing Policy
- Risk Management Policy
- Equal Opportunity Policy
- Whistle Blower Protection Policy
- Diversity Policy

VDM GROUP LIMITED
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2013

	Notes	Consolidated	
		2013 \$'000	2012 \$'000
Continuing operations			
Rendering of services		204,563	229,713
Other revenue	5	643	1,022
Revenue		205,206	230,735
Cost of services		(239,457)	(241,430)
Gross loss		(34,251)	(10,695)
Administration expenses		(12,874)	(15,176)
Finance costs	7(b)	(233)	(786)
Impairment charge	7(d)	(19,486)	(3,161)
Share based payment write-back / (expense)	30	90	(329)
Loss from continuing operations before income tax		(66,754)	(30,147)
Income tax (expense) / benefit	8(a)	(14,905)	3,127
Loss from continuing operations after income tax		(81,659)	(27,020)
Discontinued operations			
Loss from discontinued operations after income tax	9	(2,749)	(27,792)
Loss for the year		(84,408)	(54,812)
Other comprehensive income		-	-
Total comprehensive loss for the year		(84,408)	(54,812)

Total comprehensive loss for the year is attributable to:

Owners of the parent		(84,408)	(54,812)
		(84,408)	(54,812)

Earnings per share (cents per share)

Basic, loss for the year attributable to ordinary equity holders of the parent	10	(9.04)	(7.81)
Diluted, loss for the year attributable to ordinary equity holders of the parent	10	(9.04)	(7.81)

Earnings per share for continuing operations (cents per share)

Basic, loss from continuing operations attributable to ordinary equity holders of the parent	10	(8.74)	(3.85)
Diluted, loss from continuing operations attributable to ordinary equity holders of the parent	10	(8.74)	(3.85)

VDM GROUP LIMITED
STATEMENT OF FINANCIAL POSITION
As at 30 June 2013

	Notes	Consolidated	
		2013 \$'000	2012 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	12	11,857	10,029
Term deposit	13	5,238	13,568
Trade and other receivables	14	12,507	48,736
Contracts in progress	15	7,848	19,656
Inventory	17	308	952
Development properties	16	5,411	5,529
Other assets	18	728	2,342
		43,897	100,812
Non-current assets classified as held for sale	19	900	1,295
Total current assets		44,797	102,107
Non-current assets			
Trade and other receivables	14	258	-
Property, plant and equipment	20	6,359	12,847
Deferred tax assets	8	-	16,156
Intangible assets and goodwill	21	307	23,154
Total non-current assets		6,924	52,157
TOTAL ASSETS		51,721	154,264
LIABILITIES			
Current liabilities			
Trade and other payables	22	26,840	48,896
Amounts due to customers for contract work	15	7,200	3,546
Current tax liabilities		3,152	3,145
Deferred tax liability	8	-	918
Interest-bearing loans and borrowings	23	1,782	2,468
Provisions	24	9,872	7,519
Total current liabilities		48,846	66,492
Non-current liabilities			
Interest-bearing loans and other borrowings	23	299	128
Provisions	24	244	495
Total non-current liabilities		543	623
TOTAL LIABILITIES		49,389	67,115
NET ASSETS		2,332	87,149
EQUITY			
Equity attributable to equity holders of the parent			
Contributed equity	25	248,286	248,612
Reserves	26	884	967
Accumulated losses	26	(246,838)	(162,430)
Parent interests		2,332	87,149
TOTAL EQUITY		2,332	87,149

VDM GROUP LIMITED
STATEMENT OF CASH FLOWS
For the year ended 30 June 2013

	Notes	Consolidated	
		2013 \$'000	2012 \$'000
Cash flows from operating activities			
Receipts from customers		319,022	343,880
Payments to suppliers and employees		(324,548)	(353,435)
Interest received		455	481
Interest paid		(243)	(2,095)
GST paid		(6,837)	(9,121)
Income tax refunded		-	3,987
Net cash flows used in operating activities	27(a)	(12,151)	(16,303)
Cash flows from investing activities			
Purchase of property, plant and equipment		(3,320)	(7,511)
Release from / (investment in) term deposit		8,330	(13,568)
Proceeds from sale of property, plant and equipment		9,674	15,909
Purchase of intangibles		(195)	(158)
Loans to related entities		-	(63)
Proceeds from external loans		1,634	-
Payment of settlement adjustments	24(i)	(707)	(187)
Net proceeds from sale of subsidiary	9	1,130	43,107
Net cash flows from investing activities		16,546	37,529
Cash flows from financing activities			
Proceeds from borrowings		995	2,055
Repayment of borrowings		(3,513)	(39,281)
Transaction costs on issue of shares		(49)	(2,524)
Proceeds from share placements		-	36,255
Net cash flows used in financing activities		(2,567)	(3,495)
Net increase in cash and cash equivalents		1,828	17,731
Cash and cash equivalents at beginning of year		10,029	(7,702)
Cash and cash equivalents at end of year	12	11,857	10,029

VDM GROUP LIMITED
STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2013

	Issued capital	Accumulated losses	Equity reserve	Other capital reserve	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2012	248,612	(162,430)	457	510	87,149
Comprehensive loss for the year	-	(84,408)	-	-	(84,408)
Total comprehensive loss for the year	-	(84,408)	-	-	(84,408)
Transactions with owners in their capacity as owners					
Reversal of tax benefits on capital raising costs in prior years	(268)	-	-	-	(268)
Transactions costs on share and option issue	(51)	-	-	-	(51)
Share-based payments	(7)	-	-	(83)	(90)
Balance at 30 June 2013	248,286	(246,838)	457	427	2,332
Balance at 1 July 2011					
Balance at 1 July 2011	214,112	(107,618)	1,074	192	107,760
Comprehensive loss for the year	-	(54,812)	-	-	(54,812)
Total comprehensive loss for the year	-	(54,812)	-	-	(54,812)
Transactions with owners in their capacity as owners					
Issue of shares	36,238	-	-	-	36,238
Exercise of bonus option issue	17	-	-	-	17
Transactions costs on share and option issue	(2,524)	-	-	-	(2,524)
Tax benefit of transaction costs	758	-	-	-	758
Settlement adjustments paid on prior acquisitions	-	-	(149)	-	(149)
Stamp duty paid on prior acquisitions	-	-	(468)	-	(468)
Share-based payments	11	-	-	318	329
Balance at 30 June 2012	248,612	(162,430)	457	510	87,149

VDM GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2013

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VDM GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2013

1. CORPORATE INFORMATION

The consolidated financial statements of VDM Group Limited for the year ended 30 June 2013 was authorised for issue in accordance with resolution of the directors on 26 September 2013. VDM Group Limited is a for-profit company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange.

The nature of the operations and principal activities of VDM Group are described in the Directors Report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on the historical cost basis. The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated. VDM Group is a for profit entity.

Compliance with IFRS

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

New and amended accounting standards and interpretations

VDM Group has adopted all new and amended Australian Accounting Standards and AASB Interpretations from 1 July 2012 mandatory for annual reporting periods beginning on or after 1 July 2012. The adoption of these new and amended Standards and Interpretations did not have any effect on the financial position or performance of VDM Group.

The following standards and interpretations have been issued by the AASB but are not yet effective for the period ending 30 June 2013. VDM Group has not elected to early adopt any other new Standards or amendments that are issued but not yet effective. VDM Group is still evaluating the impact of these standards.

Reference	Title	Application date of standard*
AASB 10	Consolidated Financial Statements	1 January 2013
AASB 11	Joint Arrangements	1 January 2013
AASB 12	Disclosure of Interests in Other Entities	1 January 2013
AASB 13	Fair Value Measurement	1 January 2013
AASB 119	Employee Benefits	1 January 2013
AASB 2012-2	Amendments to Australian Accounting standards – Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
AASB 2012-5	Amendments to Australian Accounting standards arising from Annual Improvements 2009-2011 Cycle	1 January 2013
AASB 2012-9	Amendments to AASB 1048 arising from the withdrawal of Australian Interpretation 1039	1 January 2013
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	1 July 2013
AASB 1053	Application of Tiers of Australian Accounting Standards	1 July 2013
AASB 2012-3	Amendments to Australian Accounting standards –Offsetting Financial Assets and Financial Liabilities	1 January 2014
Interpretation 21	Levies	1 January 2014

VDM GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2013

Reference	Title	Application date of standard*
AASB 9	Financial Instruments	1 January 2015

Notes:

* Designates the beginning of the applicable annual reporting period unless otherwise stated.

Going concern

VDM Group incurred a net loss after tax from continuing operations for the year ended 30 June 2013 of \$84,408,000 (2012: \$54,812,000). Net cash flows used in operating activities was \$12,151,000 (2012: \$16,303,000). At 30 June 2013, VDM Group had net current liabilities of \$4,049,000 (2012: \$35,615,000 net current assets), including non-current assets held for sale of \$900,000 (2012: \$1,295,000). The cash position of VDM Group at 30 June 2013 was \$11,857,000 (2012: \$10,029,000) with a further \$5,238,000 (2012: \$13,568,000) in short term deposits which were not available for immediate use.

This report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business. In forming this view, the directors have taken into consideration:

- the additional loan facility of up to \$4,000,000 to be provided by H&H to VDM Group and ongoing support by H&H to the development of the Company's new business strategy;
- the successful completion of the entitlement offer to its shareholders to raise up to approximately \$9,250,000;
- the re-structure of the business and associated reduction in personnel in order to right size the business commensurate with work activity;
- the potential for recovery of significant moneys through the resolution of outstanding claims and variations with clients. The value of contingent revenue exceeds \$12,000,000. All costs associated with the contingent revenue have been fully expensed during 2013; and
- the successful implementation of the new business strategy and the ability to leverage off H&H's Australian and Chinese relationships and global experience in mining and construction sectors; which is likely to incorporate an expansion of VDM Group. In addition to enhancing VDM Group's current construction operations, VDM Group proposes to increase exposure to the resources value chain through the establishment of engineering procurement and mining business arms. VDM Group recognises that the previous business model did not work; and

should VDM Group not achieve the matters set out above, there is material uncertainty as to whether VDM Group will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the annual financial report. The annual financial report does not include any adjustments to assets and liabilities that may be necessary if VDM Group is unable to continue as a going concern.

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of VDM Group Limited and its subsidiaries as at and for the year ended 30 June each year.

Subsidiaries are all those entities over which VDM Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intragroup transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by VDM Group and cease to be consolidated from the date on which control is transferred out of VDM Group.

Investments in subsidiaries held by VDM Group Limited are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate income statement of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

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For the year ended 30 June 2013

A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

Non-controlling interests are allocated their share of net profit after tax in the statement of comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

If VDM Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss;
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

(b) Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, VDM Group elects whether it measures the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred in administrative expenses.

When VDM Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the VDM Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

Prior to 1 July 2009

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs.

(c) Operating segments reporting – refer note 4

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the Board of Directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

VDM Group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services,
- Type or class of customer for the products and services,
- Methods used to distribute the products or provide the services, and if applicable,
- Nature of the regulatory environment.

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Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

(d) Foreign currency translation

Functional and presentation currency

Both the functional and presentation currency of the Company and its Australian subsidiaries is Australian dollars (A\$).

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

(e) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest bearing loans and borrowings in current liabilities on the balance sheet.

(f) Trade and other receivables

Trade receivables, which generally have 30-60 day terms, unless otherwise contractually agreed, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Other debtors are settled on an at-call basis and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectibility of trade and other receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment allowance is recognised when there is objective evidence that VDM Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are generally considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

Receivables from related parties are recognised and carried at the amortised cost due less allowance for impairment. All receivables are repayable on demand.

(g) Inventories and development properties

Inventories and development properties are measured at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Where held at cost, cost comprises all costs of purchase, cost of conversion and costs incurred bringing the inventories or development properties to their present location or condition. Inventory is measured on a first in, first out basis.

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For the year ended 30 June 2013

(h) Contracts in progress

Contracts in progress are valued at cost plus profit recognised to date based on the value of work completed, less provision for foreseeable losses.

Costs include both variable and fixed costs directly related to specific contracts. Those costs that are expected to be incurred under penalty clauses and warranty provisions are also included.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract is recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period. An expected loss on the construction contract is recognised as an expense immediately as soon as the loss is foreseeable.

In the case of a fixed price contract, the outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:

- total contract revenue can be measured reliably;
- it is probable that the economic benefits associated with the contract will flow to the entity;
- both the contract costs to complete the contract and the stage of contract completion at the end of the reporting period can be measured reliably; and
- the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates

In the case of a cost plus contract, the outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:

- it is probable that the economic benefits associated with the contract will flow to the entity; and
- the contract costs attributable to the contract, whether or not specifically reimbursable, can be clearly identified and measured reliably.

