ANNUAL REPORT 2014

VDM GROUP LIMITED
and its Controlled Entities
ABN 95 109 829 334

VDM GROUP LIMITED
CORPORATE INFORMATION

Directors	Dr Dongyi Hua	Executive Chairman and Interim Chief Executive Officer
	Mr Michael Fry	Non-Executive Director
	Mr Vic Jakovich	Non-Executive Director
	Mr Hiuming Luk	Non-Executive Director
Company Secretary	Mr Padraig O'Donoghue	
Registered and Principal Office	Fortescue Centre Level 1, 30 Terrace Road East Perth WA 6004 Telephone (08) 9265 1100 Facsimile (08) 9265 1399 Website www.vdmgroup.com.au	
Postal Address	Locked Bag 8 East Perth WA 6872	
Auditors	Ernst & Young 11 Mounts Bay Road Perth WA 6000	
Share Register	Computershare Investor Services Pty Limited Level 2 45 St George's Terrace Perth WA 6000 Telephone 1300 557 010 (outside Australia) +61 3 9323 2000 Facsimile +61 8 9323 2033	

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 and its controlled entities

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OVERVIEW

I was appointed non-executive director of VDM on 28 August 2013 and commenced as CEO on 9 September 2013. On 29 November 2013 I was appointed Executive Chairman. It is fair to say that the Company faced significant financial challenges when I assumed the CEO position, as evidenced by the Company's $11.9 million loss recorded for the first half of the year. The company also incurred losses in second half of the year, with the company recording a $21.4 million loss for the full year. The primary reasons for these losses were: i) low profit performance on the close-out of the existing suite of construction contracts, ii) call of $2.4 million of security bonds under the disputed Jimblebar ANSF contract, iii) losses recorded on discontinued operations and iv) absence of new revenue streams during the year.

Despite the challenges I assure you that the board and I have high ambitions for VDM. We are confident that VDM's new business strategy will be transformational and VDM will become a strong and successful Australian company and shareholders will be rewarded for their investment in the company.

Commencing this year, VDM had identifiable strengths that we could build on: a) it is a well-known engineering-procurement-construction (EPC) brand with significant experience in the Australian market; b) it has invested in systems and procedures for construction contract management, quality control, and safety; c) it has a fleet of well-maintained construction equipment; and d) it has a skilled workforce.

During the year, we concentrated VDM's turnaround in three areas: i) recapitalization through equity raisings, ii) restructuring the company's operations through divestments of non-core businesses and close-out of existing contracts, and iii) introducing new management skills and business partners to implement VDM's new business strategy.

RECAPITALISATION

Net cash flow used in operating activities was $33.1 million during the year and therefore VDM undertook a number of capital raisings to provide funding for the business:

- On 27 August 2013, 140,080,961 shares were issued to H&H Holdings Australia Pty Ltd (H&H) raising $1,401,000.
- On 27 August 2013, a $5,000,000 convertible loan was received from H&H that was converted into 500,000,000 shares by shareholder approval on 29 November 2013.
- On 29 November 2013, 143,997,917 shares were issued to Jimblebar creditors at $0.01 per share.
- On 10 December 2013, 75,000,000 shares were issued to a private investor raising $750,000.
- On 17 January 2014, 1,214,685,617 shares were issued pursuant to a non-renounceable entitlement offer (400,000,000 to underwriter H&H, 500,000,000 to sub-underwriter Australia Kengkong Investments Co Pty Ltd (Kengkong), and 778,531,439 under acceptances by other shareholders) raising $12,146,856, comprising 68 per cent of the offer.
- On 19 March 2014, 120,000,000 shares were issued to Kengkong raising $1,200,000.
- On 5 May 2014, a $4,500,000 convertible loan was received from Kengkong, convertible to 450,000,000 shares upon shareholder approval and at the option of Kengkong.

As announced on 23 September 2014, VDM executed an agreement with Kengkong to provide a further $10,000,000 of funding via a loan which, subject to shareholder approval, is convertible into 1,000,000,000 shares at the option of Kengkong. VDM shareholders will have the opportunity to consider approving the conversion to shares of both this convertible loan and the preceding $4,500,000 convertible at the Company's Annual General Meeting to be held before the end of November 2014.

I would like to thank Kengkong and H&H for supporting these capital raisings, as well as the other shareholders who took up their share rights under the December 2013 entitlement offer.

RESTRUCTURING

The Queensland Construction business and the remaining Queensland and Western Australian Engineering Consulting businesses were sold in the first-half of the year. Although these divestments resulted in recognition of losses from discontinued operations of $6.7 million, exiting these businesses was considered an urgent and necessary measure to halt the cash outflows that would be required to maintain them.

Another priority was the prompt efficient completion of the existing construction contracts. Contracts in progress was reduced from $7.8 million on the balance sheet at the beginning of the year to very close to nil at year end.

These business divestments and project close-outs have resulted in a workforce reduction from 347 employees at the start of the year to 42 at the end of the year. The restructuring has simplified and rationalised the business which allows the board and management to concentrate VDM's resources on implementation of the new business strategy.

NEW BUSINESS STRATEGY

VDM's new business strategy will be arranged under four operating divisions in financial year 2015:

- **VDM Construction**: *EPC including modular and steel construction*
- **VDM Equipment**: *equipment hire, sales, service, and parts*
- **VDM Trading**: *procuring quality Asian products for the Australian market*
- **VDM Mining**: *bringing Australian mining practices to Africa and Latin America*

VDM Construction

We have provided more focus to VDM Construction's EPC capabilities by improving the division's market competitiveness in customised modular buildings, steel buildings, and other steel construction projects. Cooperation agreements have been completed with BNBM (one of China's leading modular construction companies) and Ansteel Construction (a leading Chinese steel manufacturer) so that VDM can now provide highly competitive construction solutions in this market segment. VDM has also added experienced specialist skills in Australian modular and steel construction to its management team. VDM Construction can now deliver modern and technically-innovative custom buildings to the Australian market-place at highly competitive prices. This type of construction technology also provides customers with a cost advantage in terms of completion timeframes which are significantly shorter than normal construction methods.

Efforts were concentrated on completing the large suite of existing contracts and no new construction contracts were signed before the end of the financial year, however, VDM Construction now has a clear strategy and a highly competitive offering that we believe will result in VDM winning new construction contracts during FY15.

VDM Equipment

As announced on 24 June 2014, VDM has signed a letter of intent to establish a joint venture with SANY Heavy Machinery (JV). SANY is a leading manufacturer and well-established brand of heavy equipment in Asia. SANY's strategy is focused around product innovation, product quality, customer service and price competitiveness. VDM is proud to partner with SANY and is confident this innovative and successful brand will flourish in Australia.

The JV company has been registered and VDM and SANY representatives are progressing plans and schedules for the JV including equipment fleet delivery, showroom and workshop premises, sales and promotion activities, and additional staffing requirements. VDM has already commenced hiring SANY equipment to customers and has ordered more equipment from the SANY to offer for hire and sale within the joint venture in the coming months. Plans are also underway for the JV to hold a large expo in Perth, Western Australia to formally launch the JV and showcase the SANY product range.

VDM aims to reproduce similar JV arrangements with other established Asian manufacturers of high-quality equipment who want more success in the Australian market. The model significantly improves the competitive offering for these manufacturers through: 1) delivery of professional and knowledgeable after-sales maintenance and repair service, 2) improved Australian spare parts inventory management and parts sales, and 3) offering customers flexible and attractive equipment hire arrangements.

VDM Trading

VDM Trading is a procurement service for high-quality and either custom-designed or ready-made products from Asia. VDM has now established an experienced procurement team in Perth specialising in construction and industrial products from Asian manufacturers. VDM has also forged commercial arrangements with leading Chinese brands, such as BNBM and Ansteel Construction to improve the competitiveness of the offering to VDM customers.

VDM Trading leverages the technical capabilities of VDM Construction and VDM Equipment to provide customers with more assurance that their needs are fully understood and will be satisfied by the products procured from Asia. VDM Trading also has a business objective of assisting Australian businesses who would like to export products to Asian markets.

VDM Mining

VDM plans to bring the advantages of Australia's mining knowledge, technology and practices to mining opportunities in Africa and Latin America. Australia's modern and advanced mining industry has world-class capability and reputation in all mining stages including exploration, feasibility, design, construction, and operation. The Australian mining industry's safety record and environmental practices in Australia are internationally highly regarded. VDM intends to provide these advantages to projects in Africa and Latin America.

SAFETY

I am pleased to report that VDM had another positive safety performance with no Lost Time Injuries in the year and a LTIFR of nil. Safety is a fundamental plank of VDM's business and we will continue to ensure that safety is a top priority.

CONCLUSION

During the second-half of the year we welcomed two new directors to the VDM board: Mr Vic Jakovich, an independent director and Mr Hiuming Luk who is the nominee director of significant shareholder, Kengkong. Both are successful entrepreneurs and business leaders who provide tremendous value to VDM.

I would again like to thank our shareholders for their support during a challenging period for the Company.

Sincerely

Dr D Hua
Executive Chairman and Interim CEO

Your directors submit their report for the year ended 30 June 2014.

DIRECTORS

The names and details of the directors of VDM Group Limited ("VDM" 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

Dongyi Hua, Dr
Executive Chairman and Interim Chief Executive Officer
Initially appointed Director on 28 August 2013, Managing Director on 9 September 2013 and Executive Chairman and Interim Chief Executive Officer on 29 November 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 is also the Vice President of the Australian China Business Council Western Australia. Dr Hua holds a Doctorate of Engineering from the China University of Geosciences. Dr Hua has a relevant interest (as defined section 608 of the Corporations Act 2001) in H&H Holdings Australia Pty Ltd (H&H).

Michael Fry, BCom
Non-Executive Director
Appointed 3 June 2011
Chairman of the Audit & Risk Committee
Member of the Nominations & Remuneration Committee

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). From 2006 to 2011, 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. Since 2011 Mr Fry has been Chief Financial Officer and Company Secretary of Cougar Metals NL, a publicly listed gold exploration and drilling services company operating in Brazil.

Velko (Vic) Jakovich
Non-Executive Director
Appointed 1 February 2014
Member of the Nominations & Remuneration Committee

Mr Jakovich has held executive positions including Managing Director of Stulz Australia Pty Ltd, Treasurer, Deputy Chair and Chair of Villa Dalmacia Nursing Home and non-executive positions as Board Member of St John of God Foundation for 7 years and Chair of steering committee to develop case for raising $20m towards construction of $50m Comprehensive Cancer Centre at St John of God Campus Subiaco and Non-Executive Director of Stulz Australia Pty Ltd. Mr Jakovich is a senior partner in Jako Industries Pty Ltd and is its Managing Director.

Hiuming Luk
Non-Executive Director
Appointed 21 March 2014
Member of the Audit & Risk Committee
Member of the Nominations & Remuneration Committee

Mr Luk has extensive experience in a range of business sectors. In 2000, he set up the C.N.Team Ltd and Y.Z.I.T. Inc. He has invested in real estate in mainland China since 2001 and now invests in a variety of industries, including textile & clothing, steel, and new energy industries. Mr Luk is currently Chairman of the boards of C.N.Team Ltd, Y.Z.I.T. Inc, Wholly Fast International Ltd, Bondcooper Brothers Co Ltd, and Sunshine Real Estate Development Co Ltd.

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

Michael Perrott AM, B.Com, FAIM, FAICD
Initially appointed Non-Executive Director on 2 July 2009, appointed Chairman on 26 November 2010 and Deputy Chairman on 29 November 2013.
Mr Perrott resigned as a Director on 7 August 2014.

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

Xiangyang Ru
Appointed 28 August 2013
Mr Ru resigned as a Director on 1 February 2014.

Barry Nazer, BBus, FCPA, FFin, ANZIIF (Fellow), FAICD
Appointed 1 October 2008
Mr Nazer resigned as a Director on 29 November 2013.

Current directorships of ASX listed companies:
Coventry Group Limited – Non-Executive Director since September 2003

Richard Mickle, B.Eng, FIEAust, FAICD
Appointed 3 June 2011
Mr Mickle resigned as a Director on 29 November 2013.

Andrew Broad
Appointed 16 January 2012
Mr Broad was terminated as Managing Director and Chief Executive Officer on 23 August 2013.

COMPANY SECRETARY

Padraig O'Donoghue, BComm, CA
Appointed 12 February 2014

Mr O' Donoghue is VDM's Chief Financial Officer and Company Secretary. He has significant experience as CFO and Company Secretary to Australian companies. He has been CFO/Company Secretary of mining companies: Consolidated Rutile Limited (ASX:CRT), Jabiru Metals Limited (ASX:JML) and Navigator Resources Limited (ASX:NAV). He was also CFO and Company Secretary of mining contractor Barminco. His early career includes PriceWaterhouseCoopers in Vancouver, Canada and 10-years with Barrick Gold in both head office and international Commercial Manager operational roles.

Past Company Secretaries that resigned during the year and until the date of this report
Samantha Drury was appointed as Company Secretary on 23 August 2013 and terminated on 12 February 2014.
Michael Fry was appointed Company Secretary on 12 June 2013, as an interim measure until Mrs Drury's appointment on 23 August 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
D Hua	1,085,110,976
M Fry	1,000,000
V Jakovich	21,219,720
H Luk	620,000,000

DIVIDENDS

There were no dividends declared or paid during the year ended 30 June 2014.

NATURE AND PRINCIPAL ACTIVITIES

VDM's principal activities during the year were engineering designing and constructing (EPC) within the land development, road construction and resource industries. The activities were reduced during the year with the sale of VDM Construction (Eastern Operations) Pty Ltd (VDM Construction (Eastern Operations)) and VDM's engineering consulting businesses. Under the prior year's segment reporting these businesses were reported under 'Eastern construction' and 'Consulting' segments, respectively.

General
At 30 June 2014, VDM employed 42 people in Western Australia (30 June 2013: 347 across Australia).

OPERATING AND FINANCIAL REVIEW

Gross profit from continuing operations of $731,000 is significantly better than the prior year gross loss of $20,609,000. This line item reflects the combined profit result of work undertaken on construction contracts in the year. The prior year was negatively impacted by significant losses that were recorded on several large construction projects.

Revenue from continuing operations of $24,590,000 represents a decrease of 80.8 per cent in comparison with the prior year. VDM's construction activities were significantly reduced during the year as the Company concentrated on completing the large suite of active construction contracts and no new construction contracts were commenced in the year. Cost of services of continuing operations of $23,859,000 is 83.9 per cent below the prior year reflecting the reduced construction activities.

Loss from continuing operations before tax of $16,406,000 is a 72.0 per cent improvement on the prior year's $58,552,000 loss. The prior year loss result was significantly impacted by impairment expenses charged to goodwill of $16,717,000 and $881,000 of other impairment expenses. The current year result has significantly lower impairment expenses of $101,000 charged to leasehold improvements. Administration expenses of $17,039,000 are 15.4 per cent lower than the prior year reflecting the downsizing of the business that occurred over the year, offset by increased redundancy costs, increased provision for onerous leases, and reduced asset disposal gains. Additionally, administration expenses include $2,983,000 of impairment losses on receivables due from a customer for work done on the Jimblebar ANSF contract.

