



# 2015

**ANNUAL REPORT**

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

# VDM GROUP LIMITED

## CORPORATE INFORMATION

---

<b>Directors</b>	Mr Luk Hiuming Dr Hua Dongyi Mr Michael Fry Mr Vic Jakovich	Chairman Managing Director and Chief Executive Officer Non-executive Director Non-executive Director
<b>Company Secretary</b>	Mr Padraig O'Donoghue	
<b>Registered and Principal Office</b>	Fortescue Centre Level 1, 30 Terrace Road East Perth WA 6004 Telephone (08) 9265 1100 Facsimile (08) 9265 1199 Website <a href="http://www.vdmgroup.com.au">www.vdmgroup.com.au</a>	
<b>Postal Address</b>	Locked Bag 8 East Perth WA 6892	
<b>Auditors</b>	Ernst & Young 11 Mounts Bay Road Perth WA 6000	
<b>Share Register</b>	Computershare Investor Services Pty Limited Level 11, 172 St George's Terrace Perth WA 6000 Telephone 1300 850 505 (outside Australia) +61 3 9415 4000	

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

<b>ASX Code</b>	VMG
<b>ACN</b>	109 829 334
<b>ABN</b>	95 109 829 334

In this report, the following definitions apply:

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

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

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

**VDM GROUP LIMITED**

**CONTENTS**

---

FROM THE MANAGING DIRECTOR.....4  
DIRECTORS' REPORT .....6  
AUDITOR'S INDEPENDENCE DECLARATION .....18  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME .....19  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION .....20  
CONSOLIDATED STATEMENT OF CASH FLOWS .....21  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY .....22  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS .....23  
DIRECTORS' DECLARATION .....69  
INDEPENDENT AUDITOR'S REPORT .....70  
ASX ADDITIONAL INFORMATION .....72

# VDM GROUP LIMITED

## FROM THE MANAGING DIRECTOR

---

Dear Shareholders

The 2015 financial year has been a challenging period for VDM with economic headwinds impacting the implementation of our business plan. This was reflected in the financial performance of your company.

VDM's business plan is arranged under four operating divisions:

- *VDM Construction*: EPC including modular and steel construction
- *VDM Equipment*: equipment hire, sales, service, and parts
- *VDM Trading*: import Asian goods for Australian markets and export Australian goods for Asian markets
- *VDM Mining*: bringing Australian mining practices to Africa and Latin America

### VDM Construction

The construction division's planned growth in modular buildings, steel buildings, and steel construction has been delayed due to the difficult market circumstances. The sustained low commodity price environment has continued to negatively impact construction activity within, and related to, the resources industry. The decline in the Australian dollar has increased the cost of imported modular and steel products from our Asian supply partners. These market conditions, which are affecting all Australian construction companies, have created an extremely challenging environment in which to win work with adequate profit margins and risk profiles.

In response to these challenges VDM Construction has trimmed its overhead but has maintained its core management and engineering staff as well as its builder's and HSEQ accreditations. VDM Construction maintains a robust capability to deliver high quality construction projects to its customers and is determined to win new profit-making contracts in the coming year.

### VDM Equipment

During the year VDM Equipment continued to hire and provide equipment services to its customers. Due to subdued metals prices and contraction of the Australian mining sector, customers were primarily sourced from the Perth metro construction industry. This market, however, was also in an over-supply balance and therefore equipment division growth was not achieved.

VDM has established an exciting new joint venture company with SANY a leading high quality international brand. VDM holds a 49% interest in the JV and SANY holds a 51% interest. In June 2015 the JV joined VDM Equipment at new office and workshop premises in Kewdale, near Perth International Airport. The direct ownership of SANY provides the JV with several advantages including factory direct pricing that it can pass on to its customers. 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.

VDM Equipment was also awarded an exclusive distributorship of Changlin equipment, another major international equipment brand, and is aiming for similar arrangements with other leading equipment manufacturers.

With SANY and its other brands, VDM Equipment is positioned with the competitive advantages of a highly-quality range of equipment for sale and hire at attractive prices, and with leading customer service and factory support. I strongly encourage all equipment customers to view our range of equipment at Kewdale to understand the quality and favourable pricing of equipment on offer. VDM Equipment is positioned to be a one-package solution to bring savings and cost control to its customers.

### VDM Trading

The trading division conducted business development activities to establish an import and export trading business with Asia. It also provided its Asian business knowledge and expertise to assist the Construction and Equipment divisions to put in place preferred supplier and exclusive distributor arrangements.

The lower Australian dollar has subdued the market for imported goods from Asia in the construction materials markets targeted by VDM Trading. The trading division has responded by becoming more focused on leveraging its Asian relationships to look for Australian export opportunities. It also established the parcel delivery service to send Australian goods directly to customers in China. The lower Australian dollar and high standards of Australian products provides an attractive opportunity to export to the growing wealthy class in China who have a discerning appreciation for high quality consumable products.