(i) Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction. They are not depreciated or amortised. For an asset or disposal group to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

(j) Interests in jointly controlled operations

VDM Group has interests in joint ventures through jointly controlled operations. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled operation involves use of assets and other resources of the venturers rather than establishment of a separate entity. VDM Group recognises its interest in the jointly controlled operation by recognising its interest in the assets and the liabilities of the joint venture. VDM Group also recognises the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the jointly controlled operation.

(k) Property, plant and equipment

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

Depreciation is calculated on a straight-line and diminishing balance method over the estimated useful life of the specific assets as follows: -

- Land – not depreciated
- Buildings – over 40 years
- Leasehold improvements – over 3 to 10 years
- Plant and equipment – over 3 to 15 years

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For the year ended 30 June 2013

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

(l) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of an arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

VDM Group as a lessee

Finance leases, which transfer to VDM Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that VDM Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction in liability.

(m) Impairment of non-financial assets other than goodwill

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

VDM Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(n) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over VDM Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the VDM Group's cash-generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of VDM Group are assigned to those units or groups of units.

Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. The impairment testing involves using a value in use, discounted cashflow methodology for all the cash generating units to which goodwill has been allocated.

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When the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

(o) Intangible assets

Intangibles

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is taken to the statement of comprehensive income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level consistent with the methodology outlined for goodwill above. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when VDM Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefit from the related project. Amortisation is recognised in the income statement in the line "administrative expenses".

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use, or more frequently when an indication of impairment arises during the reporting period.

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

Software – 2.5 years
Development costs – 5 years

(p) Trade and other payables

Trade and other payables are carried at amortised cost due to their short term nature and are not discounted. They represent liabilities for goods and services provided to VDM Group prior to the end of the financial year that are unpaid and arise when VDM Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

Payables to related parties are carried at amortised cost. Interest, when charged by the lender, is recognised as an expense using the effective interest method.

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(q) Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless VDM Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Except as explained below, borrowing costs are recognised as an expense when incurred. VDM Group currently has development properties which meet the definition of a qualifying asset. As such, the borrowing costs directly associated with the qualifying development properties are capitalised in the cost of the asset.

(r) Provisions and employee benefits

Provisions are recognised when VDM Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date using a discounted cash flow methodology. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave due to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable. Where a period end falls between pay dates an accrual is raised for any unpaid wages and salaries at the period end.

Long service leave

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

(s) Share based payment transactions

Equity settled transactions

Senior executives of VDM Group receive share-based payment transactions (equity-settled) as part of their TEC (total employment cost).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 30.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of VDM Group (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the income statement is the product of:

- (i) the grant date fair value of the award;
- (ii) the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and

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For the year ended 30 June 2013

(iii) the expired portion of the vesting period.

The charge to the income statement for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

Equity-settled awards granted by VDM Group to employees of subsidiaries are recognised in the parent's separate financial statements as an additional investment in the subsidiary with a corresponding credit to equity. As a result, the expense recognised by VDM Group in relation to equity-settled awards only represents the expense associated with grants to employees of the parent. The expense recognised by VDM Group is the total expense associated with all such awards.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

The terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (note 10).

Shares in VDM Group reacquired on-market are classified and disclosed as reserved shares and deducted from equity (see note 2 (u)).

(t) Contributed equity

Ordinary shares

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.

Reserved shares

VDM Group's own equity instruments, which are reacquired for later use in employee share based payment arrangements (reserved shares) are deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of VDM Group's own equity instruments.

(u) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to VDM Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of Goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the cost incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customers.

Sale of development properties

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the cost incurred or to be incurred in respect of the transaction can be measured reliably. Transfer of the risks and rewards of ownership coincides with the transfer of the legal title.

Construction and infrastructure development projects

Revenue from construction and infrastructure development projects is recognised in the financial year in which the activities are performed on a percentage of completion method or, where an independent third party provides an estimate of the stage of works completed, based on the independent third party assessment. Where the percentage to complete method is used, it is based on the cost incurred to date over anticipated total contract costs.

Where it is probable that total contract costs will exceed total contract revenue for a contract, the excess of costs over revenue is recognised as an expense immediately. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent expenses recognised are recoverable.

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For the year ended 30 June 2013

Rendering of services

Revenue from consulting services is recognised by reference to the stage of completion of a contract or contracts in progress at balance sheet date or at the time of completion of the contract and billing to the customer. Stage of completion is assessed by reference to the work performed.

Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent expenses recognised are recoverable.

Interest

Revenue is recognised as interest accrues 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.

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

Rental income

Rental income from investment properties is accounted for on a straight-line basis over the lease term. Contingent rental income is recognised as income in the periods in which it is earned. Lease incentives granted are recognised as an integral part of the total rental income.

(v) Income tax and other taxes

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

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

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

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

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is recognised only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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

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For the year ended 30 June 2013

Tax consolidation legislation

VDM Group Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2004.

VDM Group Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. VDM Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, VDM Group Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets and liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in VDM Group. Details of the tax funding agreement are disclosed in note 8.

Other taxes

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

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

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

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

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

(w) Earnings per share

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

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

- Costs of servicing equity (other than dividends);
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares.

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

VDM GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2013

(a) Determination of percentage of completion of contracts

Contract revenue is recognised as revenue in the income statement using the percentage of completion method in the reporting periods in which the work is performed. The percentage complete is calculated on:

- actual costs over the sum of actual plus projected costs to complete the contract, or
- in the case where VDM Group participates in joint contracts and VDM Group's costs are not representative of overall contract costs, based on the percentage of VDM Group's costs to the total estimated cost for VDM Group associated with that project, or
- in the case where there is an independent assessment of the percentage complete, based on the independent assessment.

Contract costs are recognised as an expense in the income statement in the reporting periods in which the work to which they relate is performed. Any expected excess of total contract costs over total contract revenue for the contract is recognised as an expense immediately.

(b) Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences, where management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

(c) Impairment testing of goodwill

Goodwill is tested for impairment each reporting period or if an impairment indicator exists. Impairment indicators include divisional product and service delivery performance, technology, economic and political environments and future budget expectations. This requires an estimation of the recoverable amount of the cash-generating units, using a value in use discounted cash flow methodology, to which goodwill is allocated. The assumptions used in this estimation of recoverable amount and carrying amount of goodwill including a sensitivity analysis are discussed in note 21.

(d) Impairment of non-financial assets other than goodwill

VDM Group assesses impairment of all non-financial assets other than goodwill at each reporting date by evaluating conditions specific to VDM Group and to the particular asset that may lead to impairment. These include product and service delivery performance, technology, economic and political environments and future product expectations. If an impairment indicator exists the recoverable amount of the asset is determined. Given the current uncertain economic environment, management considered that the indicators of impairment were significant enough and as such the non financial assets other than goodwill have been tested for impairment in this financial period.

(e) Share-based payment transactions

VDM Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined with the assistance of an external valuer using a binomial model, with the assumptions detailed in note 30. The accounting estimates and assumptions relating to equity-settled share based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

(f) Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment) and lease terms (for lease equipment). In addition, the condition of the assets is assessed at least once per year and considered against remaining useful life. Adjustments to useful lives are made when considered necessary. Depreciation charges are included in note 20.

(g) Capitalised development costs

Development costs are capitalised by VDM Group when it can be demonstrated that the technical feasibility of completing the intangible asset is valid so that the asset will be available for use or sale.

(h) Accounting for outstanding litigations

Where VDM Group is involved with outstanding litigation, provisions are raised where claims against VDM Group are probable and are able to be measured, at the best estimate of the expenditure required to settle the obligation at the reporting date. Where claims are not able to be reliably measured or are subject to future events not wholly within control of the Group, disclosure is made by way of a contingent liability note (note 34).

VDM GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2013

4. SEGMENT INFORMATION

For management purposes, VDM Group is organised into business units based on location and nature of services provided and has three reportable segments, as follows:

- Eastern construction;
- Western construction; and
- Consulting.

The services provided by each segment are as follows:

Eastern and Western construction services

Building

- Remote area camp and village accommodation
- Non process infrastructure including workshops, airports, control buildings, warehouses and ammonium nitrate stores

Civil

- Bulk earthworks
- Land development
- Marine and port infrastructure
- Roads and bridges
- Water and wastewater
- Concrete structures

Eastern and Western consulting services

- Building services consulting
- Civil engineering
- Environmental consulting
- Marine engineering
- Structural engineering
- Traffic engineering
- Infrastructure
- Industrial
- Transport
- Water
- Master planning
- Town planning
- Building design
- Project management

The reportable segments are based on aggregated operating segments determined by the similarity of the location and services provided, as these are the sources of VDM Group's major risks and have the most effect on the rates of return.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties. Inter entity sales and cost of sales are recognised on an arm's length basis and eliminated on consolidation. Income tax expense is calculated based on the segment operating net profit using a notional charge of 30% (2012: 30%). No effect is given for taxable or deductible temporary differences.

It is VDM Group's policy that if items of revenue and expense are not allocated to operating segments then any associated assets and liabilities are also not allocated to segments. This is to avoid asymmetrical allocations within segments which management believe would be inconsistent.

Corporate charges and other associated assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment

VDM Group is actively pursuing options to divest parts of the consulting business. As such management restructured its internal reporting during the year and now present discrete information based on the location and the nature of the services provided. The comparatives have been restated as a result of changes in the internal reporting which is used and reviewed by the chief operating decision makers in assessing performance and allocating resources.

VDM GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2013

The following table presents revenue and profit and selected balance sheet information for reportable segments for the years ended 30 June 2013 and 30 June 2012.

Year ended 30 June 2013	Western construction \$'000	Eastern construction \$'000	Consulting \$'000	Elimination and unallocated \$'000	Total \$'000
Revenue					
External sales	127,077	59,716	17,778	(8)	204,563
Other external revenue	242	2	21	378	643
Inter-segment sales	-	-	1,223	(1,223)	-
Total segment revenue	127,319	59,718	19,022	(853)	<u>205,206</u>
Results					
Segment result after tax	(37,897)	(3,615)	(1,796)	-	(43,308)
Interest income	36	2	21	378	437
Interest expense (note 7(b))	(69)	(37)	-	(127)	(233)
Depreciation and amortisation (note 7(c))	(2,572)	(622)	(273)	(475)	(3,942)
Impairment of goodwill, assets, non-current assets classified as held for sale and development properties (note 7(d))	(17,088)	(1,905)	-	(493)	(19,486)
Income tax benefit	8,918	733	769	-	10,420
Reconciliation of segment net profit after tax to net loss before tax					
Segment net profit after notional tax					(43,308)
Notional income tax benefit at 30% excluding impairment charge (2012: 30%)					(10,420)
Corporate charges					<u>(13,026)</u>
Net loss before tax per the statement of comprehensive income					<u>(66,754)</u>
Segment assets¹					
Segment operating assets	17,215	13,079	7,792	13,635	51,721
Capital expenditure	507	224	585	2,144	3,460
Discontinued operation					55
					<u>3,515</u>
Segment liabilities¹					
Segment operating liabilities	31,321	9,671	2,085	6,312	49,389

Note:

1. Intercompany transactions have been removed from the segment assets and liabilities.

Major customers

VDM Group has a number of customers to which it provides services. During 2013, VDM Group had three customers that contributed greater than 10% of revenue. The two largest customers each contributed 20% of revenue and were reported under Western Construction and Eastern Construction Segments. The third largest customer contributed 11% of revenue and was reported under Western Construction.

VDM GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2013

Year ended 30 June 2012	Western construction \$'000	Eastern construction \$'000	Consulting \$'000	Elimination and unallocated \$'000	Total \$'000
Revenue					
External sales	140,723	57,289	23,817	7,884	229,713
Other external revenue	103	149	22	748	1,022
Inter-segment sales	10,600	-	3,303	(13,903)	-
Total segment revenue	151,426	57,438	27,142	(5,271)	<u>230,735</u>
Results					
Segment result after tax	(6,501)	(1,370)	(230)	-	(8,101)
Interest income	45	14	23	315	397
Interest expense (note 7(b))	(75)	(37)	(7)	(667)	(786)
Depreciation and amortisation (note 7(c))	(4,281)	(610)	(667)	(729)	(6,287)
Impairment of assets and development costs and software (note 7(d))	(311)	-	-	(2,850)	(3,161)
Income tax benefit	2,653	587	99	-	3,339
Reconciliation of segment net profit after tax to net loss before tax					
Segment net profit after notional tax					(8,101)
Notional income tax expense at 30% excluding impairment charge (2011: 30%)					(3,339)
Corporate charges					<u>(18,707)</u>
Net loss before tax per the statement of comprehensive income					<u>(30,147)</u>
Segment assets					
Segment operating assets	80,013	15,748	10,480	35,236	141,477
Discontinued operations assets					<u>12,787</u>
Total assets					<u>154,264</u>
Capital expenditure	872	217	390	(97)	1,382
Discontinued operation capital expenditure					<u>6,287</u>
Total capital expenditure					<u>7,669</u>
Segment liabilities					
Segment operating liabilities	52,408	9,921	2,290	(2,697)	61,922
Discontinued operations liabilities					<u>5,193</u>
Total liabilities					<u>67,115</u>

Major customers

In 2012, VDM Group had two customers that contributed greater than 10% of revenue. The largest customer contributed 17% of revenue and the second largest contributed 11% of revenue. Both customers were reported under Western Construction.