The loss after tax was $21,378,000 (2013: $84,408,000 loss). This loss includes losses from discontinued operations of $6,678,000 (2013: $10,951,000).

Re-capitalisation

Net cash flow used in operating activities was $33,066,000 during the year and therefore VDM undertook a number of capital raisings to provide funding for the business:

- On 27 August 2013, 140,080,961 shares were issued to H&H Holdings Australia Pty Ltd (H&H) raising $1,401,000 before capital raising costs.
- On 27 August 2013, a $5,000,000 convertible loan was received from H&H that was converted into 500,000,000 shares by shareholder approval on 29 November 2013.
- On 29 November 2013, 143,997,917 shares were issued to Jimblebar creditors at $0.01 per share.
- On 10 December 2013, 75,000,000 shares were issued to a private investor raising $750,000 before capital raising costs.
- On 17 January 2014, 1,214,685,617 shares were issued pursuant to a non-renounceable entitlement offer (400,000,000 to underwriter H&H, 500,000,000 to sub-underwriter Australia Kengkong Investments Co Pty Ltd (Kengkong), and 778,531,439 under acceptances by other shareholders) raising $12,147,000 (before capital raising costs), comprising 68 per cent of the offer.
- On 19 March 2014, 120,000,000 shares were issued to Kengkong raising $1,200,000 before capital raising costs.
- On 5 May 2014, a $4,500,000 convertible loan was received from Kengkong, convertible to 450,000,000 shares upon shareholder approval and at the option of Kengkong.

Business strategy

VDM's new business strategy is arranged under four operating divisions:

- **VDM Construction**: *EPC including modular and steel construction*
- **VDM Equipment**: *equipment hire, sales, service, and parts*
- **VDM Trading**: *procuring quality Asian products for the Australian market*
- **VDM Mining**: *bringing Australian mining practices to Africa and Latin America*

VDM Construction
VDM Construction's engineering-procurement-construction (EPC) capabilities are now focused on improving the division's market competitiveness in customised modular buildings, steel buildings, and other steel construction projects.

VDM Equipment
As announced on 24 June 2014, VDM has signed a letter of intent to establish a joint venture with SANY Heavy Machinery (JV). SANY is a leading manufacturer and well-established brand of heavy equipment in Asia. VDM aims to reproduce similar JV arrangements with other established Asian manufacturers of high-quality equipment who want more success in the Australian market. The model significantly improves the competitive offering for these manufacturers through: 1) delivery of professional and knowledgeable after-sales maintenance and repair service, 2) improved Australian spare parts inventory management and parts sales, and 3) offering customers flexible and attractive equipment hire arrangements.

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VDM Trading is a procurement service for high-quality and either custom-designed or ready-made products from Asia. VDM has now established an experienced procurement team in Perth specialising in construction and industrial products from Asian manufacturers. VDM has also forged commercial arrangements with leading Chinese brands, such as BNBM and Ansteel Construction to improve the competitiveness of the offering to VDM customers. VDM Trading leverages the technical capabilities of VDM Construction and VDM Equipment to provide customers with more assurance that their needs are fully understood and will be satisfied by the products procured from Asia. VDM Trading also has a business objective of assisting Australian businesses who would like to export products to Asian markets.

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VDM plans to bring the advantages of Australia's mining knowledge, technology and practices to mining opportunities in Africa and Latin America. Australia's modern and advanced mining industry has world-class capability and reputation in all mining stages including exploration, feasibility, design, construction, and operation. The Australian mining industry's safety record and environmental practices in Australia are internationally highly regarded. VDM intends to provide these advantages to projects in Africa and Latin America.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The number of ordinary shares on issue increased 70.1 per cent from 933,873,071 shares at 30 June 2013 to 3,127,660,952 shares at 30 June 2014. The increase resulted from capital raisings that occurred during the year to fund ordinary ongoing operations as outlined above in the 'Re-capitalisations" section of this report.

On 21 August 2013 BHP Billiton (BHP) notified VDM that it was terminating the Jimblebar ANSF contract and instructed all VDM staff to exit the work site and camp facilities. A dispute under this contract between VDM and BHP is ongoing. Additionally, on 19 December 2013 BHP claimed and was paid $2,422,000 under surety bonds issued by VDM under the Jimblebar ANSF contract. VDM was subsequently required to repay $2,422,000 to Asset Insure, the surety bond provider and deposit a further $2,500,000 into a cash account held as security for Asset Insure on the value of bonds issued for VDM. The surety bond provider will not consent to release of the cash security until the value of the surety bonds issued for VDM is reduced below the $2,500,000 of cash held in the security deposit account The value of surety bonds issued for VDM at 30 June 2014 is $5,287,000.

In the first half of the year, VDM sold the Queensland construction business (VDM Construction (Eastern Operations) Pty Ltd) and all the remaining engineering consulting businesses. Under the prior year's segment reporting these businesses were reported under the 'Eastern construction' and 'Consulting' segments, respectively.

On 5 May 2014, VDM executed a convertible loan and facility agreement with Australia Kengkong Investments Co Pty Ltd (Kengkong) ($4.5 million Convertible Loan) to provide funding of $4,500,000 for ordinary ongoing operations. Kengkong advanced $4,500,000 under the $4.5 million Convertible Loan on 6 May 2014. The loan is unsecured. Subject to shareholder approval, and upon such approval being granted, Kengkong will have the right to convert the loan into 450,000,000 ordinary shares at a conversion price of $0.01 per share. If shareholder approval is not obtained or the loan is not converted into VDM shares by Kengkong, VDM must repay the loan by the later of 5 September 2014 and 30 business days after the date of the shareholder meeting held to obtain approval (Shareholders Meeting). If shareholder approval is not obtained then VDM must pay a fee of $45,000. An interest rate of 10% per annum applies on the loan until 20 October 2014 at which time the interest rate increases to 15% per annum. A default interest rate of 2% per annum plus the applicable interest rate shall apply to any amount the Company fails to pay by the time it is due under the agreement.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Michael Perrott resigned as a Director of VDM on 7 August 2014.

On 22 September 2014, VDM executed a convertible loan and facility agreement with Kengkong to provide funding of $10,000,000 for ordinary ongoing operations and project development proposals which are approved by Kengkong ($10m Convertible Loan) The $10m Convertible Loan is unsecured. Subject to shareholder approval, and upon such approval being granted, Kengkong will have the right to convert the $10m Convertible Loan into 1,000,000,000 ordinary shares at a conversion price of $0.01 per share. If shareholder approvals for conversion of both the $10m Convertible Loan and the $4.5m Convertible Loan are not obtained, or Kengkong does not elect to convert the $10m Convertible Loan into VDM shares then VDM must repay the $10m Convertible Loan within 60 business days after the shareholders meeting held to obtain approval (Shareholders Meeting). Interest is calculated at a rate of 8% per annum until one month after the date of the Shareholders Meeting, and 13% per annum following that date. A default interest rate of 2% per annum plus the applicable interest rate shall apply to any amount the Company fails to pay by the time it is due under the agreement. In the event that shareholders do not approve conversion of the $4.5m Convertible Loan and the $10m Convertible Loan, a fee of A$100,000 is payable by VDM in addition to the $45,000 fee payable in respect of the non-approval by shareholders of conversion of the $4.5m Convertible Loan. Conversion matters for both the $10m Convertible Loan and the $4.5m Convertible loan will be presented for consideration by shareholders at the Company's Annual General Meeting to be held before the end of November 2014.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

VDM will be undertaking future capital raisings sufficient to fund ordinary ongoing operations and to grow the business until new revenue streams are established in the Construction, Equipment, Procurement and Mining divisions and the Company has to access debt capital markets. Any such capital raisings plans are currently incomplete and uncertain.

ENVIRONMENTAL REGULATION AND PERFORMANCE

VDM's operations are subject to environmental regulations under Commonwealth and State legislation. The Board believes that VDM 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.

SHARE OPTIONS

As at the date of this report, there were no unissued ordinary shares under option (2013: 464,992,686).

During the year, 43,386 options were exercised and the remaining options expired on 30 November 2013.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

VDM 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.

INDEMNIFICATION OF AUDITORS

To the extent permitted by law, VDM has agreed to indemnify it auditors, Ernst & Young (EY) against claims by third parties arising from the audit (for an unspecified amount). This is consistent with EY's standard audit engagement terms. No payment has been made to indemnify EY during or since the financial year.

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:

		Meetings of committees	
	Directors' meetings	Audit & Risk	Nominations & Remuneration
Number of meetings held:	17	5	1
Number of meeting attended:			
D Hua	13	3	1
M Fry	17	5	1
V Jakovich	4	1	1
H Luk	1	-	-
Past directors			
M Perrott	16	3	1
B Nazer	10	2	1
R Mickle	9	-	1
A Broad	3	-	-
X Ru	2	-	-

As at the date of this report, VDM had an audit & risk committee and a nomination & remuneration committee of the board of directors. Members acting on the committees of the board during the year were:

Audit & Risk	**Nominations & Remuneration**
M Fry (Chairman)	M Perrott (Chairman)
D Hua	D Hua
M Perrott	M Fry
V Jakovich	V Jakovich
H Luk	H Luk
B Nazer	

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The directors received an Independence Declaration from the auditor of VDM, attached on page 27. 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 37 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.

REMUNERATION REPORT (AUDITED)

This remuneration report for the year ended 30 June 2014 outlines the remuneration arrangements of VDM 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.

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

For the purposes of this report, the term 'executive' includes the Interim Chief Executive Officer (CEO), executive directors and other senior executives of VDM.

The remuneration report is presented under the following sections:

1. Individual KMP disclosures
2. Board oversight of remuneration
3. Executive remuneration arrangements
4. Executive remuneration outcomes for 2014 (including link to performance)
5. Executive contracts
6. Non-Executive Director remuneration arrangements
7. Additional statutory disclosure relating to options and shares
8. Loans to key management personnel
9. Other transactions and balances with key management personnel and their related entities

1. Individual KMP disclosures

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

Current directors

D Hua	*Executive Chairman and Interim Chief Executive Officer Managing Director -– appointed director on 28 August 2013, Managing Director on 9 September 2013 and Executive Chairman and Interim Chief Executive Officer on 29 November 2013*
M Fry	*Non – Executive Director*
V Jakovich	*Non – Executive Director — appointed on 1 February 2014*
H Luk	*Non – Executive Director — appointed on 21 March 2014*

Past directors

M Perrott	*Chairman until 29 November 2013 and then Deputy Chairman until his resignation on 7 August 2014. Acting CEO from 23 August 2013 to 6 September 2013.*
R Mickle	*Non – Executive Director — resigned on 29 November 2013*
B Nazer	*Non – Executive Director — resigned on 29 November 2013*
X Ru	*Non – Executive Director — appointed on 28 August 2013 and resigned on 1 February 2014*
A Broad	*Managing Director -– terminated on 23 August 2013*

Current executives

P O'Donoghue	*Chief Financial Officer and Company Secretary – appointed on 12 February 2014*

Past executives

S Drury	*Chief Financial Officer and Company Secretary – appointed on 24 June 2013 and resigned on 12 February 2014*
R Gregg	*Executive General Manager – Eastern Construction and Consulting – terminated on 11 October 2013*
J Kemp	*General Manager – Western Construction – appointed on 7 November 2012 and resigned on 6 September 2013*

2. Board oversight of remuneration

Nominations and Remuneration Committee

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

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 Board approves the remuneration arrangements of the Interim CEO and other 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 Interim CEO, the level of the VDM short-term incentive (STI) pool.

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

Remuneration report approval at 2013 Annual General Meeting

The 2013 remuneration report was approved at the 2013 Annual General Meeting with a note of 94 per cent in favour.

3. Executive remuneration arrangements

Remuneration strategy

VDM's executive remuneration strategy is designed to attract, motivate and retain high performing individuals and align the interests of executives and shareholders.

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

- Are aligned to the VDM'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 levels and mix

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

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

The Interim CEO'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's executive remuneration arrangements:

Remuneration component	Vehicle	Purpose	Link to performance
Fixed remuneration	• Represented by total employment cost (TEC) • Comprises base salary, superannuation contributions and other benefits	• 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	• No direct link to company performance
STI component	• Paid in cash	• Rewards executives for their contribution to achievement of VDM and business unit outcomes, as well as individual key performance indicators (KPIs)	• 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	• Awards are made in the form of performance shares	• Rewards executives for their contribution to the creation of shareholder value over the longer term	• Vesting of awards is dependent on VDM's TSR performance relative to ASX 200 Industrial Index

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 operates an annual STI program that is available to executives and awards a cash bonus subject to the attainment of clearly defined VDM 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 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 financial and non-financial, corporate and individual measures of performance.

Performance measures	Proportion of STI award measure applies to
Financial threshold • VDM and divisional Earnings before Interest and Tax (EBIT)	No award unless minimum financial thresholds achieved
Financial measure: • VDM and divisional Earnings before Interest and Tax (EBIT)	60-80%
Non-financial measures: • 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 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.

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 2014 financial year.

Variable remuneration — long term incentive (LTI)

Under the LTI plan, KMP may be offered performance rights under the VDM 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).

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 50th percentile	0%
At the 50th 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 being profitable during the two year period from the effective offer date.
- In the event that VDM 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 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 to KMP 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 remaining 17,826,087 performance rights lapsed following the termination of Mr Broad on 23 August 2013 and Mr Gregg on 11 October 2013.

KMP did not meet the predetermined performance and vesting conditions in the 2013 financial year. No additional performance rights were approved by the Nominations & Remuneration Committee in 2014.

4. Executive remuneration outcomes for 2014 (including link to performance)

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's gross EBIT history for the past five years (including the current period).

	EBIT $'000	Closing share price (cents per share)
2014	(16,287)	0.01
2013	(58,769)	0.01
2012	(29,759)	0.05
2011	(62,810)	0.07
2010	25,594	0.15

As a result of the negative EBIT performance in 2013, no STI awards were made in the 2014 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. A total of 34,391,304 performance rights were offered to KMP 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 remaining 17,826,087 performance rights lapsed following the termination of Mr Broad on 23 August 2013 and Mr Gregg on 11 October 2013.

The graph below shows VDM's TSR performance relative to the ASX-200 Industrial group since grant date on 1 December 2011. KMP did not meet the predetermined performance and vesting conditions in the 2014 financial year. As a result, no additional performance rights were approved by the Nominations & Remuneration Committee in 2014.