# VDM GROUP LIMITED

## FROM THE MANAGING DIRECTOR

---

### VDM Mining

VDM's mining division has made significant progress towards acquiring a majority participating interest in the Cachoeiras do Binga copper exploration project located in the Republic of Angola (Cachoeiras do Binga). As announced on 30 September 2015, VDM, Pebric Mining and Consulting, LDA (Pebric) and Seabank Resources, LDA (Seabank) (together the JV Parties) concluded negotiations of a Mineral Investment Contract (MIC) with officials from the Angolan Ministry of Geology and Mining (MGM) and are in process of drafting several annexures that will form an integral part of the MIC that will be submitted for approval and signature by the Minister of Geology and Mining. I am looking forward to VDM soon completing the acquisition of its stake in Cachoeiras do Binga, which is conditional on the JV parties executing an MIC with MGM.

VDM Mining is continuing to search for additional greenfield mining-project opportunities in Africa and Latin America.

### Capital Raisings

A substantial amount of time has been incurred to set up the four divisions, carry out market analysis and develop working relationships with prospective partners and clients. This resulted in the Company incurring a net cash outflow from operations of \$12.8 million over the course of the financial year. To fund this, VDM undertook capital raisings as follows.

- On 23 September 2014, a \$10 million convertible loan was received from Kengkong, convertible to 1 billion shares upon shareholder approval and at the election of Kengkong
- On 1 December 2014, 1.45 billion shares were issued to Kengkong as a result of Kengkong's election to convert its convertible loans (5 May 2014 \$4.5 million loan, and 23 September 2014 \$10 million loan) to VDM shares.
- On 3 December 2014, 250 million shares were issued to a sophisticated private investor raising \$3 million.

### 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.

### Corporate

Non-executive Director, Mr Luk was appointed Chairman of VDM on 29 January 2015 and I returned to my previous role of Managing Director and CEO.

A focus during the year was to manage the business efficiently and conserve cash while advancing growth opportunities. On 29 January 2015 the VDM Directors agreed to an overall 18% reduction in Board and CEO remuneration to demonstrate their commitment to cost savings measures. Subsequent to this announcement, the Company undertook a review of staff remuneration and sought to align individual's remuneration with market conditions, resulting in a significant reduction in payroll costs.

I would like to thank my fellow directors for their counsel and dedication this past year as well as the efforts of management and employees. I also thank Kengkong and our new private investor for their significant financial support.

Dr Hua Dongyi  
Managing Director and CEO

# VDM GROUP LIMITED

## DIRECTORS' REPORT

### For the year ended 30 June 2015

---

Your directors submit their report of VDM Group Limited ("the Company") and of the Consolidated Entity, being the Company and its controlled entities ("VDM" or "the Group") for the year ended 30 June 2015.

#### 1. DIRECTORS

The names and details of the directors of VDM Group Limited in office at the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

##### Current Directors

###### Luk Hiuming

*Non-Executive Chairman*

Appointed Non-Executive Director on 21 March 2014, appointed Non-Executive Chairman on 29 January 2015  
Member of the Audit & Risk Committee

Mr Luk has abundant experience in an extensive range of business sectors. He set up C.N.Team Ltd and Y.Z.I.T. Inc, with investments in different countries. He has experience in investments in a variety of industries, including textile & clothing, pharmaceutical, steel, real estates, manufacturing mining, natural resources, new energy and oil and gas. Apart from businesses in mainland China, he also has extensive international experience in various industries around the globe. Mr Luk is currently Chairman of the boards of Wholly Fast International Ltd, Bondcooper Brothers Co Ltd, and Kelell Inc., being overseas corporations.

Mr Luk has a relevant interest (as defined section 608 of the Corporations Act 2001) in Australia Kengkong Investments Co Pty Ltd ("**Kengkong**").

###### Hua Dongyi

*Managing Director and Chief Executive Officer*

Appointed Director on 28 August 2013, appointed Managing Director on 9 September 2013, appointed Executive Chairman and Interim CEO on 29 November 2013, appointed Managing Director and CEO on 29 January 2015  
Member of the Audit & Risk Committee

Doctorate of Engineering

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 the Vice President of the Australian China Business Council Western Australia.

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

*Non-Executive Director*

Appointed 3 June 2011

Chairman of the Audit & Risk Committee

Bachelor of Commerce

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) where he qualified as a Chartered Accountant, 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.

Mr Fry is a Non-executive Director, Chief Financial Officer and Company Secretary of Cougar Metals NL, an ASX-listed gold exploration and drilling-services company operating in Brazil. He is also Company Secretary of Globe Metals & Mining Limited an ASX-listed company with exploration projects in Africa.

# VDM GROUP LIMITED

## DIRECTORS' REPORT

### For the year ended 30 June 2015

---

#### **Velko (Vic) Jakovich**

*Non-Executive Director*

Appointed 1 February 2014

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 \$20 million towards construction of \$50 million Comprehensive Cancer Centre at St John of God Campus, Subiaco.

Currently Mr Jakovich is the Managing Director and a senior partner in Jako Industries Pty 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.