VDM GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2013

	2013	Consolidated
	\$'000	2012
		\$'000
Unallocated assets		
Cash and bank	6,581	14,815
Trade and other receivables	836	(4,765)
Development properties	4,736	4,740
Other debtors	174	2,169
Non-current assets classified as held for sale	900	1,295
Property, plant and equipment	230	490
Deferred tax assets		16,156
Intangible assets	178	336
	13,635	35,236
Unallocated liabilities		
Trade and other payables	626	(11,186)
Current tax liabilities	3,152	3,145
Interest-bearing loans and borrowings	1,460	2,128
Deferred tax liabilities	-	918
Provisions	1,074	2,298
	6,312	(2,697)

All revenue is generated from external customers in Australia. All non-current assets are located in Australia.

5. OTHER REVENUE

Interest	437	397
Rental income	206	124
Other	-	501
Total other revenue	643	1,022

6. OTHER INCOME

Gain on disposal of property, plant and equipment	3,766	2,224
Total other income	3,766	2,224
Other income included in cost of services	3,766	2,224

7. EXPENSES

(a) Other expenses

Loss on disposal of property, plant and equipment	383	308
Loss on foreign exchange	-	5
Total other expenses	383	313
Other expenses included in cost of services	10	27
Other expenses included in administration expenses	373	286

(b) Finance costs

Finance charges payable under hire purchase contracts	87	179
Bank loans and overdrafts	146	607
Total finance costs	233	786

VDM GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2013

	2013	Consolidated 2012
	\$'000	\$'000
(c) Depreciation and amortisation		
Depreciation	3,601	5,513
Amortisation of development costs and software	342	774
Total depreciation and amortisation	3,943	6,287
Depreciation and amortisation included in cost of services	3,467	5,575
(d) Impairment charges		
Impairment of goodwill (note 21)	18,507	-
Impairment of assets	370	-
Impairment of development properties (note 16)	214	2,004
Impairment of non-current assets held for sale (note 19)	395	846
Impairment of property, plant and equipment (note 20)	-	311
Total impairment charges	19,486	3,161
(e) Employee benefits expense		
Wages and salaries	80,026	77,879
Restructuring/ redundancy costs	901	230
Superannuation expense	4,945	4,524
Share based payment expense / (write-back)	(90)	329
Other employee benefits expense	1,324	1,851
Total employee benefits expense	87,106	84,813
Employee benefit expenses included in cost of services	82,272	77,237
Employee benefit expenses included in administration expenses	4,834	7,576

VDM GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2013

	2013	Consolidated
	\$'000	2012 \$'000
8. INCOME TAX		
(a) Income tax expense		
Income statement		
<i>Current income tax:</i>		
Income tax benefit on adjustments in respect of current income tax of previous years	-	3,544
<i>Deferred income tax:</i>		
Relating to origination & reversal of temporary differences	234	877
Prior year tax losses no longer recognised	14,685	-
Losses recognised	-	(7,548)
Adjustments in respect of deferred income tax of previous years	(14)	-
Income tax expense / (benefit) reported in the income statement	14,905	(3,127)
Statement of changes in equity		
<i>Deferred income tax:</i>		
Paid up capital	268	(758)
Income tax expense / (benefit) reported in equity	268	(758)
(b) Numerical reconciliation between aggregate tax expense recognised in the income statement and the tax expense calculated in the statutory income tax return		
Accounting loss before tax from continuing operations	(66,754)	(30,147)
Accounting loss before tax from discontinued operations	(2,684)	(27,800)
Accounting loss before income tax	(69,438)	(57,947)
Prima facie income tax benefit @ 30%	(20,831)	(17,384)
Employee share based payments	(27)	99
Non deductible items	6,953	10,267
Unrecognised deductible temporary differences	14,203	9
Prior year tax losses no longer recognised	14,686	1,380
Other adjustments – discontinued operations	-	(1,050)
Prior year over provision	(14)	3,544
Aggregate income tax expense / (benefit)	14,970	(3,135)
Income tax expense / (benefit) reported in the consolidated income statement	14,905	(3,127)
Income tax expense / (benefit) attributed to discontinued operations	65	(8)
Aggregate income tax expense / (benefit)	14,970	(3,135)

VDM GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2013

	Statement of financial position		Statement of comprehensive income	
	2013 \$'000	2012 \$'000	2013 \$'000	2012 \$'000
(c) Recognised deferred tax asset and liabilities				
Consolidated				
Deferred tax liabilities				
Contracts in progress and inventory	(2,447)	(5,904)	(3,457)	(2,152)
Other	(306)		306	
Gross deferred tax liabilities	(2,753)	(5,904)	(3,151)	(2,152)
Deferred tax assets				
Provision for employee entitlements	1,294	1,649	355	460
Provisions – other	73	149	76	13
Recognised income tax revenue losses	-	14,685	14,685	(7,548)
Trade and other receivable	872	911	40	(1,486)
Trade and other payables	3,481	1,173	(2,308)	4,048
Other assets	-	-	-	870
Property, plant and equipment	483	483	-	318
Contributed equity	571	839	268	(489)
Discontinued operations	-	-	(65)	8
Other	449	1,253	803	(1,470)
Deferred tax assets not recognised	(4,470)		4,470	
Gross deferred tax assets	2,753	21,142	18,324	(5,276)
Deferred tax expense			15,173	(7,428)
Net deferred tax asset recognised in the balance sheet	-	15,238		

(d) Tax losses

VDM Group has recognised a deferred tax asset of \$nil (2012: \$14,685,000) for Australian income tax revenue losses of \$nil (2012: \$48,951,000) on the basis that it is not 'probable' that the carried forward revenue loss will be utilised against future assessable taxable profits.

VDM Group has estimated tax losses of \$98,226,000 (2012: \$48,951,000)

(e) Unrecognised temporary differences

At 30 June 2013, there are no unrecognised temporary differences associated with VDM Group's investments in subsidiaries, or joint ventures, as VDM Group has no liability for additional taxation should unremitted earnings be remitted (2012: nil).

(f) Tax consolidation

Members of the tax consolidation group and the tax sharing arrangement

VDM Group and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2004. VDM Group Ltd is the head entity of the tax-consolidated group. Members of VDM Group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

VDM GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2013

Tax effect accounting by members of the tax consolidated group

Tax expense/ income benefit, deferred tax liabilities and deferred tax assets arising from temporary differences are recognised in the separate financial statements of the members of the tax consolidated group using the group allocation method. Current tax liabilities and assets and deferred tax assets and liabilities arising from unused tax losses and tax credits of the members of the tax consolidated group are recognised by the Company (as head entity in the tax consolidated group).

Members of the tax-consolidated group have entered into a tax funding agreement. Amounts are recognised as payable to or receivable by the Company and each member of the tax consolidated group in relation to the current tax liability paid or payable by the subsidiaries. Current tax liabilities in the subsidiaries are reflected back to the parent entity by way of specific tax loan accounts calculated and based on taxable income.

9. DISCONTINUED OPERATION

On 28 February 2013, VDM Group announced that it had entered into a non-binding sale agreement to sell one of its wholly owned business units, Como by way of a buy-out by the existing Como management team. The sale to CE Acquisitions Pty Ltd, a company related to the existing Como management team, was completed on 10 April 2013 at a consideration of \$5,450,000 (pre transaction costs). Como was previously reported in the mechanical and mineral process engineering segment. The business has been recognised as a discontinued operation and is no longer disclosed in the segment note.

The comparative discontinued operation results include the sale of Cape Crushing and Earthmoving Contractors Pty Limited, which was completed on 19 April 2012.

	2013	2012
	\$'000	\$'000
Financial performance of discontinued operation		
Revenue	23,666	96,133
Expenses	(22,336)	(90,339)
Finance costs	(10)	(1,310)
Loss on re-measurement to fair value less costs to sell		
Plant and equipment	-	(10,146)
Goodwill (note 21)	(4,004)	(22,138)
Loss on sale of discontinued operations	(2,684)	(27,800)
Tax (expense) / benefit	(65)	8
Loss from discontinued operations	(2,749)	(27,792)
Earnings per share from discontinued operations		
Basic, loss for the year, from discontinued operations (cents per share)	(0.29)	(3.96)
Diluted, loss for the year from discontinued operations (cents per share)	(0.29)	(3.96)
Assets and liabilities and cash flow information of the disposed entity		
<i>Assets</i>		
Cash and cash equivalents	3,869	
Plant and equipment	1,063	
Intangible assets	126	
Contracts in progress	427	
Trade receivables	2,205	
Other assets	142	
	7,832	
<i>Liabilities</i>		
Trade and other liabilities	2,353	
Provision for employee entitlements	480	
	2,833	
Net assets attributable to discontinued operations	4,999	

VDM GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2013

	2013
	\$'000
Sale proceeds	5,450
Transactions costs	(451)
Net proceeds	4,999
Less cash and cash equivalents	3,869
Net cash flows from disposals	1,130
<i>Net cash flows</i>	
Operating	(168)
Investing	2,315
Financing	(20)
Net cash (outflow) / inflow	2,127

	2013	Consolidated
	\$'000	2012
10. EARNINGS PER SHARE		\$'000

The following reflects the information used in the basic earnings per share computations:

(a) Loss used in calculating loss per share

Net loss from continuing operations attributable to ordinary equity holders of the parent	(81,659)	(27,020)
Net loss from discontinued operations attributable to ordinary equity holders of the parent	(2,749)	(27,792)
Net loss attributable to ordinary equity holders of the parent for basic earnings	(84,408)	(54,812)

	2013	Consolidated
		2012
(b) Weighted average number of shares		
Weighted average number of ordinary shares for basic and diluted earnings per share	933,884,774	701,956,091

In addition, there are 482,818,773 share options outstanding at 30 June 2013 (2012: 499,474,615), which have been excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future. The share options are antidilutive as at 30 June 2013.

On 28 August 2013, 140,080,961 ordinary shares were issued at 1 cent per share fully paid pursuant to the share subscription agreement between VDM Group and H&H. In addition to the share placement, a convertible loan of \$5,000,000 was issued to H&H with a conversion price of 1.0 cent per share (conversion subject to shareholder approval at the forthcoming AGM).

On 29 October 2013, VDM Group announced it is proposing to make a pro-rata entitlement offer to its Shareholders to subscribe for Shares at a price of \$0.01 per Share seeking to raise at least \$9,250,000 (**Rights Issue**).

VDM GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2013

	2013	Consolidated
	\$'000	2012
		\$'000
11. DIVIDENDS PROPOSED AND PAID		
(a) Declared and paid during the year:		
Dividends on ordinary shares:		
Final fully franked dividend for 2012: nil cents per share (2011: nil cents per share)	-	-
Interim fully franked dividend for 2013: nil cents per share (2012: nil cents per share)	-	-
	-	-
(b) Dividend proposed, not recognised as a liability:		
Final fully franked dividend for 2013: nil cents per share (2012: nil cents per share)	-	-
(c) Franking credits:		
Franking credits available for the subsequent financial year:		
- franking account balance as at the end of the financial year at 30% (2012: 30%)	3,459	3,459
- franking debits that will arise from the refunds of income tax receivable as at the end of the financial year	-	-
Franking credits available for future periods	3,459	3,459

(d) Tax rates:

The tax rate at which paid dividends have been franked is 0%.

12. CASH AND CASH EQUIVALENTS

Cash at bank and in hand	11,857	10,029
Total cash and cash equivalents	11,857	10,029

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

Reconciliation to cash flow statement

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:

Cash at bank and in hand	11,857	10,029
Total cash for reconciliation of cash flow statement	11,857	10,029

13. TERM DEPOSIT

Term deposits	5,238	13,568
Total term deposits	5,238	13,568

Under the terms of the agreement with its principal banker and bond provider, VDM Group is required to place on deposit amounts as surety for bank guarantees and bonds issued in favour of VDM Group. The cash placed on deposit was not available for immediate use. The 30 June 2012 comparative balances have been restated to correctly reclassify the term deposits.