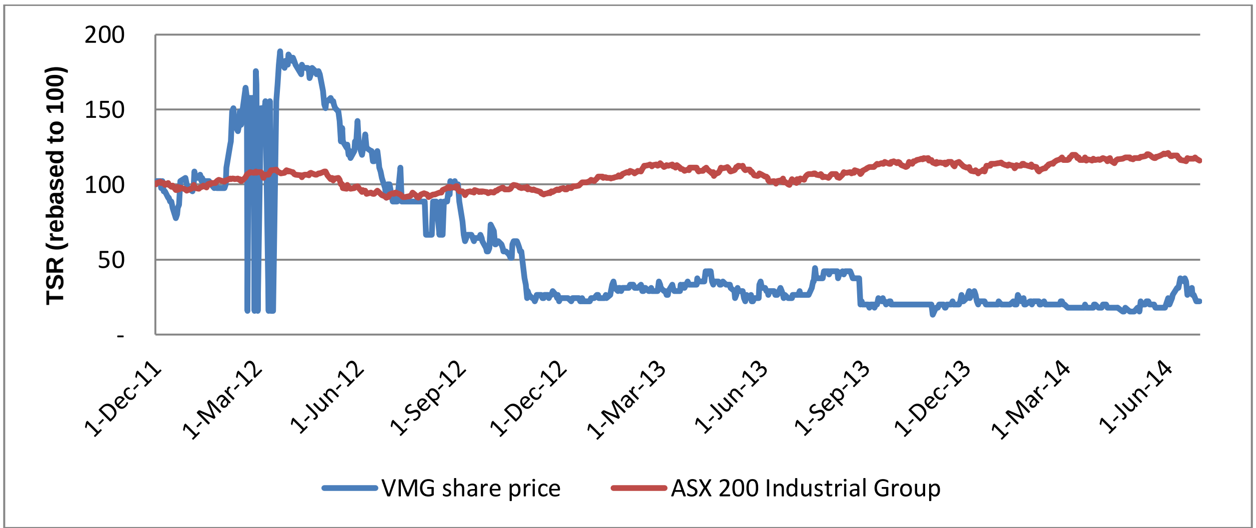

Table 1: Executive remuneration for the year ended 30 June 2014

	SHORT TERM			POST EMPLOYMENT	EQUITY SETTLED SHARE BASED PAYMENT			
	Base Salary & Fees	Cash Bonus	Non-Monetary Benefits	Super Contributions	Value of Performance Rights	Termination Benefits	Total	Performance Related
	$	$	$	$	$	$	$	%
Executive directors								
D Hua	495,122		-	16,572		-	511,694	-
Past executive directors								
A Broad[1]	133,522		-	5,833	(94,394)	312,500	357,461	(26%)
Current key management personnel								
P O'Donoghue[2]	88,166	-	-	7,280	-	-	95,446	-
Past key management personnel								
S Drury[3]	157,743	-	-	13,331	-	58,176	229,250	-
R Gregg[4]	118,516	-	-	18,509	(153,690)	72,229	55,564	(277%)
J Kemp[5]	109,229	-	-	-	-	-	109,229	-
	1,102,298	-	-	61,525	(248,084)	442,905	1,358,644	(18%)

Notes:-
1. A Broad was terminated as Managing Director and Chief Executive Officer on 23 August 2013.
2. P O'Donoghue was appointed as Chief Financial Officer and Company secretary on 12 February 2014.
3. S Drury was terminated as Chief Financial Officer and Company secretary on 12 February 2014.
4. R Gregg was terminated with effect from 11 October 2013.
5. J Kemp was appointed with effect from 7 November 2012 and resigned on 6 September 2013.

Table 2: Executive remuneration for the year ended 30 June 2013

	SHORT TERM			POST EMPLOYMENT	EQUITY SETTLED SHARE BASED PAYMENT			
	Base Salary & Fees	Cash Bonus	Non-Monetary Benefits	Super Contributions	Value of Performance Rights	Termination Benefits	Total	Performance Related
	$	$	$	$	$	$	$	%
Past executive directors								
A Broad[1]	556,730	70,000[2]	-	25,000	(20,635)[1]	-	631,095	3%
Current key management personnel								
R Gregg	410,620	-	-	53,128	97,222	-	560,970	17%
S Drury[3]	-	-	-	-	-	-	-	-
Past key management personnel								
J Kemp[4]	233,331	-	-	-	-	-	233,331	-
R Gonzales[5]	216,649	-	-	24,392	(56,468)	35,649	220,222	(26%)
D Coyne[6]	384,206	-	-	25,000	(37,646)	-	371,560	(10%)
T Fallon[7]	239,418	-	-	8,235	(65,252)	-	182,401	(36%)
	2,040,954	70,000	-	135,755	(82,779)	35,649	2,199,579	-

Notes:-
1. 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.
2. The bonus paid to Mr Broad relates to a correction of his 2012 STI.
3. S Drury was appointed with effect from 24 June 2013.
4. J Kemp was appointed with effect from 7 November 2012 and resigned on 6 September 2013.
5. R Gonzales was terminated with effect from 25 January 2013.
6. D Coyne resigned with effect from 12 June 2013.
7. T Fallon resigned with effect from 27 November 2012.

5. Executive contracts

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

Interim CEO

The Interim CEO is employed under a rolling contract.

With effect from 9 September 2013, the remuneration of the Interim CEO 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 Interim CEO 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	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 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.

Ms Drury received a termination payment of $58,176, in accordance with the terms of her employment contract.

Mr Gregg received a termination payment of $72,229, in accordance with the terms of his employment contract.

6. 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.

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 Deputy Chairman of the Board attends all committee meetings but does not receive any additional fees.

The table below summarises the NED fees for 2014:

	Annual NED fees including superannuation
Board fee	$75,000
Chairman of the Board[1]	$65,000
Deputy Chairman of the Board	$96,000
Chairman of the Audit and Risk Committee	$10,000

Notes:-

1. M Perrott was Chairman of the Board until 29 November 2014 and subsequently was appointed Deputy Chairman. M Perrott resigned on 7 August 2014.

Table 3: Non- Executive remuneration for the year ended 30 June 2014

	SHORT TERM			POST EMPLOYMENT	EQUITY SETTLED SHARE BASED PAYMENT			
	Base Salary & Fees	Cash Bonus	Non-Monetary Benefits	Super Contributions	Value of Performance Rights	Termination Benefits	Total	Performance Related
	$	$	$	$	$	$	$	%
Current non-executive directors								
M Fry	75,885	-	-	7,019	-	-	82,904	0%
V Jakovich[2]	28,604	-	-	2,646	-	-	31,250	0%
H Luk[3]	19,011	-	-	1,758	-	-	20,769	0%
Past non-executive directors								
M Perrott[1]	186,337	-	-	-	-	-	186,337	0%
B Nazer[4]	34,413	-	-	3,183	-	-	37,596	0%
R Mickle[5]	30,364	-	-	2,809	-	-	33,173	0%
	374,614	-	-	17,415	-	-	392,029	0%

Notes:-

1. M Perrott was acting CEO for the period 23 August 2013 to 6 September 2013 and was Chairman of the Board until 29 November 2013. He resigned as a Director of VDM on 7 August 2014.
2. V Jakovich was appointed as Director of VDM on 1 February 2014.
3. H Luk was appointed as Director of VDM on 21 March 2014.
4. B Nazer resigned as a Director of VDM on 29 November 2013.
5. R Mickle resigned as a Director of VDM on 29 November 2013.

Table 4: Non- Executive remuneration for the year ended 30 June 2013

	SHORT TERM			POST EMPLOYMENT	EQUITY SETTLED SHARE BASED PAYMENT			
	Base Salary & Fees	Cash Bonus	Non-Monetary Benefits	Super Contributions	Value of Performance Rights	Termination Benefits	Total	Performance Related
	$	$	$	$	$	$	$	%
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	-
	346,677	-	-	19,368	-	-	366,045	-

Notes:-

1. T Crossley resigned with effect from 24 October 2012.

7. Additional disclosures relating to options and shares

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 5: Performance rights awarded and vested during the year ended 30 June 2014

	Terms and conditions for each grant during the year						
	Rights awarded during the year (No.)	Grant date	Fair value per right at award date ($)	First vesting date	Second vesting date	No. vested during the year	No. lapsed during the year
Past executive directors							
A Broad[1]	-	1 December 2011	$0.012	1 December 2013	1 December 2014	-	11,956,522
Past key management personnel							
R Gregg[2]	-	1 December 2011	$0.0398	1 December 2013	1 December 2014	-	5,869,565
	-					-	17,826,087

Notes:

1. A Broad was terminated as Managing Director with effect from 23 August 2013 and his performance rights lapsed upon his date of termination.
2. R Gregg was terminated with effect from 11 October 2013 and his performance rights lapsed upon his date of termination.

Table 6: Shareholdings of key management personnel

	Balance 1 July 2013	Granted as remuneration	Options exercised	Net change other	Balance 30 June 2014
Current directors					
D Hua[1]	-	-	-	1,085,110,976	1,085,110,976
M Fry[2]	500,000	-	-	500,000	1,000,000
V Jakovich	-	-	-	21,219,720	21,219,720
H Luk[3]	-	-	-	620,000,000	620,000,000
Past directors					
M Perrott[2]	6,200,000	-	-	6,200,000	12,400,000
B Nazer[4]	1,228,568	-	-	(1,228,568)	-
A Broad[5]	1,200,000	-	-	(1,200,000)	-
Past executives					
R Gregg[6]	3,400,164	-	-	(3,400,164)	-
J Kemp[7]	86,605	-	-	(86,605)	-
Total shareholding	**12,615,337**	-	-	**1,727,115,359**	**1,739,730,696**

Notes:
1. Issued 140,080,961 shares to H&H on 27 August, post this H&H held 185,110,976 shares. Issued 500,000,000 conversion shares on 29 November 2013. H&H exercised 400,000,000 of their rights under the entitlements offer detailed in the prospectus dated 10 December 2013.
2. M Perrott and M Fry exercised their rights under the entitlements offer detailed in the prospectus dated 10 December 2013. M Perrott subsequently resigned as a Director on 7 August 2014.
3. Issued 500,000,000 shares to Kengkong in terms of the Sub-Underwriting agreement with H&H as detailed in the prospectus dated 10 December 2013. Issued a further 120,000,000 shares to Kengkong on19 March 2014 under the Shortfall Offer contained in the 10 December 2013 entitlement offer prospectus.
4. B Nazer's balance reduced to nil during the year as he resigned as a Non- Executive Director of VDM on 29 November 2013
5. A Broad's balance reduced to nil during the year as he was terminated as Managing Director with effect from 23 August 2013.
6. R Gregg's balance reduced to nil during the year as he was terminated on 11 October 2013.
7. J Kemp was appointed on 7 November 2012 and resigned on 6 September 2013.

Table 7: Option holdings of key management personnel

	Balance 1 July 2013	Granted as remuneration	Options exercised	Net change other	Balance 30 June 2014
Current directors					
M Perrott[1]	3,100,000	-	-	(3,100,000)	-
M Fry[1]	250,000	-	-	(250,000)	-
Past directors					
B Nazer[2]	614,284	-	-	(614,284)	-
A Broad[3]	350,000	-	-	(350,000)	-
Past executives					
R Gregg[4]	1,700,082	-	-	(1,700,082)	-
Total option holding	**6,014,366**	-	-	**(6,014,366)**	**-**

Notes:
1. The listed options expired on 30 November 2013.
2. B Nazer's balance reduced to nil during the year as he resigned as a Non- Executive Director of VDM on 29 November 2013.
3. A Broad's balance reduced to nil during the year as he was terminated as Managing Director with effect from 23 August 2013.
4. R Gregg's balance reduced to nil during the year as he was terminated on 11 October 2013.

Table 8: Performance rights holdings of key management personnel

	Balance 1 July 2013	Granted as remuneration	Rights exercised	Net change other	Balance 30 June 2014
Past directors					
A Broad[1]	11,956,522	-	-	(11,956,522)	-
Past executives					
R Gregg	5,869,565	-	-	(5,869,565)	-
Total option holding	**17,826,087**	**-**	**-**	**(17,826,087)**	**-**

Notes:

1. A Broad was terminated as Managing Director with effect from 23 August 2013 and his performance rights lapsed upon his date of termination.
2. R Gregg was terminated with effect from 11 October 2013 and his performance rights lapsed 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 would have adopted if dealing at arm's length.

8. Loans to key management personnel

There were no loans granted to KMP during the year ended 30 June 2014 and 2013.

9. Other transactions and balances with key management personnel and their related entities

(a) Details and terms and conditions of other transactions with KMP and their related parties:

H&H
On 29 October 2013, VDM entered into a $4,000,000 unsecured loan facility with H&H and the loan was subsequently fully drawn by VDM. Upon shareholder approval at the 29 November 2013 Annual General Meeting, VDM granted a general security to H&H in respect of the loan facility. The loan was repaid in full on 28 January 2014 with funds raised in the entitlements offer. H&H were entitled to interest of $65,000, which was still outstanding at 30 June 2014.

The $5,000,000 convertible loan issued to H&H loan on 27 August 2013 was approved and converted into 500,000,000 ordinary shares at $0.01 per share at the Company's 29 November 2013 Annual General Meeting. H&H was entitled to interest of $108,000, which was still outstanding at 30 June 2014.

H&H exercised 400,000,000 of their rights under the entitlements offer detailed in the prospectus dated 10 December 2013. H&H was entitled to an underwriting fee of $75,000 which was still outstanding at 30 June 2014.

At 30 June 2014, H&H held 1,085,110,976 shares (34.7% of the issued share capital of VDM).

Kengkong
Issued 500,000,000 shares to Kengkong in terms of the Sub-Underwriting agreement with H&H as detailed in the prospectus dated 10 December 2013. Kengkong was entitled to an underwriting fee of $75,000 this was repaid in full by 30 June 2014.

Issued a further 120,000,000 shares to Kengkong on19 March 2014 under the Shortfall Offer contained in the 10 December 2013 entitlement offer prospectus.

On 5 May 2014, VDM executed an agreement with Kengkong to provide funding of $4,500,000 via a convertible loan to be used for general working capital purposes in the ordinary course of business. The loan is unsecured and is convertible to 450,000,000 shares upon shareholder approval and at the option of Kengkong. Conversion matters for the loan will be presented for consideration by shareholders at the Company's Annual General Meeting to be held before the end of November 2014. Interest accrues on the loan until the later of its conversion to shares or the repayment date which is 30 business days after the shareholder meeting. Accrued interest of $32,000 was outstanding at 30 June 2014.

At 30 June 2014, Kengkong held 620,000,000 shares (19.8% of the issued share capital of VDM). VDM director Mr H Luk has a controlling interest in Kengkong.

(b) Amounts recognised at the reporting date in relation to other transactions:

	2014 $'000
Assets and liabilities	
Current liabilities	
Trade and other payable	**248**
Convertible loan	**4,532**
Total liabilities	**4,780**
Revenue and expenses	
Finance costs	**205**
Total expenses	**205**
Equity	
Capital raising costs	**150**
Total Equity	**150**

Signed in accordance with a resolution of the directors.

Dr D Hua
Executive Chairman and Interim CEO
Perth, Western Australia
26 September 2014

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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 2014, 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

Ernst & Young

T G Dachs
Partner
26 September 2014

CORPORATE GOVERNANCE STATEMENT

ASX Principles and Recommendations

The Board of Directors ("Board") of VDM is responsible for establishing the corporate governance framework of VDM having regard to the ASX Corporate Governance Council (CGC) published guidelines as well as its corporate governance principles and recommendations. The Board guides and monitors the business and affairs of VDM on behalf of the shareholders by whom they are elected and to whom they are accountable.

The table below summaries VDM's compliance with the CGC's 2nd edition Principles and Recommendations for its financial year commencing 1 July 2013.