#### **COMPANY SECRETARY**

#### **Padraig O'Donoghue, 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 Barmenco. His early career includes PriceWaterhouseCoopers in Vancouver, Canada and 10-years with Barrick Gold in both head office and international Commercial Manager operational roles.

## **2. 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:

<b>Directors</b>	<b>Number of Ordinary Shares</b>
Luk Hiuming	2,070,000,000
Hua Dongyi	1,085,110,976
M Fry	1,000,000
V Jakovich	44,471,421

## **3. DIVIDENDS**

There were no dividends declared or paid during the year ended 30 June 2015 (30 June 2014: nil).

# VDM GROUP LIMITED

## DIRECTORS' REPORT

### For the year ended 30 June 2015

---

#### 4. NATURE AND PRINCIPAL ACTIVITIES

The focus of VDM during the year related to establishment and growth of the four business divisions:

- engineering, procurement and construction ("EPC") (VDM Construction)
- equipment sales, hire, service and parts sales (VDM Equipment)
- import and export of goods to and from Asia (VDM Trading)
- mining exploration, development and operation in Africa and Latin America (VDM Mining)

Construction and equipment hire activities in land development, road construction, and building construction in Western Australia continued to be the principal business activities, which is consistent with the prior year.

#### General

At 30 June 2015, VDM employed 30 people in Western Australia (30 June 2014: 42).

#### 5. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 29 September 2014, VDM announced its entry into a conditional agreement with Pebric Mining and Consulting, LDA (Pebric) and Seabank Resources, LDA (Seabank) to acquire a 65% participating interest in the Cachoeiras do Binga copper exploration project located in the Republic of Angola. At the Company's annual general meeting on 28 November 2014, all shareholder approvals related to the agreement were obtained, which satisfies one of the conditions of the agreement. The remaining unsatisfied condition relates to VDM executing a Mineral Investment Agreement (MIC) with the Government of the Republic of Angola, Pebric and Seabank, which is in the advanced stages of negotiations. Upon satisfaction of this condition, VDM will issue 650,000,000 ordinary shares and pay \$4,785,000 to Seabank to acquire its 65% interest in the project.

VDM has established a joint venture company with Sany (SANY VDM Pty Ltd). VDM holds a 49% interest in the share capital and Sany holds a 51% interest. In June 2015 the joint venture relocated to improved office and operational facilities in Kewdale Perth, Western Australia.

#### 6. OPERATING AND FINANCIAL REVIEW

The Construction division performed minor works to close-out a number of remaining contracts and actively pursued new construction contracts. It also strengthened its capability in modular and steel construction through hiring experienced staff and establishing preferred supplier arrangements with leading international modular and steel manufacturers. VDM Construction is actively pursuing modular and steel construction contracts.

The Equipment division continued to hire and provide equipment services to the construction industry. The new joint venture company, Sany VDM Pty Ltd, (VDM 49%, Sany 51%) was established in the year for purpose of Sany equipment sales, hire, service and parts sales with the benefits of having the direct involvement and support of Sany, a leading international equipment manufacturer. As announced on 3 November 2014, VDM Equipment was also awarded an exclusive distributorship of Changlin equipment (a major international equipment manufacturer) and is progressing similar arrangements with other leading equipment brands. With Sany and its other brands, VDM Equipment has positioned itself with the competitive advantages of a highly-quality range of equipment for sale and hire at attractive prices, and with leading customer service and factory support.

The Trading division conducted business development activities to establish an import and export trading business with Asia. It also provided its Asian business knowledge and expertise to assist the Construction and Equipment divisions to put in place preferred supplier and exclusive distributor arrangements.

VDM's Mining division made significant progress towards its goal of establishing mining operations in Africa with the 29 September 2014 signing of a conditional agreement with Pebric and Seabank to acquire a 65% participating interest in the Cachoeiras do Binga copper exploration project located in the Republic of Angola (Angolan Copper Project Joint Venture). Consideration for the acquisition will consist of: 1) the issue of 650 million shares (Consideration Shares) to Seabank; and 2) the payment of \$4,875,000 to Seabank. Under Angolan law, all mineral rights are formally granted pursuant to a Mineral Investment Contract (MIC). VDM's payment of the consideration is conditional on VDM, Pebric, and the Government of the Republic of Angola agreeing and executing a MIC prior to VDM making payment. Negotiations to complete the MIC are advancing.

# VDM GROUP LIMITED

## DIRECTORS' REPORT

### For the year ended 30 June 2015

---

Revenue from continuing operations was \$1,253,000 a decrease of 95% from the prior year reflecting VDM's completion of work and close-out all remaining contracts. The Company did not enter into any new construction contracts since the beginning of the prior year

The loss after tax of \$12,377,000 (2014: \$21,378,000 loss) is mainly comprised of \$8,709,000 of administration expenses (2014: \$17,039,000) and \$1,626,000 of impairment charges (2014: \$101,000). Administration expenses includes a non-recurring charge of \$2,730,000 representing the value of construction contract security bonds cashed by a construction customer in February 2015.