VDM GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2013

	2013	Consolidated 2012
	\$'000	\$'000
14. TRADE AND OTHER RECEIVABLES		
Current		
Trade receivables	12,684	42,169
Allowance for impairment loss	(2,907)	(2,674)
	9,777	39,495
Other debtors	2,256	4,352
Retentions	1,143	4,889
Loans to related entities (note 28)	788	788
Impairment of related loans and other debtors	(1,457)	(788)
Total current receivables	12,507	48,736
Non-Current		
Loan receivable	258	-
	258	-
(a) Ageing of trade receivables		
0-30 days	5,639	29,057
31- 60 days	2,741	5,904
> 60 days PDNI	1,397	4,534
> 60 days CI	2,907	2,674
	12,684	42,169
<i>PDNI – Past due but not impaired</i>		
<i>CI – Considered impaired</i>		
(b) Allowance for impairment loss		
Balance at 1 July	3,462	4,168
Charge for the year	2,714	956
Utilised	(1,812)	(1,662)
At 30 June	4,364	3,462

Trade receivables are non-interest bearing and are generally on 30-60 day terms. An allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment loss of \$2,714,000 (2012: \$956,000 impairment loss) has been recognised by VDM Group.

(c) Fair value and credit risk

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair values.

The maximum exposure to credit risk is the fair value of receivables.

(d) Foreign exchange and interest rate risk

Details regarding foreign exchange and interest rate risk exposure are disclosed in note 31.

(e) Related party receivables

For terms and conditions of related party receivables refer to notes 28 and 29.

VDM GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2013

	2013	Consolidated 2012
	\$'000	\$'000
15. CONTRACTS IN PROGRESS		
Contract costs incurred to date	218,217	260,460
Profit recognised to date (less recognised losses)	(228)	6,019
Less progress billings	(217,801)	(251,554)
<u>Total construction contracts in progress</u>	<u>188</u>	<u>14,925</u>

Represented by:

Amounts due from customers for contract work	7,388	18,413
Amounts due to customers for contract work	(7,200)	(3,488)
<u>Total construction contracts in progress</u>	<u>188</u>	<u>14,925</u>

Amounts due from customers for contract work	7,388	18,413
Other work in progress	460	1,243
<u>Total contracts in progress</u>	<u>7,848</u>	<u>19,656</u>

Amounts due to customers for contract work	(7,200)	(3,488)
Other	-	(58)
<u>Total amounts due to customers for contract work</u>	<u>(7,200)</u>	<u>(3,546)</u>

Once billed, credit quality is expected to be the same as disclosed in note 14(c).

16. DEVELOPMENT PROPERTIES

Development properties	5,411	5,529
<u>Total development properties</u>	<u>5,411</u>	<u>5,529</u>

Development properties include a 42.75% interest in a property via the Bussell Highway Joint Venture arrangement and a 52% interest in a property held in the Quartz Trust.

No interest was capitalised during the 2013 financial year (2012 : nil).

(a) Reconciliation of carrying amounts

At 1 July	5,529	6,517
Transfer from inventory	-	790
Additions	95	226
Impairment of development properties (note 16(b))	(214)	(2,004)
<u>At 30 June</u>	<u>5,411</u>	<u>5,529</u>

(b) Impairment of development properties

An impairment loss of \$214,000 (2012: \$2,004,000) was recognised in the statement of comprehensive income in the 2013 financial year. The recoverable amount was based on a independent valuations obtained during the period on the properties.

17. INVENTORY

Consumables at cost	308	952
<u>Total inventories</u>	<u>308</u>	<u>952</u>

18. OTHER CURRENT ASSETS

Prepayments	728	2,342
<u>Total other current assets</u>	<u>728</u>	<u>2,342</u>

VDM GROUP LIMITED
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	2013	Consolidated 2012
	\$'000	\$'000
19. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE		
Other property, plant and equipment	900	1,295
Total non-current assets classified as held for sale	900	1,295

(a) Reconciliation of carrying amounts

At 1 July	1,295	13,011
Transferred in	-	2,465
Sale	(950)	(12,142)
Transfer from / (to) property, plant and equipment (note 20(a))	950	(1,193)
Impairment	(395)	(846)
At 30 June	900	1,295

The non-current assets classified as held for sale at 30 June 2013 relate to property acquired on settlement of a legacy contract. It is the intention to divest the property. Recoverable amount was estimated for the property and an impairment loss of \$395,000 (2012: \$846,000) was recognised and included in the impairment charge in the statement of comprehensive income. The asset has not been allocated to a reportable segment in note 4.

On 17 January 2013, VDM Group accepted an offer of \$3,000,000 for the sale of freehold land and buildings classified as a non-current asset held for sale. The sale was completed on 15 March 2013.

	2013	2012
	\$'000	\$'000
20. PROPERTY, PLANT AND EQUIPMENT		
Leasehold improvements at cost	1,043	723
Accumulated depreciation	(135)	(108)
	908	615
Freehold land and buildings at cost	-	950
Accumulated depreciation	-	-
	-	950
Plant and equipment under lease at cost	2,381	1,944
Accumulated depreciation and impairment	(1,267)	(1,075)
	1,114	869
Plant and equipment at cost	16,035	28,891
Accumulated depreciation and impairment	(11,698)	(18,478)
	4,337	10,413
Total property, plant and equipment	6,359	12,847

VDM GROUP LIMITED
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	2013	Consolidated 2012
(a) Reconciliation of carrying amount	\$'000	\$'000
<i>Leasehold improvements</i>		
At 1 July net of accumulated depreciation	615	502
Additions	2,511	405
Disposals	(2,061)	(124)
Depreciation	(172)	(99)
Discontinued operations (note 9)	(13)	(452)
Transferred from plant & equipment and plant & equipment under lease	28	383
At 30 June net of accumulated depreciation	908	615
<i>Freehold land and buildings</i>		
At 1 July net of accumulated depreciation	950	950
Transferred to non-current assets held for sale (note 19)	(950)	-
At 30 June net of accumulated depreciation	-	950
<i>Plant and equipment under lease</i>		
At 1 July net of accumulated depreciation	869	37,689
Additions	734	3,143
Disposals	(130)	(430)
Depreciation	(368)	(2,434)
Transferred from / (to) plant & equipment and leasehold improvements	77	(3,305)
Discontinued operations (note 9)	(68)	(33,794)
At 30 June net of accumulated depreciation	1,114	869
<i>Plant and equipment</i>		
At 1 July net of accumulated depreciation	10,413	23,777
Additions	771	6,964
Disposals	(3,130)	(1,297)
Depreciation	(3,165)	(6,453)
Transferred (to) / from plant & equipment under lease and leasehold improvements	(105)	2,922
Transfer from non-current assets classified as held for sale (note 19(a))	-	1,193
Discontinued operations at cost (note 9)	(447)	(16,382)
Impairment (note 20(c))	-	(311)
At 30 June net of accumulated depreciation	4,337	10,413
Total property, plant and equipment	6,359	12,847

(b) Plant and equipment pledged as security for liabilities

Included in the balances above are assets of VDM Group to the value of \$1,114,000 (2012: \$869,000) granted as security for hire purchase debts. There are floating charges over the remaining property, plant and equipment, refer to Note 23 (c) for details of plant and equipment pledged as security for borrowings.

(c) Impairment of property, plant and equipment

Within VDM Group, recoverable amount was estimated for property, plant and equipment based on current market value. There was no impairment loss (2012: \$311,000) recognised in the statement of comprehensive income to reduce the carrying amount of plant and equipment to its recoverable amount. There was no reversal of impairment charges recognised in prior periods.

(d) Transfers

During the year ended 30 June 2013, freehold land and building to the value of \$950,000 was transferred from property, plant and equipment to non-current assets classified as held for sale.

Consolidated

VDM GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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	2013	2012
	\$'000	\$'000
21. INTANGIBLE ASSETS AND GOODWILL		
Goodwill	-	22,511
Software	4,090	4,258
Accumulated amortisation and impairment	(3,783)	(3,615)
	307	643
Total intangibles assets and goodwill	307	23,154

(a) Reconciliation of carrying amounts

<i>Goodwill</i>		
At 1 July	22,511	44,649
Impairment of goodwill	(18,507)	-
Discontinued operations (note 9)	(4,004)	(22,138)
At 30 June	-	22,511
<i>Software</i>		
At 1 July net of accumulated amortisation	643	1,268
Additions	195	183
Disposals	(35)	-
Amortisation	(370)	(808)
Discontinued operations (note 9)	(126)	-
At 30 June net of accumulated amortisation	307	643

(b) Description of VDM Group's intangible assets and goodwill

Goodwill

After initial recognition, goodwill acquired in a business combination was measured at cost less any accumulated impairment losses. Goodwill was not amortised but was subject to impairment testing on an annual basis or whenever there was an indication of impairment.

(c) Impairment losses recognised for goodwill

Goodwill was assessed at the half year ended 31 December 2012 which resulted in an impairment loss of \$18,507,000 recognised for continuing operations. There was no impairment loss recognised during the year ended 30 June 2012. The impaired goodwill related to Eastern Operations (\$1,790,000) and Western Operations (\$16,717,000). When assessing the carrying value of goodwill, a range of possible revenue and earnings outcomes were reviewed. The half year ended 31 December 2012 saw significant volatility in resources markets in which VDM Group predominantly operated that caused clients to defer, cancel or reduce their capital expenditure budgets. To account for the volatility in its markets and the reductions in expected capital expenditure budgets of its client base, VDM Group used forecast revenue and earnings toward the lower end of the range of possible outcomes.

(d) Impairment tests for goodwill

(i) Description of cash generating units and other relevant information

Goodwill acquired through business combinations was allocated to and was tested at the half year ended 31 December 2012 at the level of its respective cash generating units, each of which was both an operating segment and a reportable segment for impairment testing as follows:

- Western Operations cash generating unit; and
- Eastern Operations cash generating unit.

The recoverable amount of the Western and Eastern cash generating units was determined based on a value in use calculation using cash flow projections based on financial budgets approved by management covering a five year period.

The discount rate applied to the cash flow projections was 13.5% (30 June 2012: 13.6%) and cash flows beyond the five-year period was extrapolated using a 0% growth rate. The average growth rates adopted in the budget for Western and Eastern Operations was 2.4%. The average growth rates adopted approximated the expected long term average growth rate for the engineering and construction industries in general in the current economic climate.

VDM GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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	2013	Consolidated
	\$'000	2012
(ii) Carrying amount of goodwill allocated to each of the cash generating units		\$'000
Eastern operations	-	1,790
Western operations	-	16,717
Mechanical and mineral process engineering	-	4,004
Total goodwill	-	22,511

(iii) Key assumptions used in value in use calculation for cash generating units

The calculation of value in use for all cash generating units was most sensitive to the following assumptions:

- Volume of construction work executed on an annual basis,
- Gross profit margins on construction contracts and non-project overhead costs,
- Discount rates,
- Growth rates to extrapolate cash flows beyond the budget period, and
- Cash flow projections.

Discount rates reflected management's estimate of the time value of money and the risks specific to each unit that were not already reflected in the cash flows. This was the benchmark used by management to assess operating performance and to evaluate investment proposals. In determining appropriate rates for each unit, regard was given to the weighted average cost of capital of the entity as a whole and adjusted for country and business risk specific to the unit.

Growth rate estimates were based on published industry research.

22. TRADE AND OTHER PAYABLES

Current

Trade payables and accruals	19,783	40,143
Employee related payables	1,140	1,946
Sundry creditors	5,060	5,506
GST payable	857	1,301
Total current payables	26,840	48,896

(a) Fair values

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

(b) Interest rate, foreign exchange and liquidity risk

Information regarding interest rate, foreign exchange and liquidity risk exposure is disclosed in note 31.

(c) Financial guarantees

VDM Group provides financial guarantees to its subsidiaries by way of a Deed of Cross Guarantee as disclosed in note 32(b).

VDM GROUP LIMITED
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For the year ended 30 June 2013

	2013	Consolidated
	\$'000	2012
		\$'000
23. INTEREST-BEARING LOANS AND OTHER BORROWINGS		
Current		
Interest bearing loan (9% fixed secured loan)	1,018	-
Non-interest bearing loans	-	72
Insurance premium funding	442	2,055
Hire purchase liabilities (note 33)	322	341
Total current interest-bearing loans and borrowings	1,782	2,468
Non-Current		
Hire purchase liabilities (note 33)	299	128
Total non-current interest-bearing loans and borrowings	299	128

(a) Fair values

The carrying amount of VDM Group's current and non-current borrowings approximate their fair values.

(b) Interest rate, foreign exchange and liquidity risk

Information regarding interest rate, foreign exchange and liquidity risk exposure is disclosed in note 31.