Recommendation		Comply? Yes/ No	Reference / explanation
Principle 1 – Lay solid foundations for management and oversight			
1.1	Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.	Yes	Board function
1.2	Companies should disclose the process of evaluating the performance of senior executives.	Yes	Performance
1.3	Companies should provide the information indicated in the guide to reporting on Principle 1.	Yes	
Principle 2 – Structure the board to add value			
2.1	A majority of the Board should be independent directors.	Yes	Structure of the Board
2.2	The chairperson should be an independent director.	No	Structure of the Board
2.3	The roles of chairperson and chief executive officer should not be exercised by the same individual.	No	Structure of the Board
2.4	The Board should establish a nomination committee.	Yes	Nomination and remuneration committee
2.5	Companies should disclose the process of evaluating the performance of the Board, its committees and individual directors.	Yes	Performance
2.6	Companies should provide the information indicated in the guide to reporting on Principle 2.	Yes	
Principle 3 – Promote ethical and responsible decision-making			
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.	Yes	Code of conduct
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.	Yes	Diversity policy
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	Yes	Diversity policy
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive	Yes	Diversity policy

	positions and women on the Board.		
3.5	Companies should provide the information indicated in the guide to reporting on Principle 3.	Yes	
Principle 4 – Safeguard integrity in financial reporting			
4.1	The Board shall establish an audit committee.	Yes	Audit Committee
4.2	The Audit Committee should be appropriately structured.	Yes	Audit Committee
4.3	The Audit Committee should have a formal operating charter.	Yes	Audit Committee
4.4	Companies should provide the information indicated in the guide to reporting on Principle 4.	Yes	
Principle 5 – Make timely and balanced disclosure			
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.	Yes	Market disclosure policy
5.2	Companies should provide the information indicated in the guide to reporting on Principle 5.	Yes	
Principle 6 – Respect the rights of shareholders			
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.	Yes	Shareholder communication policy
6.2	Companies should provide the information indicated in the guide to reporting on Principle 6.	Yes	
Principle 7 – Recognise and manage risk			
7.1	Companies should establish policies for the oversight and management of material business risks.	Yes	Risk management policy
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.	Yes	Risk management policy
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.	Yes	CEO and CFO certification
7.4	Companies should provide the information indicated in the guide to reporting on Principle 7.	Yes	
Principle 8 – Remunerate fairly and responsibly			
8.1	The Board should establish a remuneration committee.	Yes	Nomination and remuneration committee
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.	No	Nomination and remuneration committee

8.3	Clearly distinguish the structure of non-executives directors' remuneration from that of executives.	Yes	Nomination and remuneration committee
8.4	Companies should provide the information indicated in the guide to reporting on Principle 8.	Yes	

VDM's corporate governance practices were in place throughout the year ended 30 June 2014.

Various corporate governance practices are discussed within this statement. For further information on corporate governance charters, codes and policies adopted by VDM, refer to our website: www.vdmgroup.com.au.

Board functions

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

- to develop, review and monitor the VDM's long-term business strategies and provide strategic direction to senior executives
- to ensure policies and procedures are in place to safeguard the VDM's assets and business and to enable the VDM to act ethically and prudently
- to develop and promote a system of corporate governance which ensures the VDM is properly managed and controlled
- to identify the VDM'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's financial statements
- to monitor management's performance and the VDM'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 to be carried on, and to regularly review those delegations
- to ensure that the VDM 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 including share and loan capital and dividend payments
- to determine and regularly review an appropriate remuneration policy for employees of the VDM.

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 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 the chief executive officer, executive directors and chief financial officer which describe, amongst other things, their term of office, duties, rights, responsibilities and entitlements on termination.

Performance

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.

Structure of the Board

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 VDM, 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 or an employee materially associated with the service provided
- is not a material supplier or customer of the VDM or an officer of or otherwise associated directly or indirectly with a material supplier or customer, has no material contractual relationship with the VDM 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.

The Board has adopted AASB 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 over a 12 month period in the absence of evidence or convincing argument to the contrary. In considering such evidence or argument, VDM 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 (other than 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:

- Mr M Fry (Chairperson of the Audit and Risk Committee)
- Mr V Jakovich

Although Mr M Perrott was acting CEO for 15-days from 23 August 2013 to 6 September 2013 the board regards this as a necessary short-term interim measure that did not compromise his independence. Therefore the board considers Mr M Perrott to have been an independent director for the entire 2014 financial year.

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, if approval is first given by the chairperson. During the financial year no directors sought to obtain such independent legal, accounting or other professional advice in fulfilling their role as a director of VDM.

Nomination and Remuneration committee

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.

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 reviewing its effectiveness.

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'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 where required, prior to implementation
- ensure that equity-based incentive plans prohibit hedging of unvested options or performance rights
- determine and review superannuation arrangements of the VDM
- 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 an independent director. The Board has adopted a formalised policy for the appointment of non-executive directors. The current committee comprises:

- Dr D Hua
- Mr M Fry
- Mr V Jakovich
- Mr H Luk

Due to the importance of remuneration and nomination matters to shareholders, the nominees of H&H and Kengkong, Dr Hua and Mr Luk respectively, have been invited onto the committee. As the VDM currently has only four directors, the committee does not have a majority of independent directors. The committee has not appointed a chairman since the resignation of the previous chairperson, Mr M Perrott.

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 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.

The Nominations and Remuneration Charter sets out the committee's purpose, membership (including procedures for attendance by non-members), role, and administrative procedures. The Nominations and Remuneration Charter is available on the Company's website.

Code of conduct

VDM 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 VDM's integrity.

The objective of the Code is to:

- provide a benchmark for professional behaviour throughout the VDM
- support the VDM'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 personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and the VDM 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'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 VDM's website.

Diversity policy

VDM recognises the value contributed to the organisation by employing people with varying skills, cultural backgrounds, ethnicity and experience. VDM believes its diverse workforce is the key to its continued growth, improved productivity and performance.

We actively value and embrace the diversity of our employees and are committed to creating an inclusive workplace where everyone is treated equally and fairly, and where discrimination, harassment and inequity are not tolerated. VDM is committed to fostering diversity at all levels.

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

The measurable objectives set by the Board for achieving gender diversity are as follows:

- Increase the number of woman in the workforce, including senior management positions and at board level
- Create development opportunities for woman that prepare then to take on senior positions
- To provide employment opportunities for people with disabilities
- Provide flexible workplace arrangement including part time arrangement and other incentives
- Review gender pay gaps on an annual basis and implement actions to address any variance
- Promote an inclusive culture that treats the workforce with fairness and respect
- Provide career development opportunities for every employee, irrespective of any cultural, gender and other differences

The Company has achieved all objectives set by the Board.

The proportion of women:
- employees at VDM: 34% (2013: 21%)
- in senior executive positions: 14% (2013: 25%)
- on the Board: 0% (2013: 0%)

Audit committee

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

- fulfilling its overview of the audit process
- overviewing 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.

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 executive officer, 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:

- Mr M Fry (Chairperson)
- Dr D Hua
- Mr H Luk

The charter of the Audit Committee 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 VDM's website.

Market disclosure policy

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 VDM, 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 VDM.

The Market Disclosure Policy is available on VDM's website.

Shareholder communications policy

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

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

Risk management policy

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

The Board should require management to design and implement the risk management and internal control system to manage VDM'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 project execution processes. The focus of risk management is the identification and treatment of risks with the objective to add maximum sustainable value to 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 VDM's risk management and internal control framework
- 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'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.

Regularly scheduled board meetings are held approximately monthly and the meeting agendas and board reporting framework have been designed to provide information necessary for the board to effectively monitor both opportunities and threats and be informed of key individual risk matters. Management is required to report to the board on those risks which could have a material impact on the Company's business.

The Risk Management Policy is available on VDM's website.

CEO and CFO certification

In accordance with section 295A of the Corporations Act, the chief executive officer and the chief financial officer have provided a written statement to the Board that:

- the Company's financial report is founded on a sound system of risk management and internal control; and
- 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 required attestations prior to the Board signing the annual report.

VDM GROUP LIMITED
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2014

	Notes	Consolidated 2014 $'000	2013 $'000
Continuing operations			
Rendering of services		**24,406**	127,069
Other revenue	6	**184**	755
Revenue		**24,590**	127,824
Cost of services		**(23,859)**	(148,433)
Gross profit / (loss)		**731**	(20,609)
Administration expenses		**(17,039)**	(20,141)
Finance costs	8(a)	**(245)**	(196)
Impairment charge	8(c)	**(101)**	(17,598)
Share based payment write-back	31	**248**	90
Share of loss from joint venture	23	**-**	(98)
Loss from continuing operations before income tax		**(16,406)**	(58,552)
Income tax benefit / (expense)	9(a)	**1,706**	(14,905)
Loss from continuing operations after income tax		**(14,700)**	(73,457)
Discontinued operations			
Loss from discontinued operations after income tax	10	**(6,678)**	(10,951)
Loss for the year		**(21,378)**	(84,408)
Other comprehensive income		**-**	-
Total comprehensive loss for the year		**(21,378)**	(84,408)
Total comprehensive loss for the year is attributable to:			
Owners of the parent		**(21,378)**	(84,408)
		(21,378)	(84,408)
Earnings per share (cents per share)			
Basic, loss for the year attributable to ordinary equity holders of the parent	11	**(1.06)**	(9.04)
Diluted, loss for the year attributable to ordinary equity holders of the parent	11	**(1.06)**	(9.04)
Earnings per share for continuing operations (cents per share)			
Basic, loss from continuing operations attributable to ordinary equity holders of the parent	11	**(0.73)**	(7.87)
Diluted, loss from continuing operations attributable to ordinary equity holders of the parent	11	**(0.73)**	(7.87)

VDM GROUP LIMITED
STATEMENT OF FINANCIAL POSITION
As at 30 June 2014

		Consolidated	
	Notes	**2014**	2013
ASSETS		**$'000**	$'000
Current assets			
Cash and cash equivalents	13	**3,366**	11,857
Security deposits	14	**1,242**	5,238
Trade and other receivables	15	**990**	12,319
Contracts in progress	16	**49**	7,848
Development properties	17	**3,389**	4,061
Investment in joint venture	23	**-**	1,350
Inventory	18	**150**	308
Other assets	19	**36**	621
		9,222	43,602
Non-current assets classified as held for sale	20	**-**	900
Total current assets		**9,222**	44,502
Non-current assets			
Trade and other receivables	15	**-**	258
Security deposits	14	**3,584**	-
Property, plant and equipment	21	**3,320**	6,359
Deferred tax assets	9	**-**	-
Intangible assets and goodwill	22	**99**	307
Total non-current assets		**7,003**	6,924
TOTAL ASSETS		**16,225**	51,426
LIABILITIES			
Current liabilities			
Trade and other payables	24	**5,506**	26,219
Amounts due to customers for contract work	16	**49**	7,200
Current tax liabilities		**858**	3,152
Deferred tax liability	9	**-**	-
Interest-bearing loans and borrowings	25	**4,760**	1,782
Provisions	26	**3,066**	10,493
Total current liabilities		**14,239**	48,846
Non-current liabilities			
Interest-bearing loans and other borrowings	25	**49**	299
Lease incentive liability		**175**	-
Provisions	26	**1,128**	244
Total non-current liabilities		**1,352**	543
TOTAL LIABILITIES		**15,591**	49,389
NET ASSETS		**634**	2,037
EQUITY			
Equity attributable to equity holders of the parent			
Contributed equity	27	**268,509**	248,286
Reserves	28	**636**	884
Accumulated losses	28	**(268,511)**	(247,133)
Parent interests		**634**	2,037
TOTAL EQUITY		**634**	2,037

VDM GROUP LIMITED
STATEMENT OF CASH FLOWS
For the year ended 30 June 2014

	Notes	Consolidated 2014 $'000	2013 $'000
Cash flows from operating activities			
Receipts from customers		**49,002**	319,022
Payments to suppliers and employees		**(81,805)**	(324,548)
Interest received		**129**	455
Interest paid		**(7)**	(243)
GST refunded / (paid)		**205**	(6,837)
Income tax paid		**(590)**	-
Net cash flows used in operating activities	29(a)	**(33,066)**	(12,151)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(1,062)**	(3,320)
Release from security deposit		**413**	8,330
Proceeds from sale of property, plant and equipment		**1,899**	9,674
Sale of interest in joint venture	23	**1,350**	-
Purchase of intangibles		**(12)**	(195)
Proceeds from external loans		**930**	1,634
Payment of settlement adjustments		**-**	(707)
Net proceeds from sale of subsidiary	10	**(644)**	1,130
Net cash flows from investing activities		**2,874**	16,546
Cash flows from financing activities			
Proceeds from borrowings		**4,500**	995
Repayment of borrowings		**(1,682)**	(3,513)
Transaction costs on issue of shares		**(1,616)**	(49)
Proceeds from share placements		**20,499**	-
Net cash flows from / (used in) financing activities		**21,701**	(2,567)
Net increase in cash and cash equivalents		**(8,491)**	1,828
Cash and cash equivalents at beginning of year		**11,857**	10,029
Cash and cash equivalents at end of year	13	**3,366**	11,857

VDM GROUP LIMITED
STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2014

	Issued capital $'000	Accumulated losses $'000	Equity reserve $'000	Other capital reserve $'000	Total $'000
Balance at 1 July 2013	**248,286**	**(247,133)**	**457**	**427**	**2,037**
Comprehensive loss for the year	-	(21,378)	-	-	(21,378)
Total comprehensive loss for the year	-	(21,378)	-	-	(21,378)
Transactions with owners in their capacity as owners					
Share issued to H&H at $0.01 per share on 27 August 2013	1,401	-	-	-	1,401
Issue of conversion shares at $0.01 per share on 29 November 2013	5,000	-	-	-	5,000
Exercise of bonus issue option at $0.05 per share on 29 November 2013	2	-	-	-	2
Shares issued to Jimblebar creditors at $0.01 per share on 29 November 2013	1,440	-	-	-	1,440
Private placement shares issued at $0.01 per share on 10 December 2013	750	-	-	-	750
Shares issued under the 10 December 2013 entitlements offer prospectus on 28 January 2014	12,147	-	-	-	12,147
Shares issued under the Shortfall offer contained in the 10 December 2013 entitlements offer prospectus on 19 March 2014	1,200	-	-	-	1,200
Capital raising costs	(1,717)	-	-	(248)	(1,965)
Balance at 30 June 2014	**268,509**	**(268,511)**	**457**	**179**	**634**
Balance at 1 July 2012	**248,612**	**(162,725)**	**457**	**510**	**86,854**
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**	**(247,133)**	**457**	**427**	**2,037**

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1. CORPORATE INFORMATION

The consolidated financial statements of VDM for the year ended 30 June 2014 were authorised for issue in accordance with a resolution of the directors on 26 September 2014. VDM 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 are described in the Directors Report. Information on the VDM structure and other related party relationships is provided in note 4.

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.

The consolidated financial statements provide comparative information in respect of the previous period. Certain comparative information has been reclassified to be presented on a consistent basis with the current year's presentation.

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 has adopted all new and amended Australian Accounting Standards and AASB Interpretations effective from1 July 2013, including:

- AASB 10 Consolidated Financial Statements
  AASB 10 establishes a new control model that applies to all entities. It replaces part of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and UIG-112 Consolidation – Special Purpose Entities.

  The new control model broadens the situation when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give you control, the impact of potential voting rights and when holding less than a majority voting rights may give control.

  The adoption of AASB 10 has no effect on the financial position or performance of VDM.