#### **Capital Raisings**

On 22 September 2014 VDM entered into a convertible loan agreement with Kengkong for \$10,000,000 and was subsequently advanced \$10,000,000. On 6 May 2014 VDM was previously advanced \$4,500,000 from Kengkong under a separate convertible loan agreement. Shareholder approval of the conversions was obtained on 28 November 2014, and Kengkong subsequently exercised its conversion rights and VDM issued 1,450,000,000 ordinary shares to Kengkong at \$0.01 per share in repayment of both loans on 1 December 2014.

On 3 December 2014 VDM issued 250,000,000 shares to a sophisticated investor under a private placement agreement at the price of \$0.012 per share raising \$3,000,000.

#### **7. SIGNIFICANT EVENTS AFTER THE BALANCE DATE**

On 30 July 2015 VDM announced that ASX granted VDM a waiver to listing rule 14.7 to allow VDM to issue 650 million shares (Consideration Shares) to Seabank. VDM shareholders approved the issue of the Consideration Shares at the annual general meeting held on 28 November 2014. However, as a result of protracted negotiations of the mineral investment contract, more than 3 months has passed since that date. Accordingly, VDM required a waiver of ASX listing rule 14.7 to allow it to issue the Consideration Shares without a further shareholder approval. ASX has granted the waiver on condition the Consideration Shares are issued no later than the earlier of the VDM's next annual general meeting or 30 November 2015, and otherwise on the same terms and conditions as approved by shareholders at the 28 November 2014 annual general meeting. In the announcement, VDM advised that although protracted, the negotiations to complete the mineral investment contract are advancing and VDM expects to satisfy the conditions of the waiver and issue the Consideration Shares as consideration to acquire a participating interest in the Angolan Copper Project Joint Venture within the timeframe required by the waiver.

On 18 August 2015 VDM announced that it had entered into a conditional share placement agreement with a sophisticated investor for placement of 1,202,087,577 VDM shares at a price of \$0.015 per share to raise \$18 million. The conditional share placement agreement includes the following key terms:

- Completion of the share placement is conditional on VDM having entered into a mineral investment contract with the Government of the Republic of Angola, Seabank and Pebric in relation to the Cachoeiras do Binga copper exploration project (MIC Condition).
- VDM must use all reasonable endeavours to ensure the above MIC Condition is satisfied as soon as practicable and in any event before 31 December 2015 or such other date that the investor and VDM agree.
- Subject to completion of the share placement occurring, any future issue of securities by VDM during the period until 17 August 2016 is subject to the investor's prior approval. However, VDM is not required to obtain the investor's consent to issue the 650 million Consideration Shares to Seabank.

#### **8. LIKELY DEVELOPMENTS AND EXPECTED RESULTS**

As noted in above section 7, VDM intends to undertake future capital raisings in the first half of the 2016 financial year. Funds raised will be used for the proposed investment in the Angolan Copper Project Joint Venture, other potential business growth opportunities, and general corporate working capital.

#### **9. ENVIRONMENTAL REGULATION AND PERFORMANCE**

VDM 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.

# VDM GROUP LIMITED

## DIRECTORS' REPORT

### For the year ended 30 June 2015

---

#### 10. SHARE OPTIONS

As at the date of this report, there were no unissued ordinary shares under option (2014: nil).

#### 11. INDEMNIFICATION OF AUDITORS

To the extent permitted by law, VDM Group Limited has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

#### 12. INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

VDM Group Limited 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.

#### 13. DIRECTORS' MEETINGS

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

	Board of Directors' meetings	Audit & Risk Committee meetings
<b>Number of meetings held:</b>	8	3
<b>Number of meetings attended:</b>		
Mr Luk	6	2
Dr Hua	8	3
Mr Fry	8	3
Mr Jakovich	7	-
<b>Past directors</b>		
Mr Perrott	1	-

As at the date of this report, VDM Group had an audit & risk committee of the board of directors. Members acting on the committees of the board during the year were Mr Fry (Chair), Dr Hua and Mr Luk.

The board dissolved the Nominations and Remuneration Committee which held no meetings in the year, and the functions and responsibilities of this committee reside with the Board. Based on current Board composition and size, the Board considers this will provide effective governance of nominations and remuneration matters.

#### 14. AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The directors received an Independence Declaration from the auditor of VDM Group Limited, attached on page 16. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. Refer to note 35 to the consolidated financial statements for disclosure relating to the cost of non-audit services conducted during the year.

#### Rounding

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

# VDM GROUP LIMITED

## DIRECTORS' REPORT

### For the year ended 30 June 2015

---

#### REMUNERATION REPORT

This remuneration report for the year ended 30 June 2015 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. KMP are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the 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 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 2015 (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 of VDM are set out below. KMP served for the full year unless noted.