(c) Assets pledged as security

Finance arrangements

Plant and equipment	1,114	869
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Floating charge

All the remaining wholly owned assets	56,739	153,395
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(d) Total financing facilities

Bank overdrafts	450	450
Bank guarantees	7,000	22,000
Contract performance bond	25,000	25,000
Total financing facilities available	32,450	47,450

The contract performance bond facility expires on 31 May 2014, subject to a 12 month annual renewal. The bank guarantee and credit card facilities expire on 30 November 2013, subject to review. At 30 June 2013, \$4,798,000 (2012: \$12,944,000) was drawn on the bank guarantee facility and \$18,087,000 (2012: \$15,585,000) was drawn on the contract performance bond facility.

VDM GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2013

	2013	Consolidated 2012
	\$'000	\$'000
24. PROVISIONS		
Current		
Provision for employee entitlements	4,324	4,901
Provision for loss on sale of subsidiary (note 24(b)(i))	-	600
Provision for loss making contracts	5,548	2,018
Total current provision	9,872	7,519
Non-Current		
Provision for employee entitlements	244	495
Total non-current provision	244	495

(a) Movements in provisions

Provision for loss on sale of subsidiary

At 1 July	600	-
(Utilised) / provided during the year	(600)	600
At 30 June	-	600

(b) Nature and timing of provisions

(i) Provision for loss on sale of subsidiary

As part of the sale agreement of Cape Crushing in 2012, the final consideration for the sale of shares was subject to change pending a review / audit of the completion accounts. An adjustment amount was estimated at \$600,000 payable to CFC Group Limited at 30 June 2012. As settlement of the final adjustment, an amount of \$707,000 was paid to CFC Group in 2013.

25. CONTRIBUTED EQUITY

(a) Ordinary shares

Issued and fully paid	248,554	248,612
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Movement in ordinary shares on issue

	Shares	Value (\$'000)
Balance at 30 June 2012	933,873,071	248,612
Transaction costs on share and option issue		(51)
Reversal of tax benefits on capital raising costs in prior years		(268)
Equity based payments (note 30(b))		(7)
Balance at 30 June 2013	933,873,071	248,286

	2013 No.	2012 No.
(b) Treasury shares		
Treasury shares held in trust (note 30(c))	222,864	199,864

VDM GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2013

(c) Terms and conditions of contributed equity

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

(d) Capital Management

When managing capital, the Board's objective is to ensure the Company continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. The Board also aims to maintain a capital structure that provides the lowest weighted average cost of capital available to the Company.

Following the significant restructuring activities during the year, the Company remains focussed on returning to profitability in the short term and maintaining an appropriate amount of working capital. Upon realisation of the benefits of the restructuring activities, the Directors shall reconsider the levels of after tax profits that the Company anticipates paying as dividends.

The payment of dividends by the Company in the future will depend upon the availability of distributable earnings, the Company's franking credit position, operating results, available cash flow, financial condition, taxation position, future capital requirements, as well as general business and financial conditions and any other factors the Directors may consider relevant.

The Board considers net debt and total equity to be capital and monitors this through the gearing ratio. Given the low capital expenditure intensity nature of the restructured business model, VDM Group is targeting to maintain a gearing ratio of less than 15%. The gearing ratio based on continuing operations at 30 June 2013 and 2012 were as follows:

	Consolidated	
	2013	2012
	\$'000	\$'000
Interest bearing loans and other borrowings (note 23)	2,081	2,596
Less cash and cash equivalents (note 12 and 13)	(17,095)	(23,597)
Net (cash) / debt	(15,014)	(21,001)
Total equity	2,332	87,149
Total capital	(12,682)	66,148
Gearing ratio (net debt: total capital)	118%	(32%)

VDM Group is not subject to any externally imposed capital requirements.

26. RETAINED EARNINGS AND RESERVES

(a) Movement in retained earnings

Balance at the beginning of the year	(162,430)	(107,618)
Net loss attributable to members of VDM Group Ltd	(84,408)	(54,812)
Balance at the end of the year	(246,838)	(162,430)

(b) Movement in other capital reserve

Balance at the beginning of the year	510	192
Share based payment (note 30)	(83)	318
Balance at the end of the year	427	510

The other capital reserve is used to record the value of share based payment provided to employees, including KMP, as part of their remuneration. Refer to note 30 for further details of these plans.

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	2013	Consolidated 2012
	\$'000	\$'000
(c) Movement in equity reserve		
Balance at the beginning of the year	457	1,074
Contingent consideration paid on prior acquisitions (note 24(b)(iii))	-	(149)
Stamp duty paid on prior acquisitions	-	(468)
Balance at the end of the year	457	457

The equity reserve is used to record differences between the carrying value of non-controlling interests and the consideration paid/received, where there has been a transaction involving non-controlling interests that do not result in a loss of control. The reserve is attributable to the equity of the parent.

In 2012, VDM Group incurred retrospective stamp duties of \$468,000 in respect of its acquisition of the remaining 25% interest in Cape Crushing on 1 January 2010.

27. CASHFLOW STATEMENT INFORMATION

(a) Reconciliation of net profit after tax to the net cash flows from operations

<i>Net loss after tax</i>	(84,408)	(54,812)
<i>Non-Cash Items:</i>		
Depreciation	3,705	8,986
Amortisation	370	808
Impairment of goodwill, assets, development costs and software	19,486	3,161
Allowance for doubtful debts	2,714	956
Net profit on disposal of property, plant and equipment	(3,383)	(1,916)
Assets written off	26	-
Share based payment (reversal) / expense	(90)	329
Settlement transaction costs from sale of subsidiary	451	2,227
Profit on sale of subsidiary	(879)	-
Loss recognised on remeasurement to fair value less costs to sell	4,004	32,284
Net profit on foreign exchange	-	(58)
<i>Change in assets and liabilities:</i>		
Decrease / (increase) in trade and other receivables	29,249	(14,078)
Decrease in contracts in progress	15,035	1,230
Decrease in other assets	1,508	186
Increase in development properties	(95)	(226)
Increase in non-current assets held for sale	-	(2,465)
Decrease / (increase) in inventory	555	(96)
Decrease / (increase) in deferred tax assets	14,968	(6,679)
Decrease / (increase) in term deposits	-	-
Decrease / (increase) in trade and other creditors	(18,551)	7,854
Decrease in provisions	3,177	(1,964)
Increase in current tax receivable	7	7,970
Net cash flows used in operating activities	(12,151)	(16,303)

(b) Non-cash financing and investing activities

Purchase of property, plant and equipment on hire purchase	(734)	(3,143)
Purchase of software on hire purchase	-	(25)

VDM GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2013

28. RELATED PARTY DISCLOSURE

(a) Subsidiaries

The consolidated financial statements include the financial statements of VDM Group Limited and the subsidiaries listed in the following table:

Name	Country of incorporation	% equity interest	
		2013	2012
VDM Hyparspace Pty Ltd	Australia	100%	100%
Keytown Constructions Pty Ltd	Australia	100%	100%
VDM Investments Pty Ltd	Australia	100%	100%
VDM Developments Pty Ltd	Australia	100%	100%
VDM Engineering (Western Operations) Pty Ltd (formerly VDM Consulting (WA) Pty Ltd)	Australia	100%	100%
VDM Consulting (NSW) Pty Ltd	Australia	100%	100%
VDM Consulting (VIC) Pty Ltd	Australia	100%	100%
VDM Engineering (Eastern Operations) Pty Ltd (formerly VDM Consulting (QLD) Pty Ltd)	Australia	100%	100%
VDM Projects Pty Ltd	Australia	100%	100%
VDM Asset Management Pty Ltd	Australia	100%	100%
Skiful Holdings Pty Ltd	Australia	100%	100%
Burchill VDM Pty Ltd	Australia	100%	100%
VDM Construction (Western Operations) Pty Ltd	Australia	100%	100%
VDM Earthmoving Contractors Pty Ltd	Australia	100%	100%
VDM Group Ltd International (Dubai Branch) Pty Ltd	Australia	100%	100%
Como Engineers Pty Ltd	Australia	-	100%
VDM Contracting Pty Ltd	Australia	100%	100%
VDM Construction (Eastern Operations) Pty Ltd (formerly VDM Construction (Australia) Pty Ltd)	Australia	100%	100%
Van Der Meer Consulting Vietnam Co Ltd	Vietnam	100%	100%
BCA Consultants Pty Ltd	Australia	100%	100%
The EB Trust	Australia	100%	100%
VDM Consulting Pty Ltd	Australia	100%	100%
VDM Equity Incentives Pty Ltd	Australia	100%	100%
VDM CCE Pty Ltd	Australia	100%	100%
Anagan Pty Ltd	Australia	100%	100%
Belleng VDM Pty Ltd	Australia	100%	100%
Burchill VDM (International) Pty Ltd	Australia	100%	100%
Riverside Structural Modelling Pty Ltd	Australia	100%	100%
Barlow Gregg VDM Pty Ltd	Australia	100%	100%
VDM Consulting (UAE) Pty Ltd	Australia	100%	100%
VDMAHP Pty Ltd*	Australia	50%	50%
Quartz South Hedland Pty Ltd	Australia	52%	52%
Quartz Trust	Australia	100%	100%

* - this company is dormant

VDM GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2013

(b) Key management personnel

Details relating to KMP, including remuneration paid, are included in note 29.

(c) Ultimate parent

VDM Group Limited is the ultimate Australian parent entity.

(d) Transactions with related parties

There were no transactions that were entered into with related parties during 2013. For related party transactions in 2012 refer to 29(f).

For information regarding outstanding balances on related party trade receivables and payables at year end, refer to notes 28(e) below.

(e) Loans to related parties

As at 30 June 2013, \$788,000 (2012: \$788,000) was receivable from Track Procurement Services Pty Ltd (Track Procurement). This loan receivable has been fully provided for. Track Procurement is an associate disclosed in note 28(f).

(f) Investment in associates

At 30 June 2013, VDM Group had the following interests in associates. The carrying value of investments in associates was nil (2012: nil):

	2013	Consolidated 2012
Structural Fabrications Pty Ltd	40%	40%
Track Procurement Services Pty Ltd	50%	50%

(g) Interest in jointly controlled entity

VDM Group has a 52% interest in Quartz South Hedland Pty Ltd, a jointly controlled entity involved in the development of a property.

VDM Group's share of the assets and liabilities as at 30 June 2013 and 2012 and income and expenses of the jointly controlled entity for the years ended 30 June 2013 and 2012, which is proportionately consolidated in the financial statements, are as follows:

	2013	Consolidated 2012
	\$'000	\$'000
Share of the joint venture's statement of financial position		
Current assets	1,350	1,416
Equity	1,350	1,416
Share of the joint venture's revenue and profit		
Impairment	(98)	-
Loss for the year from continuing operations	(98)	-

The joint venture has no contingent liabilities or capital commitments as at 30 June 2013 and 2012.

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	2013	Consolidated 2012
	\$'000	\$'000
29. KEY MANAGEMENT PERSONNEL		
(a) Compensation for key management personnel		
Short Term	2,457,631	3,046,473
Post Employment	155,123	235,771
Share based payment	(82,779)	330,862
Termination benefits	35,649	257,965
Total compensation	2,565,624	3,871,071

(b) Shareholdings of key management personnel

	Balance 1 July 2012	Granted as remuneration	Options exercised	Net change other	Balance 30 June 2013
Current directors					
M Perrott	6,200,000	-	-	-	6,200,000
B Nazer	1,228,568	-	-	-	1,228,568
M Fry	500,000	-	-	-	500,000
Past directors					
A Broad ²	700,000	-	-	500,000	1,200,000
T Crossley ¹	1,200,000	-	-	(1,200,000)	-
Current executives					
R Gregg	3,400,164	-	-	-	3,400,164
Past executives					
J Kemp	-	-	-	86,605	86,605
Total shareholding	13,228,732	-	-	(613,395)	12,615,337

Notes:

1. T Crossley's balance reduced to nil during the year as he resigned as a Non- Executive Director of VDM Group on 24 October 2012.
2. A Broad was terminated as Managing Director with effect from 23 August 2013.
3. J Kemp was appointed on 7 November 2012 and resigned on 6 September 2013.

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	Balance 1 July 2011	Granted as remuneration	Options exercised	Net change other	Balance 30 June 2012
Current directors					
M Perrott	200,000	-	-	6,000,000	6,200,000
B Nazer	71,428	-	-	1,157,140	1,228,568
T Crossley	200,000	-	-	1,000,000	1,200,000
M Fry	-	-	-	500,000	500,000
A Broad	100,000	-	-	600,000	700,000
Past directors					
J van der Meer ¹	2,097,909	-	-	(2,097,909)	-
Current executives					
R Gregg	566,694	-	-	2,833,470	3,400,164
Past executives					
G Simpson ²	53,000	-	-	(53,000)	-
Total shareholding	3,289,031	-	-	9,939,701	13,228,732

Notes:

1. J van der Meer balance reduced to nil during the year as he resigned as an Executive Director of VDM Group on 24 November 2011 and subsequently did not meet the criteria of KMP.