- AASB 11 Joint Arrangements
  AASB 11 replaces AASB 131 Interests in Joint Ventures and UIG-113 Jointly Controlled Entities – Non-monetary Contributions by Venturers. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition it removed the option to account for jointly controlled entities using proportionate consolidation. Instead, accounting for joint arrangement is dependent on the nature of the rights and obligation arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations is accounted for by recognising the share of those assets an obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method.

  The application of AASB 11 impacted VDM's accounting for its interest in a joint venture, Quartz South Hedland Pty Ltd (Quartz South Hedland). VDM sold its 52% interest in Quartz South Hedland on 9 August 2013. Prior to the transition to AASB 11, Quartz South Hedland was classified as a jointly controlled entity and VDM's share of the assets, liabilities, revenue, income and expenses was proportionately consolidated in the consolidated financial statements. Upon adoption of AASB 11, VDM has determined it interest in Quartz South Hedland to be classified as a joint venture under AASB 11 and it is required to be accounted for using the equity method. The comparative information has been restated. It has no impact on the profit or loss, equity or cashflow for the year ended 30 June 2014.

  Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB 128.

Impact on the statement of profit or loss (increase / (decrease) in profit)	2014 $'000	2013 $'000
Impairment	-	98
Share of loss / profit from joint venture	-	(98)
Loss before tax from continuing operations	-	-
Tax (expense) / benefit	-	-
Loss for the year	-	-

The adoption of AASB 11 did not have any impact either the OCI for the period or VDM's basic and diluted EPS.

Impact on equity (increase/ (decrease) in net equity)	2014	2013
Current assets	$'000	$'000
Development properties	-	(1,350)
Investment in joint venture	-	1,350
Total assets	-	-
Net impact on equity	-	-

Impact on cash flow statements (increase/ (decrease) in cash flows		
Net cash flows		
Operating	-	-
Investing	-	-
Financing	-	-
Net cash (outflow) / inflow	-	-

- AASB 12 Disclosure of Interests in other Entities

  AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced regarding the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associate and structured entities and subsidiaries with non-controlling interests.

  AASB 12 disclosures are provided in notes 4 and 23.

- AASB 13 Fair Value Measurement

  AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to measure fair value under Australian Accounting Standards. Application of this definition may result in different fair values being determined for the relevant assets.

  AASB 13 also expands the disclosure requirements for all assets of liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

  The adoption of AASB 13 had no effect on the financial position or performance of the VDM.

  Consequential amendments were also made to other standards via AASB 2011-8 which has resulted in additional disclosures around the fair values of financial instruments. Fair value hierarchy is provided in note 32 (d).

- AASB 119 Employee Benefits (Revised 2011)

  The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date.

  The adoption of AASB 119 has no effect on the financial position or performance of the VDM.

  Consequential amendments were also made to other standards via AASB 2011-10.

- AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities.

  AASB 2012-2 principally amends AASB 7 Financial Instruments: Disclosures to require disclosure of the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position, when all the offsetting criteria of ASAB 132 are not met.

  The adoptions of AASB 2012-2 had no effect on the financial position or performance of the VDM.

- AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual improvements 2009-2011 Cycle

  AASB 2012-5 makes amendments resulting from the 2009-2011 Annual Improvements Cycle. The standard addresses a range of improvements, including the following:
  -Repeat application of AASB 1 is permitted (AASB 1)
  -Clarification of the comparative information requirement when an entity provides a third balance sheet (AASB 101 Presentation of Financial Statements).

  The adoption of AASB 2012-5 had no effect on the financial position or performance of the VDM.

- AASB 2012-9 Amendment to AASB 1048 arising from the withdrawal of Australian Interpretation 1039.
  AASB 2012-9 amends AASB 1048 Interpretation of Standards to evidence the withdrawal of Australian Interpretation 1039 Substantive Enactment of Major Tax Bills in Australia.

  The adoption of AASB 2012-9 had no effect on the financial position or performance of the VDM.

- AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (AASB 124).

  This amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies. It also removes the individual KMP disclosure requirements for all disclosing entities in relation to equity holdings, loans and other related party transactions.

  The adoption of AASB 2011-4 had no effect on the financial position or performance of the VDM.

The following standards and interpretations have been issued by the AASB but are not yet effective for the period ending 30 June 2014. VDM has not elected to early adopt any other new Standards or amendments that are issued but not yet effective. VDM is still evaluating the impact of these standards.

Reference	Title	Application date of standard*
AASB 2012-3	Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities	1 January 2014
Interpretation 21	Levies	1 January 2014
AASB 9/IFRS 9	Financial Instruments	1 January 2018
AASB 2013-3	Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
AASB 2013-4	Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting [AASB 139]	1 January 2014
AASB 2013-5	Amendments to Australian Accounting Standards – Investment Entities [AASB 1, AASB 3, AASB 7, AASB 10, AASB 12, AASB 107, AASB 112, AASB 124, AASB 127, AASB 132, AASB 134 & AASB 139]	1 January 2014

Reference	Title	Application date of standard*
AASB 2014-1 Part A -Annual Improvements 2010–2012 Cycle	Amendments to Australian Accounting Standards - Part A Annual Improvements to IFRSs 2010–2012 Cycle	1 July 2014
AASB 2014-1 Part A -Annual Improvements 2011–2013 Cycle	Amendments to Australian Accounting Standards - Part A Annual Improvements to IFRSs 2011–2013 Cycle	1 July 2014
AASB 1031	Materiality	1 January 2014
AASB 2013-9	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments	^^
Amendments to IAS 16 and IAS 38*****	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	1 January 2016
AASB 2014-1 Part B Amendments to AASB 119	Amendments to Australian Accounting Standards - Part B Defined Benefit Plans: Employee Contributions (Amendments to AASB 119)	1 July 2014
IFRS 15 *****	Revenue from Contracts with Customers	1 January 2017

Notes:

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

***** These IFRS amendments have not yet been adopted by the AASB.

Going concern

VDM incurred a net loss after tax from continuing operations for the year ended 30 June 2014 of $14,700,000 (2013: $73,457,000). Net cash flow used in operating activities was $33,066,000 (2013: $12,151,000). At 30 June 2014, VDM had net current liabilities of $5,017,000 (30 June 2013: $4,344,000 net current liabilities). The cash position of VDM at 30 June 2014 was $3,366,000 (30 June 2013: $11,857,000) with a further $4,826,000 (30 June 2013: $5,238,000) of security deposits.

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:

- VDM was advanced $4,500,000 on 6 May 2014 under a convertible loan agreement with Australia Kengkong Investments Co Pty Ltd (Kengkong). On 22 September 2014 entered into a second separate convertible loan agreement with Kengkong for a further $10,000,000 to be advanced to VDM in three tranches during the period 25 September to 14 November 2014. Conversion of each of the loans into ordinary shares is subject to separate shareholder approval, and upon such approval being granted Kengkong will have the separate right for each loan during a period ending one month after the date on which approval is obtained to convert the loans into shares at a conversion price of A$0.01 per share. The directors expect shareholders to approve conversion of the loans and also expect that Kengkong will elect to exercise both conversion options. The meeting for shareholders to consider these matters will be VDM's annual general meeting to be held before the end of November 2014. If shareholder approval for conversion of the loans into shares is not obtained or the loans are not converted into shares by Kengkong, then in the case of the $4,500,000 loan, it must be repaid within 30 business days after the date of the shareholders meeting held to obtain approval and in the case of the $10,000,000 loan, it must be repaid within 60 business days after the date of the shareholders meeting and the interest rate will increase from 8% to 13% per annum in from the date that is one month after the date of the shareholders meeting. There are also fees of up to $145,000 payable by VDM if shareholders do not approve the conversions.
- VDM continues to successfully implement the new business strategy as outlined in the Directors' Report.
- VDM raises additional working capital and growth financing for the new business strategy.
- VDM has sufficient insurance cover and counterclaims to largely offset any significant legal claims.

Should VDM not achieve the matters set out above, there is material uncertainty as to whether VDM 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 report does not include any adjustments to assets and liabilities that may be necessary if VDM 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 30 June 2014. Control is achieved when VDM is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through it power over the investee. Specifically, VDM controls an investee if and only if VDM has:

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

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

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- VDM's voting rights and potential voting rights

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

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

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. If VDM 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 or retained earnings, as appropriate, as would be required if VDM had directly disposed of the related assets or liabilities.

(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 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 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'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 and subsequent settlement is accounted for within equity.

(c) Investment in associates and joint ventures

An associate is an entity over which VDM has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

VDM's investments in its associate and joint venture are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in VDMs share of net assets of the associate or joint venture since acquisition date.

The statement of profit or loss reflects VDM's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of VDM's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, VDM recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between VDM and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of VDM's share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as VDM. When necessary, adjustments are made to bring the accounting policies in line with those of VDM.

After application of the equity method, VDM determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, VDM determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, VDM calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognises the loss as 'Share of profit of an associate and a joint venture' in the statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, VDM measures and recognises any retained investment at its fair value. Any difference between the carrying value amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of retained investment and proceeds from disposal is recognised in profit or loss.

(d) Current versus non-current classification

VDM presents assets and liabilities in statement of financial position based on current/ non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in normal operating cycle
- Held primarily for the purposes of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restrict3ed from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current. A liability is current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after he reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

VDM classifies all other liabilities as non-current.

Deferred tax asset and liabilities are classifies as non-current assets and liabilities.

(e) Foreign currency translation

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

Transactions and balances
Transactions in foreign currencies are initially recorded by VDM's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

(f) 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 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.

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.

(g) 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.

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 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 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. Details of the tax funding agreement are disclosed in note 9.

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 cash flows.

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

(h) 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 rather than through continuing use. 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. Once classified as held for sale, they are not depreciated or amortised..

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.

(i) 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

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.

(j) 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 as a lessee
Finance leases, which transfer to VDM 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 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.

(k) 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.

(l) 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 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 – 4 years
Development costs – 5 years

(m) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

(i) Financial assets

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognized initially at fair value and are subsequently measured at amortised cost using the effective interest method, less an allowance for impairment. The losses arising from impairment are recognized in the statement of profit or loss.

VDM assesses, at each reporting date, whether there is objective evidence that a financial asset or group of financial assets is impaired. 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 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.

(ii) Financial liabilities

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 prior to the end of the financial year that are unpaid and arise when VDM 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.

Interest, when charged by the lender, is recognised as an expense using the effective interest method.

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. Gains and losses are recognised in profit or loss when the liabilities are de-recognised as well as through the effective interest rate amortisation process.

The component of convertible bonds that exhibits characteristics of debt is recognised as a liability in the Statement of Financial Position, net of transaction costs. On issue of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. The remainder of the proceeds is allocated to the equity component and is recognised in shareholders' equity. The carrying amount of the equity component is not remeasured in subsequent years.

Except as explained below, borrowing costs are recognised as an expense when incurred. VDM 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.

(iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position of there is a currently enforceable legal; right to offset the recognised amounts and there is an intention to settle on a net basis, to realised the assets and settle the liabilities simultaneously.

(n) 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.

(o) 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 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.

(p) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over VDM'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'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 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 cash flow methodology for all the cash generating units to which goodwill has been allocated.

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.

(q) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and security 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.

(r) Treasury shares

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

(s) 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.

(t) Provisions and employee benefits

Provisions are recognised when VDM 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 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.

(u) Share based payment transactions

Equity settled transactions
Senior executives of VDM 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 31.

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 (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
(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 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 in relation to equity-settled awards only represents the expense associated with grants to employees of the parent. The expense recognised by VDM 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 11).

Shares in VDM reacquired on-market are classified and disclosed as reserved shares and deducted from equity.

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.

(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 participates in joint contracts and VDM's costs are not representative of overall contract costs, based on the percentage of VDM's costs to the total estimated cost for VDM 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 of non-financial assets other than goodwill

VDM assesses impairment of all non-financial assets other than goodwill at each reporting date by evaluating conditions specific to VDM 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.

(d) Share-based payment transactions

VDM 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 31. 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.

(e) 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 21.

(f) Accounting for outstanding litigations

Where VDM is involved with outstanding litigation, provisions are raised where claims against VDM 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 35).

4. INFORMATION RELATING TO SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

(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	
		2014	2013
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 Trading Pty Ltd (formerly VDM Engineering (Western Operations) 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	Australia	**100%**	100%
VDM Projects Pty Ltd	Australia	**100%**	100%
VDM Asset Management Pty Ltd	Australia	**100%**	100%
VDM Mining Pty Ltd (formerly Skilful Holdings Pty Ltd)	Australia	**100%**	100%
Burchill VDM Pty Ltd	Australia	**100%**	100%
VDM Construction Pty Ltd	Australia	**100%**	100%
VDM Equipment Pty Ltd (formerly VDM Earthmoving Contractors Pty Ltd)	Australia	**100%**	100%
VDM Group Ltd International (Dubai Branch) Pty Ltd	Australia	**100%**	100%
VDM Contracting Pty Ltd	Australia	**100%**	100%
VDM Construction (Eastern Operations) Pty Ltd	Australia	**-**	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%
Belleng VDM 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 Trust	Australia	**100%**	100%

* Dormant entity

(b) Ultimate parent

VDM Group Limited is the ultimate Australian parent entity.

5. SEGMENT INFORMATION

At 30 June 2013, VDM was organised into three reportable segments for management purposes namely Eastern Construction, Western Construction and Consulting. Since 30 June 2013, VDM has sold Eastern Construction, which comprised of VDM Construction (Eastern Operations) and divested the majority of its Consulting Businesses. Both reportable segments have been recognised as a discontinued operation for the year ended 30 June 2014. The Chief Operating Decision Makers of the Group are the Board of Directors. Based on internal reports provided to the Chief Operating Decision Makers, which are used to assess performance and allocate resources, there is only one remaining operating segment being the provision of construction services in Western Australia. Accordingly, the financial results from this segment will be equivalent to the financial statements of the Group as a whole for the year ended 30 June 2014.

The four new operating divisions referenced in the directors' report under VDM's new business strategy were not in effect at 30 June 2014.

Major customers

VDM Group has a number of customers to which it provides services. During 2014, VDM had 3 customers that contributed greater that 10% of revenue. These three Western Australia construction services customers contributed a combined total of 67% of VDM revenue, with their individual contributions to revenue being 43%, 13% and 11%, respectively.

During 2013, VDM 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.