##### Current directors

D Hua	<i>Managing Director and CEO – appointed director on 28 August 2013, Managing Director on 9 September 2013 and Executive Chairman and Interim Chief Executive Officer on 29 November 2013. On 29 January 2015 Dr Hua returned to the role of Managing Director and Chief Executive Officer.</i>
L Hiuming	<i>Non-Executive Chairman – appointed to the board 21 March 2014, appointed Chairman 29 January 2015</i>
M Fry	<i>Non-Executive Director – appointed 3 June 2011</i>
V Jakovich	<i>Non-Executive Director – appointed 1 February 2014</i>

##### Past directors

M Perrott	<i>Non-Executive Deputy Chairman – resigned 7 August 2014</i>
-----------	---

##### Current executives

X Zhu	<i>Senior Vice President, Construction – appointed 1 December 2014</i>
P O'Donoghue	<i>Chief Financial Officer and Company Secretary – appointed 12 February 2014</i>

#### 2. Board oversight of remuneration

The Board is responsible for the remuneration arrangements for directors and executives. Based on the Board's current composition and size, as well as the importance of remuneration decisions, the Board considers this will provide effective governance of these matters.

The board 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.

# VDM GROUP LIMITED

## DIRECTORS' REPORT

### For the year ended 30 June 2015

---

The Board approves the remuneration arrangements of the CEO and other executives and all awards made under the long-term incentive (LTI) and short-term incentive (STI) plans. The Board also sets the aggregate remuneration of NEDs which is then subject to shareholder approval.

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

#### *Remuneration report approval at 2014 Annual General Meeting*

The 2014 remuneration report received positive shareholder support at the 2014 Annual General Meeting with a vote of 98.8% 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).

In January 2015, the Board approved a Bonus Scheme based on the principal of rewarding operational employees from a bonus pool calculated as 30% of divisional earnings results above an annual earnings target and corporate division employees from a bonus pool calculated as the average of divisional bonuses.

This program replaces the LTI and STI programmes disclosed in the VDM's 2014 annual report.

The Bonus Scheme is an STI based on the following structural components:

- a) Bonus Pool: calculated as percentage of divisional earnings results above the earnings target for a calendar year
- b) Apportionment of the Bonus Pool: apportioned to employee divisional team members as proposed by the Division Head and approved by the Managing Director and the Board
- c) Payment of Bonus: will be paid after release of the ASX 31 December Half Year Financial Report
- d) Eligibility: Persons who start employment during the year are eligible for a time-adjusted bonus payment.

#### *Fixed remuneration*

The employment contracts of executives do not include any guarantee of base pay increases. Fixed remuneration is reviewed annually by the Board. The process consists of a review of company, divisional and individual performance, relevant comparative remuneration internally and externally, and where appropriate external advice independent of management. No external advice was received in the current year.

#### *Variable remuneration – short term incentive (STI)*

The previously described Bonus Scheme is VDM's STI. It awards an annual cash bonus to executives and other employees subject to the attainment of clearly defined VDM business unit 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. No STI payments were made during the 2015 financial year (2014: nil).

#### *Variable remuneration — long term incentive (LTI)*

In February 2015, the board terminated the LTI plan disclosed in the prior year annual report and VDM no longer offers equity incentives to VDM employees, including the Managing Director/CEO. Accordingly, nil equity incentives were awarded during the 2015 financial year (2014: nil).

# VDM GROUP LIMITED

## DIRECTORS' REPORT

### For the year ended 30 June 2015

#### 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 divisional profit earnings before Interest and Tax (EBIT). The table below shows VDM Group Limited's gross EBIT history for the past five years (including the current period).

	EBIT \$'000	Closing share price (\$ per share)
2015	(12,752)	0.006
2014	(16,288)	0.01
2013	(58,769)	0.01
2012	(29,759)	0.05
2011	(62,810)	0.07

As a result of the negative EBIT performance in 2015, no STI awards were made in the 2015 financial year.

#### 4. Executive remuneration outcomes for 2015 (including link to performance)

**Table 1: Executive remuneration for the year ended 30 June 2015**

	Base Salary & Fees	Cash Bonus	Non- Monetary Benefits	Super Contributions	Value of Performance Rights	Termination Benefits	Total	Perform ance Related
	\$	\$	\$	\$	\$	\$	\$	%
<b>Executive directors</b>								
D Hua	560,383	-	-	18,783	-	-	579,166	0%
<b>Current key management personnel</b>								
P O'Donoghue	220,000	-	-	18,783	-	-	238,783	0%
X Zhu <sup>1</sup>	157,064	-	-	10,822	-	-	167,886	0%
	937,447	-	-	48,388	-	-	985,835	0%

Notes:

1. X Zhu was appointed on 1 December 2014.

# VDM GROUP LIMITED

## DIRECTORS' REPORT

### For the year ended 30 June 2015

Table 2: Executive remuneration for the year ended 30 June 2014

	Base Salary & Fees	Cash Bonus	Non-Monetary Benefits	Super Contributions	Value of Performance Rights	Termination Benefits	Total	Performance Related
	\$	\$	\$	\$	\$	\$	\$	%
<b>Executive directors</b>								
D Hua	495,122	-	-	16,572	-	-	511,694	0%
<b>Past executive directors</b>								
A Broad <sup>1</sup>	133,522	-	-	5,833	(94,394)	312,500	357,461	(26%)
<b>Current key management personnel</b>								
P O'Donoghue <sup>2</sup>	88,166	-	-	7,280	-	-	95,446	0%
<b>Past key management personnel</b>								
S Drury <sup>3</sup>	157,743	-	-	13,331	-	58,176	229,250	-
R Gregg <sup>4</sup>	118,516	-	-	18,509	(153,690)	72,229	55,564	(277%)
J Kemp <sup>5</sup>	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 Company Secretary and Chief Financial Officer on 12 February 2014.
3. S Drury was terminated as Company Secretary and Chief Financial Officer 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

#### 5. Executive contracts

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

##### *Managing Director and CEO*

The Managing Director and CEO, Dr Hua is employed under a rolling contract. With effect from 1 March 2015, Dr Hua's fixed remuneration is \$515,000 per annum. The termination provisions of Dr Hua's employment contract 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 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.

# VDM GROUP LIMITED

## DIRECTORS' REPORT

### For the year ended 30 June 2015

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

The Board will not seek any increase for the NED fee pool at the 2015 Annual General Meeting.

##### Current Structure

The remuneration of NEDs consists of directors' fees only. There are no committee fees. NEDs do not receive retirement benefits, other than superannuation and they do not participate in any incentive programs.

On 29 January 2015, the Board of VDM announced a series of reductions to Board remuneration to demonstrate to shareholders its commitment to cost saving initiatives. The table below provides the NED fees prior to and after reductions.

	Annual NED fees including superannuation prior to 1 March 2015	Annual NED fees including superannuation post 1 March 2015
Board Chairman Hiuming Luk	\$75,000	\$65,000
Non-executive director Vic Jakovich	\$85,000	\$63,750
Non-executive director and Chairman Audit and Risk Committee Michael Fry	\$75,000	\$63,750

**Table 3: Non-executive remuneration for the year ended 30 June 2015**

	Base Salary & Fees	Cash Bonus	Non-Monetary Benefits	Super Contributions	Value of Performance Rights	Termination Benefits	Total	Performance Related
	\$	\$	\$	\$	\$	\$	\$	%
<b>Current non-executive directors</b>								
M Fry	69,540	-	-	6,606	-	-	76,146	0%
V Jakovich	64,212	-	-	6,100	-	-	70,312	0%
L Hiuming	64,095	-	-	-	-	-	64,095	0%
<b>Past non-executive directors</b>								
M Perrott <sup>1</sup>	10,831	-	-	-	-	-	10,831	0%
	208,678	-	-	12,706	-	-	221,384	0%

Notes:

1. M Perrott resigned as a Non-Executive Director on 7 August 2014

# VDM GROUP LIMITED

## DIRECTORS' REPORT

### For the year ended 30 June 2015

**Table 4: Non-executive remuneration for the year ended 30 June 2014**

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

Notes:

1. V Jakovich was appointed as Non-Executive Director of VDM Group on 1 February 2014.
2. Hiuming Luk was appointed as Non-Executive Director of VDM Group on 21 March 2014.
3. 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 was non-executive Deputy Chairman from 29 November 2013 until his resignation on 7 August 2014.
4. B Nazer resigned as a Non- Executive Director of VDM Group on 29 November 2013.
5. R Mickle resigned as a Non- Executive Director of VDM Group on 29 November 2013

## 7. Additional disclosures relating to options and shares

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

There were no performance rights granted to executives as remuneration during the year ended 30 June 2015 (2014: nil). 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: Shareholdings of key management personnel (held directly and indirectly)**

	Balance 1 July 2014	Granted as remuneration	Options exercised	Net change other	Balance 30 June 2015
<b>Current directors</b>					
Hua Dongyi	1,085,110,976	-	-	-	1,085,110,976
M Fry	1,000,000	-	-	-	1,000,000
V Jakovich	21,219,720	-	-	23,251,701 <sup>2</sup>	44,471,421
Hiuming Luk	620,000,000	-	-	1,450,000,000 <sup>3</sup>	2,070,000,000
<b>Past directors</b>					
M Perrott <sup>1</sup>	12,400,000	-	-	(12,400,000)	-
<b>Total shareholding</b>	<b>1,739,730,696</b>	<b>-</b>	<b>-</b>	<b>1,460,851,701</b>	<b>3,200,582,397</b>

Notes:

1. M Perrott resigned as a Non-Executive Director on 7 August 2014
2. Represents off-market purchase shares under terms and conditions no more favourable than those VDM would have adopted if dealing at arm's length.
3. Represents shares issued to Kengkong on conversion of convertible loans during the period as approved by shareholders on 28 November 2014.

### Option holdings of KMP

There were no options granted to KMP during the year ended 30 June 2015 (2014: nil). There were no options held by KMP as at 30 June 2015 (2014: nil).