2. G Simpson balance reduced to nil during the year as he resigned during the year.

(c) Option holdings of key management personnel

	Balance 1 July 2012	Granted as remuneration	Options exercised	Net change other	Balance 30 June 2013
Current directors					
M Perrott	3,100,000	-	-	-	3,100,000
B Nazer	614,284	-	-	-	614,284
M Fry	250,000	-	-	-	250,000
Past directors					
A Broad ²	350,000	-	-	-	350,000
T Crossley ¹	600,000	-	-	(600,000)	-
Current executives					
R Gregg	1,700,082	-	-	-	1,700,082
Total option holding	6,614,366	-	-	(600,000)	6,014,366

Notes:

1. T Crossley's balance reduced to nil during the year as he resigned as a Non- Executive Director of VDM Group on 24 October 2012.

2. A Broad was terminated as Managing Director with effect from 23 August 2013.

	Balance 1 July 2011	Granted as remuneration	Options exercised	Net change other	Balance 30 June 2012
Current directors					
M Perrott	-	-	-	3,100,000	3,100,000
B Nazer	-	-	-	614,284	614,284
T Crossley	-	-	-	600,000	600,000
M Fry	-	-	-	250,000	250,000
A Broad	-	-	-	350,000	350,000
Current executives					
R Gregg	-	-	-	1,700,082	1,700,082
Total option holding	-	-	-	6,614,366	6,614,366

VDM GROUP LIMITED
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(d) Performance rights holdings of key management personnel

	Balance 1 July 2012	Granted as remuneration	Rights exercised	Net change other	Balance 30 June 2013
Past directors					
A Broad ¹	11,956,522	-	-	-	11,956,522
Current executives					
R Gregg	5,869,565	-	-	-	5,869,565
Past executives					
R Gonzales ³	5,869,565	-	-	(5,869,565)	-
T Fallon ²	6,782,609	-	-	(6,782,609)	-
D Coyne ⁴	3,913,043	-	-	(3,913,043)	-
Total option holding	34,391,304	-	-	(16,565,217)	17,826,087

Notes:

1. Performance rights granted to A Broad were approved at the 2012 Annual General Meeting. A Broad was terminated as Managing Director with effect from 23 August 2013.
2. T Fallon resigned with effect from 27 November 2012 and his performance rights lapsed upon his date of termination.
3. R Gonzales was terminated with effect from 25 January 2013 and his performance rights lapsed upon his date of termination.
4. D Coyne resigned with effect from 12 June 2013 and his performance rights lapsed upon his date of termination.

	Balance 1 July 2011	Granted as remuneration	Rights exercised	Net change other	Balance 30 June 2012
Current directors					
A Broad ¹	-	11,956,522	-	-	11,956,522
Current executives					
R Gonzales	-	5,869,565	-	-	5,869,565
R Gregg	-	5,869,565	-	-	5,869,565
T Fallon ²	-	6,782,609	-	-	6,782,609
D Coyne	-	3,913,043	-	-	3,913,043
Total option holding	-	34,391,304	-	-	34,391,304

1. Performance rights granted to A Broad are subject to shareholder approval at the 2012 Annual General Meeting.
2. T Fallon has resigned with effect from 27 November 2012 and his performance rights will lapse upon his date of termination.

All equity transactions with KMP other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those VDM Group would have adopted if dealing at arm's length.

(e) Loans to key management personnel

There were no loans granted to KMP during the year ended 30 June 2013 and 2012.

(f) Other transactions and balances with key management personnel and their related entities

VDM Group had had no transactions with key management personnel and their related entities during 30 June 2013.

In 2012, VDM Group rented an office building from O Corp Pty Ltd, a company related to J van der Meer, on normal commercial terms and conditions. The amount recognised as an expense during the year in relation to these transactions was \$242,000. The amount payable to O Corp Pty Ltd at the end of the financial year was \$nil (2012: \$nil).

VDM GROUP LIMITED
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	2013	Consolidated
	\$'000	2012
		\$'000
30. SHARE-BASED PAYMENT PLANS		
(a) Recognised share based payment expense		
(Reversal) / expense arising from equity-settled share-based payment transactions	(90)	329
Total share-based payment (reversal) / expense	(90)	329

(b) Types of share-based payment plans

VDM Group Performance Rights Plan

The initial public offer included a 300,000 share allocation for the VDM Group's Performance Rights Plan. In order to retain key personnel, selected key employees were allocated an amount of shares ranging from 5,000 to 25,000. These shares vested over a period of up to 24 months, with vesting criteria based on continuity of service. During the year the amount vesting and a corresponding expense of \$nil (2012: \$nil) was recognised in relation to the Plan. 150,005 shares are not yet allocated and are held in trust.

The initial acquisition of Como Engineers included an allocation of 265,865 shares for the VDM Group's Performance Rights Plan. In line with the sale of Como during the year, a reversal of \$7,000 (2012: \$11,000 reversal) was recognised in relation to the Plan. 26,765 shares are held in trust.

VDM Group Employee Incentive Plan

VDM Group bought 119,876 shares for the Employee Incentive Plan which was set up in February 2008 and included the allocation of 119,876 shares to retain employees. Selected employees were allocated an amount of shares ranging from 500 to 750. These shares vested over a period of up to 24 months, with vesting criteria based on continuity of service. During the year the amount vesting and a corresponding expense of \$nil (2012: \$nil) was recognised in relation to the Plan. 46,094 shares are not yet allocated and are held in trust.

Employee Option Plan (EOP)

On 31 January 2008 VDM Group offered employees the right to participate in a share option scheme. The offer closed on 11 February 2008. 1,710,000 options were taken up at an exercise price of \$2.25. 25% of the options vested on 21 December 2008, 25% of the options vested on 21 December 2009, 25% of the options vest on 21 December 2010 and the remaining 25% of the options vest on 21 December 2011. During the year an expense of \$nil (2012: \$13,000 reversal) was recognised in relation to the EOP. 90,625 options lapsed or were cancelled during the year (2012: 180,625).

Executive Performance Rights Plan (EPRP)

On 1 December 2011, 34,391,304 performance rights were granted to senior executives. A performance right is an entitlement to acquire a fully paid ordinary share in the capital of VDM Group at a future date for no consideration should all relevant vesting conditions be met. Performance rights vest over a period of 3 years where the Total Shareholder Return (TSR) that VDM Group delivers to its shareholders exceeds the average Total Shareholder Return of the S&P ASX 200 Industrial Group in the same corresponding period, provided that VDM Group has been profitable during that same period and the senior executive is employed on such date. Refer to the remuneration report for further details of the Executive Performance Rights Plan.

The fair value of the performance right is estimated at the grant date using a Monte-Carlo simulation model for the market based vesting conditions and a binomial pricing model for the non-market based vesting conditions, taking into account the terms and conditions upon which the performance rights were granted.

During the year a reversal of \$83,000 (2012: \$331,000 expense) was recognised in relation to the Plan.

	2013	2012
	No.	No.
(c) Reconciliation of treasury shares		
VDM Group Performance Rights Plan	150,005	150,005
VDM Group Performance Rights Plan – Como Engineers	26,765	3,765
VDM Group Employee Incentive Plan	46,094	46,094
Total treasury shares (note 25)	222,864	199,864
At 1 July	199,864	199,864
Performance Rights cancelled and released from escrow	23,000	-
At 30 June	222,864	199,864

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(d) Summaries of options granted under the Employee Option Plan (EOP)

The following table illustrates the number (No.) and weighted average exercise price (WAEP) of, and movements in, share options during the year:

	2013 No.	2013 WAEP	2012 No.	2012 WAEP
Outstanding at the beginning of the year	90,625	2.25	271,250	2.25
Forfeited during the year	(90,625)	2.25	(180,625)	2.25
Outstanding at the end of the year	-	-	90,625	2.25

The weighted average remaining contractual life for the share options outstanding as at 30 June 2013 is nil years (2012: nil years).

There were no options granted during the year ended 30 June 2013 and 2012.

(e) Summaries of performance rights granted under the Executive Performance Rights Plan (EPRP)

The following table illustrates the number (No.) and weighted average exercise price (WAEP) of, and movements in, performance rights during the year:

	2013 No.	2013 WAEP	2012 No.	2012 WAEP
Outstanding at the beginning of the year	34,391,304	0.0398	-	-
Revalued during the year	-	(0.0278)	-	-
Forfeited during the year	(16,565,217)	(0.0398)	-	-
Granted during the year	-	-	34,391,304	0.0398
Outstanding at the end of the year	17,826,087	0.0212	34,391,304	0.0398

The weighted average remaining contractual life for the share options outstanding as at 30 June 2013 is 0.92 years (2012: 1.92 years).

The following table lists the inputs to the model used for the EPRP for the year ended 30 June 2013 and 2012:

	2012 EPRP
Expected volatility %	70
Risk-free interest rate %	2.39
Underlying security spot price \$	0.058
Expected life of the performance rights (years)	2 to 3
Model used for market based vesting conditions	Monte-Carlo
Model used for non-market based vesting conditions	Binomial
Value per performance right \$	0.0398

The expected volatility reflects the assumption that the historical volatility from 27 October 2011 (since the trading halt) to the valuation date of 18 May 2012 is indicative of future trends, which may also not necessarily be the actual outcome.

The performance rights granted to Mr Broad of 11,956,522 in 2012 were approved at the Annual General Meeting on 29 November 2012. The performance rights granted to Mr Broad were revalued at \$0.012 per right based on the underlying share price at that time. Following the termination of A Broad on 23 August 2013, these performance rights have lapsed subsequent to the balance date.

There were no performance rights granted in 2013.

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For the year ended 30 June 2013

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Credit, liquidity and market risk (including interest rate and foreign exchange risk) arise in the normal course of the VDM Group's business. VDM Group manages its exposure to these key financial risks in accordance with VDM Group's financial risk management policy. The objective of the policy is to support the delivery of VDM Group's financial targets whilst protecting future financial security. VDM Group's principal financial instruments comprise receivables, payables, bank loans and overdrafts, hire purchase liabilities, cash and short-term deposits.

VDM Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate and foreign exchange. Ageing analysis and monitoring of specific credit allowances are undertaken to manage credit risk, liquidity risk is monitored through the development of future rolling cash flow forecasts.

Primary responsibility for identification and control of financial risks rests with the Audit and Risk Committee under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below.

Risk exposures and responses

(a) Market risk

Interest rate risk

Interest rate risk is the risk that VDM Group's financial position will be adversely affected by movements in interest rates that will increase the cost of floating rate debt or opportunity losses that may arise on fixed rate borrowings in a falling interest rate environment. Interest rate risk on cash and short term deposits is not a material risk due to the short term nature of these financial instruments.

VDM Group has reduced its exposure to interest rate risk during 2012 as a result of settling its interest bearing debt from the proceeds arising from the sale of Cape Crushing.

The financial instruments exposed to variable interest rate risk are as follows:

	2013	Consolidated
	\$'000	2012
		\$'000
Financial assets		
Cash and cash equivalents (note 12)	11,857	10,029
Term deposits (note 13)	5,238	13,568
Financial liabilities		
Interest bearing borrowings and loans (note 23)	-	-

The following table summarises the sensitivity on the interest rate exposures, (excluding opportunity cost of fixed rate borrowings) in existence at the balance sheet date. The sensitivity is based on foreseeable changes over a financial year.

Post-tax gain/ (loss)	Impact on profit	
+ 2% (200 basis points)	239	330
- 1% (100 basis points)	(120)	(165)

The movement in profit is due to lower / higher interest cost from variable rate debt and cash balances.

Other than retained earnings, there is no impact on equity in the consolidated entity.

VDM GROUP LIMITED

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For the year ended 30 June 2013

Foreign currency risk

VDM Group has reduced its foreign currency risk exposure during 2013 with the sale of its wholly owned subsidiary, Como and the wind up of VDM Group's international operations in Indonesia. In 2012, VDM Group was exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar, Indonesian Rupiah, Canadian Dollar and United Arab Emirates Dirham.

Foreign currency risk arises from transactions, assets and liabilities that are denominated in a currency that is not the functional currency of the transacting entity. Measuring the exposure to foreign currency risk is achieved by regularly monitoring and performing sensitivity analysis on VDM Group's financial position. Currently there is no foreign exchange hedge programme in place.

At balance date, VDM Group had the following exposure on their foreign financial instruments:

	Consolidated	
	2013	2012
	\$'000	\$'000
Financial assets		
Cash and cash equivalents	-	494
Trade and other receivables	-	598
Total financial assets	-	1,092
Financial liabilities		
Trade and other payables	-	3
Total financial liabilities	-	3

The following table summarises the sensitivity of financial instruments held at balance sheet date to movements in the exchange rate of the Australian dollar to the US Dollar. The sensitivity is based on foreseeable changes over a financial year.