	Consolidated 2014 $'000	2013 $'000
6. OTHER REVENUE		
Interest	**127**	414
Rental income	**-**	206
Other	**57**	135
Total other revenue	**184**	755

7. OTHER INCOME

	2014 $'000	2013 $'000
Gain on disposal of property, plant and equipment	**1,056**	3,393
Total other income	**1,056**	3,393

8. EXPENSES

(a) Finance costs

	2014 $'000	2013 $'000
Finance charges payable under hire purchase contracts	**33**	50
Bank loans and overdrafts	**212**	146
Total finance costs	**245**	196

(b) Depreciation and amortisation

	2014 $'000	2013 $'000
Depreciation	**1,284**	2,834
Amortisation of development costs and software	**110**	212
Total depreciation and amortisation	**1,394**	3,046
Depreciation and amortisation included in cost of services	**882**	2,476

(c) Impairment charges

	2014 $'000	2013 $'000
Impairment of goodwill (note 22)	**-**	16,717
Impairment of assets	**-**	370
Impairment of development properties (note 17)	**-**	116
Impairment of non-current assets held for sale (note 20)	**-**	395
Impairment of property, plant and equipment (note 21)	**101**	-
Total impairment charges	**101**	17,598

(d) Employee benefits expense

	2014 $'000	2013 $'000
Wages and salaries	**11,335**	45,525
Restructuring/ redundancy costs	**765**	172
Superannuation expense	**554**	1,492
Share based payment expense / (write-back)	**(248)**	(90)
Other employee benefits expense	**324**	2,140
Total employee benefits expense	**12,730**	49,239
Employee benefit expenses included in cost of services	**6,164**	37,567
Employee benefit expenses included in administration expenses	**6,566**	11,672

9. INCOME TAX	Consolidated 2014 $'000	2013 $'000
(a) Income tax expense		
Income statement		
Current income tax:		
Income tax benefit on adjustments in respect of current income tax of previous years	**(1,706)**	-
Deferred income tax:		
Relating to origination & reversal of temporary differences	**-**	234
Prior year tax losses no longer recognised	**-**	14,685
Losses recognised	**-**	-
Adjustments in respect of deferred income tax of previous years	**-**	(14)
Income tax (benefit) / expense reported in the income statement	**(1,706)**	14,905
Statement of changes in equity		
Deferred income tax:		
Paid up capital	**-**	268
Income tax expense reported in equity	**-**	268

(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	**(16,406)**	(58,552)
Accounting loss before tax from discontinued operations	**(6,678)**	(10,886)
Accounting loss before income tax	**(23,084)**	(69,438)
Prima facie income tax benefit @ 30%	**(6,925)**	(20,831)
Employee share based payments	**74**	(27)
Non-deductible items	**408**	6,953
Unrecognised deductible temporary differences	**6,443**	14,203
Prior year tax losses no longer recognised	**-**	14,686
Other adjustments – discontinued operations	**-**	-
Prior year over provision	**(1,706)**	(14)
Aggregate income tax (benefit) / expense	**(1,706)**	14,970
Income tax (benefit) / expense reported in the consolidated income statement	**(1,706)**	14,905
Income tax expense attributed to discontinued operations	**-**	65
Aggregate income tax (benefit)/ expense	**(1,706)**	14,970

(c) Recognised deferred tax asset and liabilities	Statement of financial position 2014 $'000	Statement of financial position 2013 $'000	Statement of comprehensive income 2014 $'000	Statement of comprehensive income 2013 $'000
Consolidated				
Deferred tax liabilities				
Contracts in progress and inventory	**(59)**	(2,447)	**(2,387)**	(3,457)
Other	**-**	(306)	**(306)**	306
Gross deferred tax liabilities	**(59)**	(2,753)	**(2,693)**	(3,151)
Deferred tax assets				
Provision for employee entitlements	**140**	1,294	**1,154**	355
Provisions – other	**981**	73	**(156)**	76
Recognised income tax revenue losses	**-**	-	**-**	14,685
Trade and other receivable	**1,541**	872	**(669)**	40
Trade and other payables	**720**	3,481	**2,761**	(2,308)
Other assets	**-**	-	**-**	-
Property, plant and equipment	**483**	483	**-**	-
Contributed equity	**727**	571	**374**	268
Discontinued operations	**-**	-	**-**	(65)
Other	**437**	449	**11**	803
Deferred tax assets not recognised	**(4,970)**	(4,470)	**(782)**	4,470
Gross deferred tax assets	**59**	2,753	**2,693**	18,324
Deferred tax expense			**-**	15,173
Net deferred tax asset recognised in the balance sheet	**-**	-		

(d) Tax losses

VDM has estimated tax losses of $199,524,000 (2013: $98,226,000). Utilisation of the carried forward tax losses by the company is subject to satisfaction of the Continuity of Ownership Test ("COT") or, failing that, the Same Business Test ("SBT"). It is likely that VDM has failed COT during the 2014 financial year, therefore in order to be able to utilise the losses in the future, VDM will be required to satisfy the SBT. Where VDM derives assessable income in a future income year, an assessment of whether the same business has been carried on between just before the COT failure and the intervening period will determine whether the losses are available for utilisation.

(e) Unrecognised temporary differences

At 30 June 2014, there are no unrecognised temporary differences associated with VDM's investments in subsidiaries, or joint ventures, as VDM has no liability for additional taxation should unremitted earnings be remitted (2013: nil).

(f) Tax consolidation

Members of the tax consolidation group and the tax sharing arrangement
VDM and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2004. VDM Ltd is the head entity of the tax-consolidated group. Members of VDM 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.

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.

10. DISCONTINUED OPERATION

On 7 October 2013, VDM sold 100% of the issued share capital of VDM Construction (Eastern Operations) Pty Ltd for $2,750,000. The business has been recognised in the accounts as a discontinued operation

VDM announced on 28 November 2013 that it had divested the majority of its Consulting Businesses via a series of management buy-outs. The businesses have been recognised as a discontinued operation.

The comparative discontinued operation results include the sale of Como Engineers Pty Limited, which was completed on 10 April 2013.

Financial performance of discontinued operation	**2014 $'000**	2013 $'000
Revenue	**19,988**	100,968
Expenses	**(24,950)**	(106,013)
Finance costs	**(4)**	(47)
Loss on re-measurement to fair value less costs to sell		
Plant and equipment	**(1,712)**	-
Goodwill (note 22)	**-**	(5,794)
Loss on sale of discontinued operations	**(6,678)**	(10,886)
Tax (expense) / benefit	**-**	(65)
Loss from discontinued operations	**(6,678)**	(10,951)
Earnings per share from discontinued operations		
Basic, loss for the year, from discontinued operations (cents per share)	**(0.22)**	(1.17)
Diluted, loss for the year from discontinued operations (cents per share)	**(0.22)**	(1.17)

Assets and liabilities and cash flow information of the disposed entities / businesses		
Assets		
Cash and cash equivalents	**3,666**	3,869
Development properties	**675**	-
Plant and equipment	**765**	1,063
Intangible assets	**80**	126
Contracts in progress	**6,181**	427
Trade receivables	**1,472**	2,205
Other assets	**387**	142
	13,226	7,832
Liabilities		
Trade and other liabilities	**8,714**	2,353
Interest bearing debt	**159**	-
Provision for employee entitlements	**1,274**	480
	10,147	2,833
Net assets attributable to discontinued operations	**3,079**	4,999

	2014	2013
	$'000	$'000
Sale proceeds	**3,079**	5,450
Transactions costs	**(3,666)**	(451)
Net proceeds	**(587)**	4,999
Less cash and cash equivalents	**(57)**	(3,869)
Net cash flows from disposals	**(644)**	1,130

Net cash flows		
Operating	**(1,708)**	(168)
Investing	**731**	2,315
Financing	**(1,080)**	(20)
Net cash (outflow) / inflow	**(2,057)**	2,127

	Consolidated	
	2014	2013
11. EARNINGS PER SHARE	**$'000**	$'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	**(14,700)**	(73,457)
Net loss from discontinued operations attributable to ordinary equity holders of the parent	**(6,678)**	(10,951)
Net loss attributable to ordinary equity holders of the parent for basic earnings	**(21,378)**	(84,408)

	Consolidated	
(b) Weighted average number of shares	**2014**	2013
Weighted average number of ordinary shares for basic and diluted earnings per share	**2,012,060,172**	933,884,774

On 5 May 2014, VDM executed a $4,500,000 convertible loan and facility agreement with Kengkong. Subject to shareholder approval, and upon such approval being granted, Kengkong will have the right to convert the loan into 450,000,000 ordinary shares at a conversion price of $0.01 per share. Refer to note 25(e) for further details.

	Consolidated 2014 $'000	2013 $'000
12. DIVIDENDS PROPOSED AND PAID		

(a) Declared and paid during the year:

Dividends on ordinary shares:		
Final fully franked dividend for 2013: nil cents per share (2012: nil cents per share)	**-**	-
Interim fully franked dividend for 2014: nil cents per share (2013: nil cents per share)	**-**	-
	-	-

(b) Dividend proposed, not recognised as a liability:

Final fully franked dividend for 2014: nil cents per share (2013: 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% (2013: 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%.

13. CASH AND CASH EQUIVALENTS

Cash at bank and in hand	**3,366**	11,857
Total cash and cash equivalents	**3,366**	11,857

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	**3,366**	11,857
Total cash for reconciliation of cash flow statement	**3,366**	11,857

14. SECURITY DEPOSITS

Current		
Security deposits	**1,242**	5,238
Total security deposits	**1,242**	5,238
Non-Current		
Security deposits	**3,584**	-
Total security deposits	**3,584**	-

Under the terms of the agreement with its principal banker and bond provider, VDM is required to place on deposit amounts as surety for bank guarantees and bonds issued in favour of VDM. The cash placed on deposit was not available for immediate use.

		Consolidated
	2014	2013
15. TRADE AND OTHER RECEIVABLES	**$'000**	$'000
Current		
Trade receivables	**5,891**	12,684
Allowance for impairment loss	**(5,138)**	(2,907)
	753	9,777
Other debtors	**890**	2,068
Retentions	**16**	1,143
Loans to related entities (note 30)	**788**	788
Allowance for impairment of related loans and other debtors	**(1,457)**	(1,457)
Total current receivables	**990**	12,319
Non-Current		
Loan receivable	**-**	258
	-	258

(a) Ageing of trade receivables

0-30 days	**331**	5,639
31- 60 days	**99**	2,741
> 60 days PDNI	**323**	1,397
> 60 days CI	**5,138**	2,907
	5,891	12,684

PDNI – Past due but not impaired
CI – Considered impaired

(b) Allowance for impairment loss

Balance at 1 July	**4,364**	3,462
Charge for the year	**3,108**	2,714
Utilised	**(877)**	(1,812)
At 30 June	**6,595**	4,364

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 $3,108,000 (2013: $2,714,000 impairment loss) has been recognised by VDM.

(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 32.

(e) Related party receivables

For terms and conditions of related party receivables refer to note 30.

		Consolidated
	2013	2013
16. CONTRACTS IN PROGRESS	**$'000**	$'000
Contract costs incurred to date	**53,109**	218,217
Profit recognised to date (less recognised losses)	**5,235**	(228)
Less progress billings	**(58,351)**	(217,801)
Total construction contracts in progress	**(7)**	188
Represented by:		
Amounts due from customers for contract work	**42**	7,388
Amounts due to customers for contract work	**(49)**	(7,200)
Total construction contacts in progress	**(7)**	188
Amounts due from customers for contract work	**42**	7,388
Other work in progress	**7**	460
Total contracts in progress	**49**	7,848
Amounts due to customers for contract work	**(49)**	(7,200)
Other	**-**	-
Total amounts due to customers for contract work	**(49)**	(7,200)

Once billed, credit quality is expected to be the same as disclosed in note 15(c).

17. DEVELOPMENT PROPERTIES

Development properties	**3,389**	4,061
Total development properties	**3.389**	4,061

Development properties represent an interest in an undeveloped land parcel and a 52% interest in an undeveloped land parcel held within the Quartz Trust in Western Australia.

No interest was capitalised during the 2014 financial year (2013: nil).

(a) Reconciliation of carrying amounts

At 1 July	**4,061**	4,081
Additions	**3**	95
Discontinued operations (note 10)	**(675)**	-
Impairment of development properties (note 17(b))	**-**	(115)
At 30 June	**3,389**	4,061

(b) Impairment of development properties

There was no impairment loss recognised in the statement of comprehensive income in the 2014 financial year of (2013: $115,000).

18. INVENTORY

Consumables at cost	**150**	308
Total inventories	**150**	308

19. OTHER CURRENT ASSETS

Prepayments	**36**	621
Total other current assets	**36**	621

20. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

	Consolidated 2014 $'000	2013 $'000
Other property, plant and equipment	**-**	900
Total non-current assets classified as held for sale	**-**	900

(a) Reconciliation of carrying amounts

	2014 $'000	2013 $'000
At 1 July	**900**	1,295
Transferred in	**-**	-
Sale	**-**	(950)
Transfer (to) / from property, plant and equipment (note 21(a))	**(900)**	950
Impairment	**-**	(395)
At 30 June	**-**	900

21. PROPERTY, PLANT AND EQUIPMENT

	2014 $'000	2013 $'000
Leasehold improvements at cost	**683**	1,043
Accumulated depreciation	**(177)**	(135)
	506	908
Freehold land and buildings at cost	**900**	-
Accumulated depreciation	**-**	-
	900	-
Plant and equipment under lease at cost	**611**	2,381
Accumulated depreciation and impairment	**(124)**	(1,267)
	487	1,114
Plant and equipment at cost	**8,582**	16,035
Accumulated depreciation and impairment	**(7,155)**	(11,698)
	1,427	4,337
Total property, plant and equipment	**3,320**	6,359

(a) Reconciliation of carrying amount	Consolidated 2014 $'000	2013 $'000
Leasehold improvements		
At 1 July net of accumulated depreciation	**908**	615
Additions	**173**	2,511
Disposals	**(11)**	(2,061)
Write down	**(14)**	-
Impairment	**(101)**	-
Depreciation	**(221)**	(172)
Discontinued operations (note 10)	**(840)**	(13)
Transferred from plant & equipment and plant & equipment under lease	**612**	28
At 30 June net of accumulated depreciation	**506**	908
Freehold land and buildings		
At 1 July net of accumulated depreciation	**-**	950
Transferred from / (to) non-current assets held for sale (note 20)	**900**	(950)
At 30 June net of accumulated depreciation	**900**	-
Plant and equipment under lease		
At 1 July net of accumulated depreciation	**1,114**	869
Additions	**-**	734
Disposals	**(19)**	(130)
Depreciation	**(133)**	(368)
Transferred (to) / from plant & equipment and leasehold improvements	**(7)**	77
Discontinued operations (note 10)	**(468)**	(68)
At 30 June net of accumulated depreciation	**487**	1,114
Plant and equipment		
At 1 July net of accumulated depreciation	**4,337**	10,413
Additions	**889**	771
Disposals	**(811)**	(3,130)
Depreciation	**(1,114)**	(3,165)
Transferred (to) plant & equipment under lease and leasehold improvements	**(605)**	(105)
Write down	**(100)**	-
Transfer from non-current assets classified as held for sale (note 20(a))	**-**	-
Discontinued operations at cost (note 10)	**(1,169)**	(447)
Impairment	**-**	-
At 30 June net of accumulated depreciation	**1,427**	4,337
Total property, plant and equipment	**3,320**	6,359

(b) Plant and equipment pledged as security for liabilities

Included in the balances above are assets of VDM to the value of $487,000 (2013: $1,114,000) granted as security for hire purchase debts. There are floating charges over the remaining property, plant and equipment, refer to Note 25 (c) for details of plant and equipment pledged as security for borrowings.

(c) Impairment of property, plant and equipment

Within VDM, recoverable amount was estimated for property, plant and equipment based on current market value. There was an impairment loss of $101,000 (2013: $nil) 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

At 30 June 2014, freehold land and building to the value of $900,000 was transferred from non-current assets classified as held for sale to property, plant and equipment as a result of a change in use.