### Performance rights holdings of KMP

There were no performance rights granted to KMP during the year ended 30 June 2015 (2014: nil). There were no performance rights held by KMP as at 30 June 2015 (2014: nil).

# VDM GROUP LIMITED

## DIRECTORS' REPORT

### For the year ended 30 June 2015

---

#### 8. Loans to key management personnel

There were no loans granted to KMP's during the year ended 30 June 2015 (2014: nil).

#### 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

###### *Kengkong*

At 30 June 2014, Kengkong held 620,000,000 representing (19.8%) of the issued share capital of VDM Group.

On 22 September 2014 VDM entered into a convertible loan agreement with Kengkong for \$10,000,000 and was subsequently advanced \$10,000,000. On 6 May 2014 VDM was previously advanced \$4,500,000 from Kengkong under a separate convertible loan agreement. Shareholder approval of the conversion was obtained on 29 November 2014, and Kengkong subsequently exercised its conversion rights and VDM issued 1,450,000,000 ordinary shares to Kengkong at \$0.01 per share in repayment of both loans on 1 December 2014.

At 30 June 2015, Kengkong held 2,070,000,000 shares representing (42.88%) of the issued share capital of VDM Group.

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

	2015 \$'000
<b>Revenue and expenses</b>	
Interest expense (i)	270
Total expenses	270
<b>Equity</b>	
Issued Capital (ii)	14,500
Total Equity	14,500

Notes:

- (i) Interest expense relates to interest accrued on Kengkong convertible loans from 1 July 2014 to the conversion date.
- (ii) Issued capital relates to shares issued to Kengkong on the conversion of the convertible loans during the period.

Signed in accordance with a resolution of the directors.



**Dr Hua Dongyi**  
**Managing Director and CEO**  
Perth, Western Australia  
31 August 2015



Ernst & Young  
11 Mounts Bay Road  
Perth WA 6000 Australia  
GPO Box M939 Perth WA 6843

Tel: +61 8 9429 2222  
Fax: +61 8 9429 2436  
ey.com/au

## 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 2015, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

T G Dachs  
Partner  
31 August 2015

**VDM GROUP LIMITED**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**For the year ended 30 June 2015**

	Notes	2015 \$'000	2014 \$'000
<b>Continuing operations</b>			
Rendering of services		1,003	24,406
Other revenue	5	250	184
Revenue		1,253	24,590
Cost of Services		(3,417)	(23,859)
<b>Gross profit / (loss)</b>		<b>(2,164)</b>	731
Administration Expenses		(8,709)	(17,039)
Finance Costs	7(a)	(331)	(245)
Impairment charges	7(c)	(1,626)	(101)
Share based payment write-back	29	-	248
Share of loss of a joint venture	19(b)	(63)	-
<b>Loss from continuing operations before income tax</b>		<b>(12,893)</b>	(16,406)
Income tax benefit	8(a)	516	1,706
Loss from continuing operations after income tax		(12,377)	(14,700)
<b>Discontinued operations</b>			
Loss from discontinued operations after income tax	9	-	(6,678)
Loss for the year		(12,377)	(21,378)
Other comprehensive income		-	-
<b>Total comprehensive loss for the year</b>		<b>(12,377)</b>	(21,378)
Total comprehensive loss for the year is attributable to:			
Owners of the parent		(12,377)	(21,378)
		(12,377)	(21,378)
<b>Earnings per share (cents per share)</b>			
Basic, loss for the year attributable to ordinary equity holders of the parent	10	(0.30)	(1.06)
Diluted, loss for the year attributable to ordinary equity holders of the parent	10	(0.30)	(1.06)
<b>Earnings per share for continuing operations (cents per share)</b>			
Basic, loss from continuing operations attributable to ordinary equity holders of the parent	10	(0.30)	(0.73)
Diluted, loss from continuing operations attributable to ordinary equity holders of the parent	10	(0.30)	(0.73)

**VDM GROUP LIMITED**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**For the year ended 30 June 2015**

	Notes	2015 \$'000	2014 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	12	3,524	3,366
Security deposits	13	486	1,242
Trade and other receivables	14	301	990
Contracts in progress	15	-	49
Development properties	17	-	3,389
Inventory	16	74	150
Other assets	18	10	36
<b>Total current assets</b>		<b>4,395</b>	<b>9,222</b>
<b>Non-current assets</b>			
Security deposits	13	940	3,584
Investment accounted for using the equity method	19	917	-
Development properties	17	2,012	-
Property, plant and equipment	20	2,201	3,320
Deferred tax assets	8	-	-
Intangible assets	21	9	99
<b>Total non-current assets</b>		<b>6,079</b>	<b>7,003</b>
<b>TOTAL ASSETS</b>		<b>10,474</b>	<b>16,225</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	22	1,148	3,145
Amounts due to customers for contract work	15	-	49
Current tax liabilities		-	858
Interest-bearing loans and borrowings	23	64	4,760
Provisions	24	2,715	5,427
<b>Total current liabilities</b>		<b>3,927</b>	<b>14,239</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and other borrowings	23	-	49
Deferred tax liabilities	8	-	-
Lease incentive liability		141	175
Provisions	24	1,214	1,128
<b>Total non-current liabilities</b>		<b>1,355</b>	<b>1,352</b>
<b>TOTAL LIABILITIES</b>		<b>5,282</b>	<b>15,591</b>
<b>NET ASSETS</b>		<b>5,192</b>	<b>634</b>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the parent</b>			
Contributed equity	25	285,444	268,509
Reserves	26	457	457
Accumulated losses	26	(280,709)	(268,332)
<b>Parent interests</b>		<b>5,192</b>	<b>634</b>
<b>TOTAL EQUITY</b>		<b>5,192</b>	<b>634</b>