Post-tax gain/ (loss)	Impact on profit	
AUD/ USD +10%	-	76
AUD/ USD -10%	-	(76)

Other than retained earnings, there is no impact on equity in the consolidated entity.

(b) Credit risk

Credit risk arises from the financial assets of VDM Group, which comprises cash and cash equivalents and trade and other receivables. VDM Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

VDM Group manages its credit risk by trading only with recognised, creditworthy third parties, and as such collateral is not requested nor is it VDM Group's policy to securitise its trade and other receivables. Customers are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Receivables balances are monitored on an ongoing basis. At balance sheet date there were no significant concentrations of credit risk within VDM Group and financial instruments are held amongst reputable Australian financial institutions thus minimising the risk of default of counterparties.

The maximum exposure to credit risk at the reporting date was as follows:

Current		
Cash and cash equivalents (note 12)	11,857	10,029
Term deposits (note 13)	5,238	13,568
Trade and other receivables (note 14)	12,507	48,736
	29,602	72,333

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(c) Liquidity risk

Liquidity risk is the risk that the entity will encounter difficulty in meeting its commitments concerning its financial liabilities. As a result, the liquidity position of VDM Group is managed to ensure sufficient liquid funds are available to meet our financial commitments in a timely and cost-effective manner.

VDM Group continually reviews its liquidity position including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels. Following the retirement of all outstanding bank debt during the year ended 30 June 2012, the objective of VDM Group is to have sufficient liquid assets to meet short term commitments, and to fund capital expenditure through a mixture of hire purchase and cash.

The table below reflects all contractually fixed payments for settlement, repayments and interest resulting from recognised financial assets and liabilities and does not recognise any cash for unresolved claims against our projects which have not been recognised as income. The obligations presented are the undiscounted cash flows for the respective upcoming fiscal years. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2013. Repayment obligations in respect of the bank loans, hire purchase facilities and trade and other payables are as follows:

	Consolidated	
	2013	2012
	\$'000	\$'000
No later than one year	28,709	53,467
Later than one year but not later than two years	253	132
Later than two years but not later than three years	63	-
	29,024	53,599

The following table reflects a maturity analysis of financial assets and liabilities based on management's expectation of settlement.

	Total	0-60 days	61 days - 1 year	1-5 years	>5 years
Year ended 30 June 2013	\$'000	\$'000	\$'000	\$'000	\$'000
Consolidated					
Financial assets					
Cash and cash equivalents (note 12)	11,857	11,857	-	-	-
Term deposits (note 13)	5,238	-	5,238	-	-
Other receivables (note 14)	2,730	2,730	-	-	-
Trade receivables (note 14)	9,777	8,380	1,397	-	-
	29,602	22,967	6,635	-	-
Financial liabilities					
Trade and other payables	12,289	11,577	712	-	-
Other payables	14,551	14,551	-	-	-
Hire purchase liabilities (note 33)	676	43	317	316	-
Interest bearing loans and borrowings	1,508	786	722	-	-
	29,024	26,957	1,751	316	-
Net maturity	578	(3,990)	4,884	(316)	-

	Total	0-60 days	61 days - 1 year	1-5 years	>5 years
Year ended 30 June 2012	\$'000	\$'000	\$'000	\$'000	\$'000
Consolidated					
Financial assets					
Cash and cash equivalents (note 12)	10,029	10,029	-	-	-
Term deposits (note 13)	13,568	13,568	-	-	-
Other receivables (note 14)	9,241	9,241	-	-	-
Trade receivables (note 14)	39,495	34,961	4,534	-	-
	72,333	67,799	4,534	-	-
Financial liabilities					
Trade and other payables	28,023	26,150	1,873	-	-
Other payables	22,891	22,891	-	-	-
Hire purchase liabilities (note 33)	500	94	274	132	-
Interest bearing loans and borrowings	2,185	706	1,479	-	-
	53,599	49,841	3,626	132	-
Net maturity	18,734	17,958	908	(132)	-

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(d) Fair value

The fair value of financial assets and financial liabilities approximate the carrying value due to the liquid nature of these assets and / or the short term nature of these financial rights and obligations. Due to the liquid nature of these assets / or short term nature of these financial rights and obligations, no valuation techniques, methods or assumptions have been applied to determine fair value. There are no unrecognised financial assets or financial liabilities at year-end.

	2013	Parent entity
	\$'000	2012
32. PARENT ENTITY INFORMATION		\$'000
Information relating to VDM Group Ltd:		
Current assets	26,750	32,750
Total assets	12,946	111,504
Current liabilities	15,627	24,349
Total liabilities	10,614	24,355
Issued capital	248,287	248,612
Accumulated losses	(246,838)	(162,430)
Option reserve	883	967
Total shareholders' equity	2,332	87,149
Loss of the parent entity	(93,298)	(70,294)
Total comprehensive loss of the parent entity	(93,298)	(70,294)

(a) Bank guarantees:

As at 30 June 2013 VDM Group Ltd had \$260,000 (2012: \$390,000) held in bank guarantees with BankWest, relating to bonds on leased property.

(b) Guarantees in relation to debts of subsidiaries:

Pursuant to class order 98/1418 VDM Group Ltd and the Closed Group have entered into a Deed of Cross Guarantee on 1 February 2010. The effect of the deed is that VDM Group Ltd has guaranteed to pay any deficiency in the event of winding up of controlled entities or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee.

(c) Contingent liabilities

Refer to note 34(a) for legal claims against the parent entity.

(d) Property, plant and equipment commitments

VDM Group had no capital commitments at 30 June 2013 and 2012.

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	2013	Consolidated
	\$'000	2012
		\$'000

33. COMMITMENTS

(a) Operating leases

Future minimum rentals payable under non-cancellable operating leases as follows:

Within one year	2,338	2,579
One year or later but not later than five years	5,335	7,449
After more than five years	-	7,620
Total minimum lease payments	7,673	17,648

During the year VDM Group made operating lease payments totalling \$2,261,000 (2012: \$3,580,000).

VDM Group entered into a 10 year commercial property lease with the right to renew for a further 5 years commencing in October 2012. The lease was subsequently terminated under mutual agreement.

Other operating leases entered into on various commercial properties have an average life of between 2 and 5 years and generally provide VDM Group with a right of renewal, at which time, all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are generally based on movements in the Consumer Price Index and do not include the renewal period. There are no restrictions placed upon VDM Group from entering into the leases.

(b) Hire purchase commitments

Not later than one year	360	368
After one year but not more than five years	316	132
Total minimum hire purchase payments	676	500
Future finance charges	(55)	(31)
Present value of minimum lease payments (note 23)	621	469

Total hire purchase liability

Included in the financial statements as:

Current – Hire purchase liabilities	322	341
Non – Current Hire purchase liabilities	299	128
Total included in interest bearing liabilities (note 23)	621	469

VDM Group has acquired plant and equipment under hire purchase agreements expiring from 1 to 5 years.

(c) Property, plant and equipment commitments

VDM Group has capital commitments at 30 June 2013 amounting to \$115,000 (2012: \$132,000)

(d) Remuneration commitments

VDM Group did not have any remuneration commitments at 30 June 2013 (2012: \$nil) other than as disclosed in the remuneration report.

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34. CONTINGENCIES

(a) Legal claim

VDM Group is involved in the provision of engineering and construction services. The nature of these services is such that claims arise from time to time for and against VDM Group. A number of claims and counter-claims exist at 30 June 2013, the majority of which would not lead VDM Group to incur material losses. Two claims and counter-claims exist as at 30 June 2013 that may lead to VDM Group incurring material losses if claims made by counterparties are successful for the full amount of the values claimed.

Gendredge Pty Ltd

VDM Group engaged Gendredge Pty Ltd ("Gendredge") as a subcontractor on a project in Western Australia. Gendredge has commenced proceedings in the courts of Western Australia for amounts it claims is owed by VDM Group to Gendredge. VDM Group has made a counter-claim against Gendredge for repudiation of the contract and additional costs incurred to engage an alternate subcontractor to complete the work not completed by Gendredge.

In October 2011, VDM Group applied to the courts of Western Australia for an order that Gendredge post initial security for the costs that VDM Group may incur in defending the claims made by Gendredge. On 22 December 2011, the Supreme Court of Western Australia ordered Gendredge to provide security to the court of \$50,000 to cover expected costs of VDM Group until the commencement of trial.

Statement of claims by both parties has been submitted to the court. No significant activity has occurred since both parties submitted their information to the WA Supreme Court in late calendar year 2012; however, in the event that Gendredge is successful in the courts of Western Australia, VDM Group may incur a material loss. VDM Group has not disclosed the value of the claims as it may be prejudicial to the successful outcome thereof.

Wandoo Project – OTOC Claim

OTOC were a subcontractor to VDM Group on the Wandoo Housing Refurbishment project. The project entailed the refurbishment of 240 houses and town facilities for Rio Tinto in the township of Wandoo over a 3 year period.

Following completion of the work in November 2012, OTOC alleges that certain activities that they carried out on site were not part of their original subcontract price and the work was in fact variations to their subcontract.

VDM Group has rejected the claims made by OTOC. Legal proceedings have not been commenced by OTOC, however, they have intimated to VDM Group that they are considering litigation.

Jimblebar AN Project – Central Systems Claim

Central Systems were a subcontractor to VDM Group on this project. Due to performance and productivity performance issues by Central Systems on the project, their scope was reduced by VDM Group.

Central Systems have submitted claims to VDM Group for extensions of time (and resulting cost) and scope changes.

Currently VDM Group are working through Non-Conformance Reports (NDR's) that have been issued to establish time and / or cost impacts to determine a counterclaim.

VDM Group has not disclosed the value of the claims as it may be prejudicial to the successful outcome thereof.

(b) Bank guarantees and insurance bonds:

As at 30 June 2013 VDM Group had bank guarantees with BankWest of \$4,798,000 (2012: \$12,944,000) given to various clients for satisfactory contract performance.

As at 30 June 2013 VDM Group had insurance bonds with Assetinsure Pty Ltd of \$18,087,000 (2012: \$15,585,000) given to various clients for satisfactory contract performance.

(c) Contingencies relating to VDM Group's interest in joint ventures

There are no contingencies at 30 June 2013 relating to VDM Group's interest in joint ventures.

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35. SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 29 May 2013, VDM Group announced that it had entered into a binding share subscription agreement under which H&H agreed to subscribe for 600,000,000 new fully paid ordinary shares at 2.5 cents per share to raise \$15,000,000.

On 27 August 2013, VDM Group announced that the company was in dispute with a major customer in regard to the status of a material contract. VDM Group received a notice from the customer purporting to exercise its right to take the whole of the remaining works under the contract out of the hands of VDM Group (Customer Notice). The effect of this notice may materially impact the operating performance and short term future cash flows of VDM Group.

Following receipt of the Customer Notice, VDM Group was notified by H&H that it considered the matter to be a material adverse change within the definition of the existing share subscription agreement. As a result, an alternative capital raising was agreed with H&H on 27 August 2013 to provide capital of \$6,401,000 immediately, via a Placement of 140,080,961 shares at 1.0 cent per share to raise \$1,401,000 and a Convertible Loan of \$5,000,000 issued to H&H with a conversion price of 1.0 cent per share (conversion subject to shareholder approval) at the forthcoming AGM.

Following the issue of the conversion shares to H&H, H&H will have the right to appoint a further nominee Director, to the Board, which the Company understands will be Mr Ming Guo. Also, Barry Nazer and Richard Mickle will resign as directors of the Board at the conclusion of the AGM. In addition, it is intended that Dr Hua will become Executive Chairman, and Michael Perrott will become Deputy Non-executive Chairman at the conclusion of the AGM.

In conjunction with the placement, Dr Hua, the owner of H&H, and Mr Ru have been appointed Directors of VDM Group effective 28 August 2013. Dr Hua was also appointed Managing Director of VDM Group effective from 9 September 2013.

As announced on 23 August 2013, Mr Broad was terminated as Managing Director and Chief Executive Officer.

On 9 August 2013, VDM Group received \$1,350,000 to enable the discharge of its mortgage and sale of its shares in Quartz South Hedland Pty Ltd.

VDM Group announced on 20 September 2013 that it had entered into a non-binding sale agreement with an outside party to sell all the issued share capital of VDM Construction (Eastern Operations) Pty Ltd for \$2,750,000. A binding share sale agreement was executed on 7 October 2013.

VDM Group is actively pursuing options to divest parts of the consulting business via management buy-outs. As at signing of the accounts, no agreement had been signed.

VDM Group also entered into an unsecured loan facility of up to \$4,000,000 to be provided by H&H to VDM Group (**New Facility**). Subject to shareholder approval at the forthcoming AGM, VDM Group will grant a general security to H&H in respect of the New Facility.