22. INTANGIBLE ASSETS AND GOODWILL

	Consolidated 2014 $'000	2013 $'000
Goodwill	**-**	-
Software	**3,025**	4,090
Accumulated amortisation and impairment	**(2,926)**	(3,783)
Total intangibles assets and goodwill	**99**	307

(a) Reconciliation of carrying amounts

	2014	2013
Goodwill		
At 1 July	**-**	22,511
Impairment of goodwill	**-**	(16,717)
Discontinued operations (note 10)	**-**	(5,794)
At 30 June	**-**	-
Software		
At 1 July net of accumulated amortisation	**307**	643
Additions	**12**	195
Disposals	**-**	(35)
Amortisation	**(140)**	(370)
Discontinued operations (note 10)	**(80)**	(126)
At 30 June net of accumulated amortisation	**99**	307

(b) Impairment losses recognised

There was no impairment loss recognised in the statement of comprehensive income during the year ended 30 June 2014 in relation to intangible assets. An impairment loss of $16,717,000 was recognised for continuing operations during the year ended 30 June 2013.

23. INVESTMENT IN ASSOCIATE AND A JOINT VENTURE

On 9 August 2013, VDM sold its 52% interest in Quartz South Hedland Pty Ltd, a jointly controlled entity involved in the development of a property for $1,350,000.

VDM's share of the assets and liabilities as at 30 June 2014 and 2013 and income and expenses of the jointly controlled entity for the years ended 30 June 2014 and 2013, are as follows:

	2014	2013
Joint venture's statement of financial position		
Joint Venture's current assets	**-**	2,596
Share of Joint Venture's equity	**-**	1,350
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 2014 and 2013.

24. TRADE AND OTHER PAYABLES	**2014 $'000**	**Consolidated** 2013 $'000
Current		
Trade payables and accruals	**3,004**	19,162
Employee related payables	**59**	1,140
Sundry creditors	**2,361**	5,060
GST payable	**82**	857
Total current payables	**5,506**	26,219

(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 32.

(c) Financial guarantees

VDM provides financial guarantees to its subsidiaries by way of a Deed of Cross Guarantee as disclosed in note 33(b).

		Consolidated
	2014	2013
25. INTEREST-BEARING LOANS AND OTHER BORROWINGS	**$'000**	$'000
Current		
Interest bearing loan (9% fixed secured loan)	**-**	1,018
Australia Kengkong (convertible loan (e))	**4,569**	-
Insurance premium funding	**-**	442
Hire purchase liabilities (note 34)	**191**	322
Total current interest-bearing loans and borrowings	**4,760**	1,782
Non-Current		
Hire purchase liabilities (note 34)	**49**	299
Total non-current interest-bearing loans and borrowings	**49**	299

(a) Fair values

The carrying amount of VDM's current and non-current borrowings approximates 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 32.

(c) Assets pledged as security

Finance arrangements		
Plant and equipment	**487**	1,114
Floating charge		
All the remaining wholly owned assets	**16,033**	56,739

(d) Total financing facilities

Bank overdrafts	**139**	450
Bank guarantees	**2,085**	7,000
Contract performance bond	**5,287**	25,000
Total financing facilities available	**7,511**	32,450

The contract performance bond facility limit equals the value of the drawn bonds and the limit automatically reduces as bonds are returned or expire. The bank guarantee and credit card facilities are available subject to annual review. At 30 June 2014, $1,957,000 (2013: $4,798,000) was drawn on the bank guarantee facility and $5,287,000 (2013: $18,087,000) was drawn on the contract performance bond facility.

(e) Terms of the convertible note

On 5 May 2014, VDM executed a convertible loan and facility agreement with Kengkong to provide funding of $4,500,000 for ordinary ongoing operations. Kengkong advanced $4,500,000 under the $4.5 million Convertible Loan on 6 May 2014. The loan is unsecured. Subject to shareholder approval, and upon such approval being granted, Kengkong will have the right to convert the loan into 450,000,000 ordinary shares at a conversion price of $0.01 per share. If shareholder approval is not obtained or the loan is not converted into VDM shares by Kengkong, VDM must repay the loan within 30 business days after the date of the shareholder meeting held to approve conversion. An interest rate of 10% per annum applies on the loan until 20 October 2014 at which time the interest rate increases to 15% per annum. The conversion matter will be presented for shareholder approval at the Company's annual general meeting to be held before the end of November 2014.

26. PROVISIONS

	Consolidated 2014 $'000	2013 $'000
Current		
Provision for employee entitlements	**457**	4,324
Provision for insurance excess	**170**	-
Provision for warranty	**765**	621
Provision for onerous contracts	**1,666**	-
Provision for loss making contracts	**8**	5,548
Total current provision	**3,066**	10,493
Non-Current		
Provision for employee entitlements	**10**	244
Provision for onerous leases	**1,118**	-
Total non-current provision	**1,128**	244

(a) Movements in provisions

	Employee entitlements $'000	Insurance excess $'000	Warranty $'000	Onerous contracts $'000	Loss making contracts $'000	Total $'000
Balance at 1 July 2013	**4,568**	**-**	**621**	**-**	**5,548**	**10,737**
Discontinued operations	(1,274)	-	-	-	-	(1,274)
Arising during the year	-	170	313	3,605	-	4,088
Utilised	(2,827)	-	(169)	(821)	(5,540)	(9,357)
Balance at 30 June 2014	467	170	765	2,784	8	4,194
Current	457	170	765	1,666	8	3,066
Non-Current	10	-	-	1,118	-	1,128
Total provisions	467	170	765	2,784	8	4,194

(b) Nature and timing of provisions

Insurance excess
A provision is recognised for the balance of the excess expected to be paid on a professional indemnity insurance claim. It is expected that these costs will be incurred in the next financial year

Warranty
A provision is recognised for expected defect claims on completed construction projects based on past experience. It is expected that these costs will be incurred in the next financial year. The 30 June 2013 comparatives have been adjusted to reclassify the provision for warranty of $621,000 from trade payable to appropriately reflect the nature of the obligation..

Onerous contracts
A provision is recognised for expected net unavoidable costs of meeting its obligations under onerous contacts.

Loss making contracts
A provision is recognised for the expected loss on construction contracts.

27. CONTRIBUTED EQUITY	Consolidated 2014 $'000	2013 $'000
(a) Ordinary shares		
Issued and fully paid	**268,509**	248,286

Movement in ordinary shares on issue

		Shares	Value ($'000)
Balance at 30 June 2013		**933,873,071**	**248,286**
Share issued to H&H at $0.01 per share	27 August 2013	140,080,961	1,401
Issue of conversion shares at $0.01 per share	29 November 2013	500,000,000	5,000
Exercise of bonus issue option at $0.05 per share	29 November 2013	43,386	2
Shares issued to Jimblebar creditors at $0.01 per share	29 November 2013	143,977,917	1,440
Private placement shares issued at $0.01 per share	10 December 2013	75,000,000	750
Shares issued under the 10 December 2013 entitlements offer prospectus	28 January 2014	1,214,685,617	12,147
Shares issued under the Shortfall offer contained in the 10 December 2013 entitlements offer prospectus	19 March 2014	120,000,000	1,200
Capital raising costs			(1,717)
Balance at 30 June 2014		**3,127,660,952**	**268,509**

(b) Treasury shares	2014 No.	2013 No.
Treasury shares held in trust	**222,864**	222,864

Movement in treasury shares

	Shares
Balance at 30 June 2013 and 30 June 2014	**222,864**

(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 is targeting to maintain a gearing ratio of less than 15%. The gearing ratio based on continuing operations at 30 June 2014 and 2013 were as follows:

		Consolidated
	2014	2013
	$'000	$'000
Interest bearing loans and other borrowings (note 25)	**4,809**	2,081
Less cash and security deposits (notes 13 and 14)	**(8,192)**	(17,095)
Net (cash) / debt	**(3,383)**	(15,014)
Total equity	**929**	2,332
Total capital	**(2,454)**	(12,682)
Gearing ratio (net debt: total capital)	**(138%)**	(118%)

VDM is not subject to any externally imposed capital requirements.

28. RETAINED EARNINGS AND RESERVES

(a) Movement in retained earnings

Balance at the beginning of the year	**(247,133)**	(162,725)
Net loss attributable to members of VDM Group Ltd	**(21,378)**	(84,408)
Balance at the end of the year	**(268,511)**	(247,133)

The retained earnings balance at beginning of 2013 includes a $295,000 correction to the previously reported amount. The adjustment flows through to the balance at beginning of 2014.

(b) Movement in other capital reserve

Balance at the beginning of the year	**427**	510
Share based payment (note 31)	**(248)**	(83)
Balance at the end of the year	**179**	427

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 31 for further details of these plans.

(c) Movement in equity reserve	Consolidated 2014 $'000	2013 $'000
Balance at the beginning of the year	**457**	457
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.

29. CASHFLOW STATEMENT INFORMATION

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

	2014 $'000	2013 $'000
Net loss after tax	**(21,378)**	(84,408)
Non-Cash Items:		
Depreciation	**1,468**	3,705
Amortisation	**140**	370
Impairment of goodwill, assets, development costs and software	**101**	19,486
Assets written off	**114**	26
Allowance for doubtful debts	**3,108**	2,714
Net profit on disposal of property, plant and equipment	**(1,058)**	(3,383)
Share based payment reversal	**(248)**	(90)
Settlement transaction costs from sale of subsidiary	**-**	451
Profit on sale of subsidiary	**-**	(879)
Loss recognised on remeasurement to fair value less costs to sell	**1,712**	4,004
Loss on onerous contract	**3,183**	-
Interest expense accrued	**242**	-
Lease expense	**194**	-
Change in assets and liabilities:		
Decrease in trade and other receivables	**6,131**	29,249
Increase / (decrease) in contracts in progress	**(5,531)**	15,035
Decrease in other assets	**198**	1,508
Increase in development properties	**(3)**	(95)
Decrease in inventory	**158**	555
Decrease in deferred tax assets	**-**	14,968
Decrease in trade and other creditors	**(11,302)**	(18,551)
Decrease / (increase) in provisions	**(8,001)**	3,177
Decrease / (increase) in current tax payable	**(2,294)**	7
Net cash flows used in operating activities	**(33,066)**	(12,151)

(b) Non-cash financing and investing activities

Purchase of property, plant and equipment on hire purchase	**-**	**(734)**

30. RELATED PARTY DISCLOSURE

Note 5 provides the information about VDM's structure including details of the subsidiaries and the holding company.

(a) Ultimate parent

VDM Group Limited is the ultimate Australian parent entity.

(b) Loans to an associate

As at 30 June 2014, $788,000 (2013: $788,000) was receivable from Track Procurement Services Pty Ltd an associate disclosed in note 4. This loan receivable has been fully provided for.

(c) Transactions with key management personnel

Refer to note 9 in the remuneration report for transactions and balances with key management personnel.

(d) Transactions with related parties other than key management personnel

There were no transactions that were entered into with related parties other than key management personnel during 2014 and 2013.

(e) Compensation for key management personnel

	Consolidated **2014**	Consolidated 2013
Short Term	**1,476,912**	2,457,631
Post Employment	**78,940**	155,123
Share based payment	**(248,084)**	(82,779)
Termination benefits	**442,905**	35,649
Total compensation	**1,750,673**	2,565,624

		Consolidated
	2014	2013
31. SHARE-BASED PAYMENT PLANS	**$'000**	$'000

(a) Recognised share based payment expense

Reversal arising from equity-settled share-based payment transactions	**(248)**	(90)
Total share-based payment reversal	**(248)**	(90)

(b) Types of share-based payment plans

Employee Option Plan (EOP)
On 31 January 2008 VDM 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. No options lapsed or were cancelled during the year (2013: 90,625).

Executive Performance Rights Plan (EPRP)
Under the executive long term incentive (LTI), awards are made to executives who have an impact on VDM's performance. LTI awards are delivered in the form of performance rights. A performance right is an entitlement to acquire a fully paid ordinary share in the capital of VDM 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 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 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 17,826,087 options lapsed during the year (2013: 16,565,217).

(c) 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:

	2014 No.	**2014 WAEP**	2013 No.	2013 WAEP
Outstanding at the beginning of the year	**-**	**-**	90,625	2.25
Forfeited during the year	**-**	**-**	(90,625)	2.25
Outstanding at the end of the year	**-**	**-**	-	-

The weighted average remaining contractual life for the share options outstanding as at 30 June 2014 is nil years (2013: nil years).

There were no options granted during the year ended 30 June 2014 and 2013.

(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:

	2014 No.	**2014 WAEP**	2013 No.	2013 WAEP
Outstanding at the beginning of the year	**17,826,087**	**0.0212**	34,391,304	0.0398
Revalued during the year	**-**	**-**	-	(0.0278)
Forfeited during the year	**(17,826,087)**	**(0.0212)**	(16,565,217)	(0.0398)
Granted during the year	**-**	**-**	-	-
Outstanding at the end of the year	**-**	**-**	17,826,087	0.0212

The weighted average remaining contractual life for the share options outstanding as at 30 June 2014 is nil years (2013: 0.92 years).

The following table lists the inputs to the model used for the EPRP for the year ended 30 June 2014 and 2013:

	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.

There were no performance rights granted in 2014.

32. 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's business. VDM manages its exposure to these key financial risks in accordance with VDM's financial risk management policy. The objective of the policy is to support the delivery of VDM's financial targets whilst protecting future financial security. VDM's principal financial instruments comprise receivables, payables, bank loans and overdrafts, hire purchase liabilities, cash and security deposits.

VDM 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'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 security deposits is not a material risk due to the short term nature of these financial instruments.

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

		Consolidated
	2014	2013
	$'000	$'000
Financial assets		
Cash and cash equivalents (note 13)	**3,366**	11,857
Security deposits (note 14)	**4,826**	5,238
Financial liabilities		
Interest bearing borrowings and loans (note 25)	**-**	-

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**
+ 1% (200 basis points)	**57**	120
– 1% (100 basis points)	**(57)**	(120)

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

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

Foreign currency risk
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's financial position. Currently there is no foreign exchange hedge programme in place.

At balance date, VDM had no exposure on their foreign financial instruments.

(b) Credit risk

Credit risk arises from the financial assets of VDM, which comprises cash and cash equivalents and trade and other receivables. VDM'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 manages its credit risk by trading only with recognised, creditworthy third parties, and as such collateral is not requested nor is it VDM'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 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:

	Consolidated	
	2014	2013
	$'000	$'000
Current		
Cash and cash equivalents (note 13)	**3,366**	11,857
Security deposits (note 14)	**4,826**	5,238
Trade and other receivables (note 15)	**990**	12,319
	9,182	29,414

(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 is managed to ensure sufficient liquid funds are available to meet our financial commitments in a timely and cost-effective manner.

VDM continually monitors its liquidity position including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels. The objective of VDM is to have sufficient cash and finance facilities 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 2014. Repayment obligations in respect of the bank loans, hire purchase facilities and trade and other payables are as follows:

	Consolidated	
	2014	2013
	$'000	$'000
No later than one year	**10,432**	28,709
Later than one year but not later than two years	**49**	253
Later than two years but not later than three years	**-**	63
	10,481	29,025

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 2014	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Consolidated					
Financial assets					
Cash and cash equivalents (note 13)	3,366	3,366	-	-	-
Security deposits (note 14)	4,826	207	1,035	3,584	-
Other receivables (note 15)	237	237	-	-	-
Trade receivables (note 15)	753	430	323	-	-
	9,182	4,240	1,358	3,584	-
Financial liabilities					
Trade and other payables	1,843	758	1,085	-	-
Other payables	3,663	3,663	-	-	-
Hire purchase liabilities (note 34)	253	34	170	49	-
Interest bearing loans and borrowings	4,722	-	4,722	-	-
	10,481	4,455	5,977	49	-
Net maturity	(1,299)	(215)	(4,619)	3,535	-

	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 13)	11,857	11,857	-	-	-
Security deposits (note 14)	5,238	-	5,238	-	-
Other receivables (note 15)	2,542	2,542	-	-	-
Trade receivables (note 15)	9,777	8,380	1,397	-	-
	29,414	22,779	6,635	-	-
Financial liabilities					
Trade and other payables	12,289	11,577	712	-	-
Other payables	14,551	14,551	-	-	-
Hire purchase liabilities (note 34)	676	43	317	316	-
Interest bearing loans and borrowings	1,508	786	722	-	-
	29,024	26,957	1,751	316	-
Net maturity	390	(4,178)	4,884	(316)	-

(d) Fair value

At 30 June 2014 there are no financial assets or financial liabilities which are accounted for at fair value. There is no difference between the carrying amounts and fair value of financial assets and financial liabilities presented in the Consolidated Statement of Financial Position.

33. PARENT ENTITY INFORMATION

	Parent entity	
	2014	2013
	$'000	$'000
Information relating to VDM Group Ltd:		
Current assets	**54,079**	26,750
Total assets	**12,685**	12,651
Current liabilities	**14,376**	15,627
Total liabilities	**12,051**	10,614
Issued capital	**268,509**	248,286
Accumulated losses	**(268,511)**	(247,133)
Option reserve	**636**	884
Total shareholders' equity	**634**	2,037
Loss of the parent entity	**(22,250)**	(93,298)
Total comprehensive loss of the parent entity	**(22,250)**	(93,298)

(a) Bank guarantees:

As at 30 June 2014 VDM Group Ltd had $313,000 (2013: $260,000) 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 35(a) for legal claims against the parent entity.

(d) Property, plant and equipment commitments

VDM Group Ltd had no capital commitments at 30 June 2014 and 2013.

	Consolidated	
	2014	2013
34. COMMITMENTS	**$'000**	$'000

(a) Operating leases

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

Within one year	**2,794**	2,338
One year or later but not later than five years	**5,788**	5,335
After more than five years	**-**	-
Total minimum lease payments	**8,582**	7,673

During the year VDM made operating lease payments totalling $2,458,000 (2013: $2,261,000).

Other operating leases entered into on various commercial properties have an average life of between 2 and 5 years and generally provide VDM 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 from entering into the leases.

(b) Hire purchase commitments

Not later than one year	**204**	360
After one year but not more than five years	**49**	316
Total minimum hire purchase payments	**253**	676
Future finance charges	**(13)**	(55)
Present value of minimum lease payments (note 25)	**240**	621

Total hire purchase liability		
Included in the financial statements as:		
Current – Hire purchase liabilities	**191**	322
Non – Current Hire purchase liabilities	**49**	299
Total included in interest bearing liabilities (note 25)	**240**	621

VDM has plant and equipment under hire purchase agreements expiring from 1 to 2 years.

(c) Property, plant and equipment commitments

VDM has no capital commitments at 30 June 2014 (2013: $115,000)

(d) Remuneration commitments

VDM did not have any remuneration commitments at 30 June 2014 (2013: $nil) other than as disclosed in the remuneration report.

35. CONTINGENCIES

(a) Legal claim

VDM 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. A number of claims and counter-claims exist at 30 June 2014, the majority of which would not lead VDM Group to incur material losses. Four matters existing as at 30 June 2014 may lead to VDM incurring material losses if claims made by counterparties are successful for the full amount of the values claimed.

REG Camp

VDM is the claimant under a contract dispute with the Principal related to works performed by VDM under contract at the Central REG Accommodation Camp. At this stage both parties have agreed to attempt to have the matter resolved by means of non-binding expert determination. VDM has not disclosed the value of each party's claims as it may be prejudicial to the successful outcome thereof.

Gendredge Pty Ltd

VDM 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 are owed by VDM to Gendredge. VDM has issued a defence and counter-claim against Gendredge for their repudiation of the contract which was accepted by VDM together additional costs incurred to engage an alternate subcontractor to complete the work not completed by Gendredge.

Statements of claim, defence and counter-claims have been submitted to the court. The Parties met in August 2014 in mediation without an agreed position being achieved at that time. In the event that Gendredge is successful in the courts of Western Australia, VDM may incur a material loss. VDM has not disclosed the value of the claims as it may be prejudicial to the successful outcome thereof.

Jimblebar
Since the Notice of Take-over Direction issued to VDM relating to the Jimblebar Ammonium Nitrate Storage Facility Contract (Jimblebar Contract) on 21 August 2013, VDM has received various claims from BHP for the costs of rectification of defective works, liquidated damages, costs to complete and monies otherwise claimed due under the Jimblebar contract. The total amount claimed is approximately $9,000,000. All claims are disputed by VDM Group.

On 19 December 2013 BHP demanded and was paid $2,422,000 under a bond facility provided by VDM under the Jimblebar Contract, thereby reducing BHP's claims by that amount.

VDM asserts that it is entitled to around $10,000,000 for variations, delay damages and other payments under the Jimblebar Contract from BHP. In addition, VDM claims that the Jimblebar Contract was repudiated by BHP when BHP took action to take out of VDM's hands all remaining work on 21 August 2013. VDM is currently preparing an alternative significantly larger claim against BHP under quantum meruit.

VDM continues to seek full resolution of all outstanding matters and will continue to pursue its claims including the reimbursement of these bonds.

Costs of services from continuing operations includes $2,422,000 to reflect the payment to BHP on 19 December 2013 under the bond facility. No assets or liabilities relating to the above claims have been recognised in the accounts.

Natadola Bay

In 2006 VDM's insurers were notified of a claim under VDM's professional indemnity insurance cover for engineering consulting work provided by one of VDM's sold consulting businesses. VDM have recently been advised that the Plaintiff is reviewing their position. VDM has a remaining maximum exposure of approximately $130,000 relating to this matter under its insurance policy.

(b) Bank guarantees and insurance bonds:

As at 30 June 2014 VDM had bank guarantees with BankWest of $1,957,000 (2013: $4,798,000) given to various clients for satisfactory contract performance.

As at 30 June 2014 VDM had insurance bonds with Assetinsure Pty Ltd of $5,287,000 (2013: $18,087,000) given to various clients for satisfactory contract performance.

36. SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Mr Perrott resigned as a Non-Executive Director of VDM on 7 August 2014.

On 22 September 2014, VDM executed a convertible loan and facility agreement with Kengkong to provide funding of $10,000,000 for ordinary ongoing operations and project development proposals which are approved by Kengkong ($10m Convertible Loan). The $10m Convertible Loan is unsecured. Subject to shareholder approval, and upon such approval being granted, Kengkong will have the right to convert the $10m Convertible Loan into 1,000,000,000 ordinary shares at a conversion price of $0.01 per share. If shareholder approvals are not obtained for conversion of both the $10m Convertible Loan and the $4.5m Convertible Loan that VDM also has with Kengkong, or Kengkong does not elect to convert the $10m Convertible Loan into VDM shares then VDM must repay the $10m Convertible Loan within 60 business days after the shareholders meeting held to obtain approval (Shareholders Meeting). Interest is calculated at a rate of 8% per annum until one month after the date of the Shareholders Meeting, and 13% per annum following that date. A default interest rate of 2% per annum plus the applicable interest rate shall apply to any amount the Company fails to pay by the time it is due under the agreement. In the event that shareholders do not approve conversion of the $4.5m Convertible Loan and the $10m Convertible Loan, a fee of A$100,000 is payable by VDM in addition to the $45,000 fee payable in respect of the non-approval by shareholders of conversion of the $4.5m Convertible Loan. Conversion matters for both the $10m Convertible Loan and the $4.5m Convertible loan will be presented for consideration by shareholders at the Company's Annual General Meeting to be held before the end of November 2014.

37. AUDITORS' REMUNERATION

		Consolidated
	2014	2013
	$	$
Amount received or receivable by Ernst & Young for:		
An audit or review of the financial statements	**126,935**	293,550
Other audit or review procedures	**-**	8,498
Non audit fees – tax compliance	**129,840**	145,279
Total auditors' remuneration	**256,775**	447,327

38. 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	
		2014	2013
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 Trading Pty Ltd (formerly VDM Engineering (Western Operations) 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	Australia	**100%**	100%
VDM Projects Pty Ltd	Australia	**100%**	100%
VDM Asset Management Pty Ltd	Australia	**100%**	100%
VDM Mining Pty Ltd (formerly Skilful Holdings Pty Ltd)	Australia	**100%**	100%
Burchill VDM Pty Ltd	Australia	**100%**	100%
VDM Construction Pty Ltd	Australia	**100%**	100%
VDM Equipment Pty Ltd (formerly VDM Earthmoving Contractors Pty Ltd)	Australia	**100%**	100%
VDM Group Ltd International (Dubai Branch) Pty Ltd	Australia	**100%**	100%
VDM Contracting Pty Ltd	Australia	**100%**	100%
VDM Construction (Eastern Operations) Pty Ltd	Australia	**-**	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%
Belleng VDM 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 Trust	Australia	**100%**	100%

(b) Entities subject to class order relief

Pursuant to Class Order 98/1418, relief has been granted to VDM Construction 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 Trading Pty Ltd (formerly VDM Engineering (Western Operations) Pty Ltd), VDM Engineering (Eastern Operations) Pty Ltd, Barlow Gregg VDM Pty Ltd, VDM Consulting (NSW) Pty Ltd, VDM Consulting (VIC) Pty Ltd, VDM Projects Pty Ltd, VDM Mining Pty Ltd (formerly 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, VDM Consulting Pty Ltd, BCA Consultants Pty Ltd, Keytown Constructions Pty Ltd, VDM Investments Pty Ltd, VDM CCE Pty Ltd, VDM Construction Pty Ltd, VDM Developments Pty Ltd, ACN 087 442 877 Pty Ltd (formerly called VDM Constructions Pty Ltd), VDM Equipment Pty Ltd (formerly VDM Earthmoving Contractors Pty Ltd), VDM Contracting Pty Ltd, VDM Equity Incentives 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	
	2014	2013
	$'000	$'000
Loss from continuing operations before income tax	**(16,488)**	(58,497)
Income tax benefit	**1,706**	(14,905)
Loss after tax from continuing operations	**(14,782)**	(73,402)
(Loss) / profit from discontinued operation	**(6,678)**	(10,951)
Net loss for the year	**(21,460)**	(84,353)
Non-controlling interest		
Dividends paid		
Accumulated losses at the beginning of the year	**(245,208)**	(160,855)
Accumulated losses at the end of the year	**(266,668)**	(245,208)

(d) Statement of financial position

	Closed Group	
	2014	2013
ASSETS	**$'000**	$'000
Current assets		
Cash and cash equivalents	**3,361**	11,853
Security deposit	**1,242**	5,238
Trade and other receivables	**6,690**	19,410
Contracts in progress	**49**	7,848
Inventory	**150**	308
Income tax receivable	**-**	-
Development properties	**-**	675
Other assets	**36**	621
	11,528	45,953
Non-current assets classified as held for sale	**-**	900
Total current assets	**11,528**	46,853
Non-current assets		
Trade and other receivables	**-**	257
Security deposit	**3,584**	-
Investments	**665**	665
Property, plant and equipment	**3,320**	6,359
Deferred tax assets	**-**	-
Intangible assets and goodwill	**99**	307
Total non-current assets	**7,668**	7,588
TOTAL ASSETS	**19,196**	54,441
LIABILITIES		
Current liabilities		
Trade and other payables	**5,812**	27,110
Amount due to customers for contract work	**49**	7,200
Interest-bearing loans and borrowings	**4,760**	1,782
Current tax liabilities	**1,680**	3,974
Provisions	**3,066**	9,872
Total current liabilities	**15,367**	49,938
Non-current liabilities		
Interest-bearing loans and other borrowings	**224**	299
Provisions	**1,128**	243
Total non-current liabilities	**1,352**	542
TOTAL LIABILITIES	**16,719**	50,480
NET ASSETS	**2,477**	3,961
EQUITY		
Contributed equity	**268,509**	248,286
Reserves	**636**	883
Accumulated losses	**(266,668)**	(245,208)
TOTAL EQUITY	**2,477**	3,961

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 2014 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 2014; 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 38 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 D Hua
Executive Chairman and Interim CEO
Perth, Western Australia
26 September 2014

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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 2014, 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.

Opinion

In our opinion:

a. the financial report of VDM Group Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the company's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the financial report which describes the principal conditions that raise doubt about the entity's ability to continue as a going concern. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the remuneration report

We have audited the Remuneration Report included in of the directors' report for the year ended 30 June 2014. 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 2014, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

T G Dachs
Partner
Perth
26 September 2014

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 11 August 2014.

Shareholder	Number of ordinary fully paid shares held	% held of capital
H&H Holdings Australia Pty Ltd	1,085,110,976	34.69
Australia Kengkong Investments Co Pty Ltd	620,000,000	19.82
J P Morgan Nominees Australia Limited	241,220,469	7.71
Golden Bloom Investments Pty Ltd	125,000,000	4.00
UBS Nominees Pty Ltd	121,404,232	3.88
UOB Kay Hian (Kong Kong) Limited	72,470,474	2.32
James Howard Nigel Smalley	50,000,000	1.60
Austindo (WA) Pty Ltd	30,000,000	0.96
Citicorp Nominees Pty Ltd	24,478,236	0.78
Jako Industries Pty Ltd	21,219,720	0.68
Miss Shan He	20,502,126	0.66
Mr Brian Hon Leung Lee	18,000,000	0.58
Mr Aaron Francis Quirk	12,558,250	0.40
Duncraig Investment Services Pty Ltd	12,400,000	0.40
Mr John Finlay Mckenzie Rowley	12,000,000	0.38
Mrs Cheng Huang	10,500,000	0.34
Mr Joseph Paul Snare	9,364,075	0.30
Noel Kennedy Smith	8,000,000	0.26
Washington H Soul Pattinson and Company Limited	7,000,000	0.22
Mrs Feng Lin	6,897,874	0.22
Total	**2,508,126,432**	**80.20**

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	1,085,110,976	34.69
Australia Kengkong Investments Co Pty Ltd	620,000,000	19.82

DISTRIBUTION OF SHAREHOLDINGS

Range of holding	Number of shareholders	Number of ordinary shares	%
1 – 1,000	602	229,548	0.01
1,001 – 5,000	802	2,265,648	0.07
5,001 – 10,000	442	3,458,082	0.11
10,001 – 100,000	1,441	59,602,070	1.91
100,001 and above	891	3,062,105,604	97.90
Total	**4,178**	**3,127,660,952**	**100.00**

The number of shareholders with less than a marketable parcel is 2,878 holding in total 33,493,277 shares.

VOTING RIGHTS

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