In addition, on 29 October 2013, VDM Group announced it is proposing to make a pro-rata entitlement offer to its Shareholders to subscribe for Shares at a price of \$0.01 per Share seeking to raise at least \$9,250,000 (**Rights Issue**). Pursuant to the Rights Issue, H&H has agreed to apply for \$4,000,000 of shares through subscribing for some or all of its entitlement and, if required, by underwriting the Rights Issue, conditional upon Hunter Hall Investment Management Limited contributing an aggregate of \$1,000,000 under the Rights Issue. The Rights Issue will have a minimum subscription of \$5,000,000. To the extent that H&H is required to contribute pursuant to its pro-rata entitlement and underwriting obligations under the Rights Issue, any funds that VDM has drawn down pursuant to the New Facility will be set off against H&H's subscription and underwriting commitments pursuant to the Rights Issue in repayment of that part of the New Facility. Further details of the Rights Issue will be provided to shareholders in due course.

	2013	Consolidated 2012
	\$	\$
36. AUDITORS' REMUNERATION		
Amount received or receivable by Ernst & Young for:		
An audit or review of the financial statements	293,550	407,755
Other audit or review procedures	8,498	93,264
Non audit fees – tax compliance	145,279	89,851
Total auditors' remuneration	447,327	590,870

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37. CLOSED GROUP CLASS ORDER DISCLOSURES

(a) Closed group class order disclosures

The consolidated financial statements include the financial statements of VDM Group and the subsidiaries listed in the following table:

Name	Country of incorporation	% equity interest	
		2013	2012
VDM Hyparspace Pty Ltd	Australia	100%	100%
Keytown Constructions Pty Ltd	Australia	100%	100%
VDM Investments Pty Ltd	Australia	100%	100%
VDM Developments Pty Ltd	Australia	100%	100%
VDM Engineering (Western Operations) Pty Ltd (formerly VDM Consulting (WA) Pty Ltd)	Australia	100%	100%
VDM Consulting (NSW) Pty Ltd	Australia	100%	100%
VDM Consulting (VIC) Pty Ltd	Australia	100%	100%
VDM Engineering (Eastern Operations) Pty Ltd (formerly VDM Consulting (QLD) Pty Ltd)	Australia	100%	100%
VDM Projects Pty Ltd	Australia	100%	100%
VDM Asset Management Pty Ltd	Australia	100%	100%
Skiful Holdings Pty Ltd	Australia	100%	100%
Burchill VDM Pty Ltd	Australia	100%	100%
VDM Construction (Western Operations) Pty Ltd	Australia	100%	100%
VDM Earthmoving Contractors Pty Ltd	Australia	100%	100%
VDM Group Ltd International (Dubai Branch) Pty Ltd	Australia	100%	100%
Como Engineers Pty Ltd	Australia	-	100%
VDM Contracting Pty Ltd	Australia	100%	100%
VDM Construction (Eastern Operations) Pty Ltd (formerly VDM Construction (Australia) Pty Ltd)	Australia	100%	100%
Van Der Meer Consulting Vietnam Co Ltd	Vietnam	100%	100%
BCA Consultants Pty Ltd	Australia	100%	100%
The EB Trust	Australia	100%	100%
VDM Consulting Pty Ltd	Australia	100%	100%
VDM Equity Incentives Pty Ltd	Australia	100%	100%
VDM CCE Pty Ltd	Australia	100%	100%
Anagan Pty Ltd	Australia	100%	100%
Belleng VDM Pty Ltd	Australia	100%	100%
Burchill VDM (International) Pty Ltd	Australia	100%	100%
Riverside Structural Modelling Pty Ltd	Australia	100%	100%
Barlow Gregg VDM Pty Ltd	Australia	100%	100%
VDM Consulting (UAE) Pty Ltd	Australia	100%	100%
VDMAHP Pty Ltd*	Australia	50%	50%
Quartz South Hedland Pty Ltd	Australia	52%	52%
Quartz Trust	Australia	100%	100%

* - this company is dormant

VDM GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2013

(b) Entities subject to class order relief

Pursuant to Class Order 98/1418, relief has been granted to VDM Construction Pty Ltd (formerly called Wylie & Skene Pty Ltd), Bellerio Constructions (QLD) Pty Ltd, VDM Contracting Pty Ltd (formerly called Kayano Nominees Pty Ltd), VDM Earthmoving Contractors Pty Ltd and Cape Crushing and Earthmoving Contractors Pty Ltd from the *Corporations Act 2001* requirements for the preparation, audit and lodgement of their financial reports.

As a condition of the Class Order, VDM Group Ltd, VDM Consulting (WA) Pty Ltd, VDM Consulting (QLD) Pty Ltd, Barlow Gregg VDM Pty Ltd, VDM Consulting (NSW) Pty Ltd, VDM Consulting (VIC) Pty Ltd, Riverside Structural Modelling Pty Ltd, VDM Projects Pty Ltd, Skilful Holdings Pty Ltd, VDM Group Ltd International (Dubai Branch) Pty Ltd, VDM Asset Management Pty Ltd, Burchill VDM Pty Ltd, Belleng VDM Pty Ltd, Burchill VDM (International) Pty Ltd, VDM Consulting Pty Ltd, BCA Consultants Pty Ltd, Agenda Lab Pty Ltd, Keytown Constructions Pty Ltd, Anagan Pty Ltd, VDM Investments Pty Ltd, VDM CCE Pty Ltd (formerly called Civmec Construction and Engineering Pty Ltd), VDM Construction Pty Ltd (formerly called Wylie & Skene Pty Ltd), VDM Developments Pty Ltd, ACN 087 442 877 Pty Ltd (formerly called VDM Constructions Pty Ltd), Bellerio Constructions (QLD) Pty Ltd, VDM Earthmoving Contractors Pty Ltd, Como Engineers Pty Ltd, VDM Contracting Pty Ltd (formerly called Kayano Nominees Pty Ltd), VDM Resources and Infrastructure Pty Ltd, VDM Equity Incentives Pty Ltd and Cape Crushing and Earthmoving Contractors Pty Ltd, (the "Closed Group"), entered into a Deed of Cross Guarantee on 1 February 2010. The effect of the deed is that VDM Group Ltd has guaranteed to pay any deficiency in the event of winding up of controlled entities or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that VDM Group Ltd is wound up or if it does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee.

(c) Statement of comprehensive income

The consolidated income statement and balance sheet of the entities that are members of the Closed Group are as follows:

	Closed Group	
	2013	2012
	\$'000	\$'000
Loss from continuing operations before income tax	(66,707)	(28,647)
Income tax benefit	(14,897)	2,618
Loss after tax from continuing operations	(81,604)	(26,029)
(Loss) / profit from discontinued operation	(2,749)	(27,792)
Net loss for the year	(84,353)	(53,821)
Non-controlling interest		
Dividends paid		
Accumulated losses at the beginning of the year	(160,560)	(106,739)
Accumulated losses at the end of the year	(244,913)	(160,560)

VDM GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2013

(d) Statement of financial position

	Closed Group	
	2013	2012
	\$'000	\$'000
ASSETS		
Current assets		
Cash and cash equivalents	11,853	9,858
Term deposit	5,238	13,568
Trade and other receivables	19,598	54,860
Contracts in progress	7,848	19,656
Inventory	308	936
Income tax receivable	-	-
Development properties	675	789
Other assets	728	2,305
	46,248	101,972
Non-current assets classified as held for sale	900	1,295
Total current assets	47,148	103,267
Non-current assets		
Trade and other receivables	257	-
Investments	665	1,444
Property, plant and equipment	6,359	12,817
Deferred tax assets	-	15,183
Intangible assets and goodwill	307	23,023
Total non-current assets	7,588	52,467
TOTAL ASSETS	54,736	155,734
LIABILITIES		
Current liabilities		
Trade and other payables	27,110	49,002
Amount due to customers for contract work	7,200	3,488
Interest-bearing loans and borrowings	1,782	2,396
Current tax liabilities	3,974	3,687
Provisions	9,872	7,519
Total current liabilities	49,938	66,092
Non-current liabilities		
Interest-bearing loans and other borrowings	299	128
Provisions	243	495
Total non-current liabilities	542	623
TOTAL LIABILITIES	50,480	66,715
NET ASSETS	4,256	89,019
EQUITY		
Contributed equity	248,286	248,612
Reserves	883	967
Accumulated losses	(244,913)	(160,560)
TOTAL EQUITY	4,256	89,019

VDM GROUP LIMITED

DIRECTORS' DECLARATION

For the year ended 30 June 2013

In accordance with a resolution of the directors of VDM Group Limited, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2;
- (c) Subject to the satisfactory achievement of the matters described in note 2, there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable;
- (d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2013; and
- (e) as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 37 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board



Dr Hua
Managing Director
Perth, Western Australia
29 October 2013

VDM GROUP LIMITED

INDEPENDENT AUDIT REPORT

For the year ended 30 June 2012



Ernst & Young
11 Mounts Bay Road
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Independent auditor's report to the members of VDM Group Limited

Report on the financial report

We have audited the accompanying financial report of VDM Group Limited, which comprises the consolidated statement of financial position as at 30 June 2012, 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, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

VDM GROUP LIMITED INDEPENDENT AUDIT REPORT For the year ended 30 June 2012



Basis for Disclaimer of Opinion

As more fully set out in Note 2 to the financial report, the group's ability to continue to meet its debts as and when they fall due is reliant on the ongoing funding and support of H&H Holdings Australia Pty Ltd, the successful resolution of outstanding claims and variations with clients, and the successful implementation of the new business strategy.

We have been unable to obtain sufficient appropriate audit evidence as to whether the consolidated entity can achieve the matters set out in Note 2 to the financial report, and thus determine whether it is appropriate to prepare the financial statements on a going concern basis.

Disclaimer of Opinion

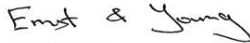
Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial report.


Report on the remuneration report

We have audited the Remuneration Report included in of the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of VDM Group Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.


Ernst & Young


T Dachs
Partner
Perth
29 October 2013

VDM GROUP LIMITED
ASX ADDITIONAL INFORMATION
For the year ended 30 June 2013

SHAREHOLDER INFORMATION

Additional information required by ASX Listing Rules and not shown elsewhere in the report is set out below. The information is current as of 13 September 2013.

TWENTY LARGEST SHAREHOLDERS

Shareholder	Number of ordinary fully paid shares held	% held of capital
H&H Holdings Australia Pty Ltd	185,110,976	17.24
J P Morgan Nominees Australia Limited	139,265,273	12.96
HSBC Custody Nominees	29,415,519	2.74
Wavet Fund No 2 Pty Ltd	27,500,000	2.55
UBS Nominees Pty Ltd	26,824,232	2.50
James Howard Nigel Smalley	25,000,000	2.33
Mr John Finlay Mackenzie Rowley	12,000,000	1.12
PPK Investments Holdings Pty Ltd	11,500,000	1.07
Mr Brian Hon Leung Lee	9,000,000	0.84
Merrill Lynch (Australia) Nominees Pty Limited	8,155,660	0.76
Washington H Soul Pattinson and Company Limited	7,000,000	0.65
Duncraig Investment Services Pty Ltd	6,200,000	0.58
Mr Aaron Francis Quirk	6,058,250	0.56
NJP Nominees Pty Ltd	5,142,852	0.48
Mr Anthony Grant Melville + Mrs Elaine Sandra Melville	5,000,000	0.47
Mr Peter James Banovich	4,894,615	0.46
Mr David Marshall Nesbitt	4,800,000	0.45
Cootingal Pty Ltd	4,786,909	0.45
David Kendall Smalley	4,660,000	0.43
Mr Robert Mark Windsor	4,532,778	0.42
Total	526,847,064	49.06

SHARES IN VOLUNTARY ESCROW

There are no shares in voluntary escrow.

SUBSTANTIAL SHAREHOLDINGS

The following shareholders have declared a relevant interest in the number of voting shares at the date of giving notice under Part 6C.1 of the Corporations Act.

Shareholder	Number of ordinary fully paid shares held	% held of capital
H & H Holdings Australia Pty Ltd	185,110,976	17.24

VDM GROUP LIMITED
ASX ADDITIONAL INFORMATION
For the year ended 30 June 2013

DISTRIBUTION OF SHAREHOLDINGS

Range of holding	Number of shareholders	Number of ordinary shares	%
1 – 1,000	631	245,470	0.02
1,001 – 5,000	887	2,520,894	0.23
5,001 – 10,000	497	3,862,458	0.36
10,001 – 100,000	1,604	66,713,934	6.21
100,001 and above	927	1,000,611,276	93.17
Total	4,541	1,073,954,032	100.00

The number of shareholders with less than a marketable parcel is 3,166 holding in total 37,820,621 shares.

VOTING RIGHTS

All ordinary shares issued by VDM Group Limited carry one vote per share without restriction.