**VDM GROUP LIMITED**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the year ended 30 June 2015**

	Notes	2015 \$'000	2014 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		1,211	49,002
Payments to suppliers and employees		(13,808)	(81,805)
Interest received		171	129
Interest paid		(553)	(7)
GST refunded		499	205
Income tax paid		(342)	(590)
<b>Net cash flows used in operating activities</b>	27	<b>(12,822)</b>	<b>(33,066)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		-	(1,062)
Release from security deposit		664	413
Proceeds from sale of property, plant and equipment		460	1,899
(Investment in) / sale of associate	19(a)	(980)	1,350
Purchase of intangibles		-	(12)
Repayments of other debtors		181	930
Net proceeds from discontinued operations	9	-	(644)
Proceeds from sale of development property		309	-
<b>Net cash flows from investing activities</b>		<b>634</b>	<b>2,874</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		10,000	4,500
Repayment of borrowings		(188)	(1,682)
Transaction costs on issue of shares		(466)	(1,616)
Proceeds from share placements	25	3,000	20,499
<b>Net cash flows from financing activities</b>		<b>12,346</b>	<b>21,701</b>
Net increase / (decrease) in cash and cash equivalents		158	(8,491)
Cash and cash equivalents at beginning of year		3,366	11,857
<b>Cash and cash equivalents at end of year</b>	12	<b>3,524</b>	<b>3,366</b>

**VDM GROUP LIMITED**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 30 June 2015**

	<b>Issued Capital</b>	<b>Accumulated losses</b>	<b>Equity reserve</b>	<b>Other capital reserve</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Balance at 1 July 2014</b>	<b>268,509</b>	<b>(268,332)</b>	<b>457</b>	<b>-</b>	<b>634</b>
Comprehensive loss for the year	-	(12,377)	-	-	(12,377)
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>(12,377)</b>	<b>-</b>	<b>-</b>	<b>(12,377)</b>
<b>Transactions with owners in their capacity as owners</b>					
Conversion of Kengkong convertible loans to shares at conversion price of \$0.01 per share on 1 December 2014	14,500	-	-	-	14,500
Private placement of shares issued at \$0.012 per share on 3 December 2014	3,000	-	-	-	3,000
Capital raising costs	(565)	-	-	-	(565)
<b>Balance at 30 June 2015</b>	<b>285,444</b>	<b>(280,709)</b>	<b>457</b>	<b>-</b>	<b>5,192</b>
<b>Balance at 1 July 2013</b>	<b>248,286</b>	<b>(246,954)</b>	<b>457</b>	<b>248</b>	<b>2,037</b>
Comprehensive loss for the year	-	(21,378)	-	-	(21,378)
<b>Total comprehensive loss for the year</b>	<b>-</b>	<b>(21,378)</b>	<b>-</b>	<b>-</b>	<b>(21,378)</b>
<b>Transactions with owners in their capacity as owners</b>					
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 options at \$0.05 per share on 29 November 2013	2	-	-	-	2
Share 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)	-	-	-	(1,717)
Reverse of share-based payment	-	-	-	(248)	(248)
<b>Balance at 30 June 2014</b>	<b>268,509</b>	<b>(268,332)</b>	<b>457</b>	<b>-</b>	<b>634</b>

# VDM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 June 2015

---

#### CONTENTS

1.	CORPORATE INFORMATION.....	24
2.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	24
3.	SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS.....	39
4.	SEGMENT INFORMATION.....	41
5.	OTHER REVENUE.....	42
6.	OTHER INCOME.....	42
7.	EXPENSES.....	42
8.	INCOME TAX.....	43
9.	DISCONTINUED OPERATION.....	45
10.	EARNINGS PER SHARE.....	46
11.	DIVIDENDS PROPOSED AND PAID.....	46
12.	CASH AND CASH EQUIVALENTS.....	47
13.	SECURITY DEPOSITS.....	47
14.	TRADE AND OTHER RECEIVABLES.....	48
15.	CONTRACTS IN PROGRESS.....	49
16.	INVENTORY.....	49
17.	DEVELOPMENT PROPERTIES.....	49
18.	OTHER CURRENT ASSETS.....	50
19.	INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD.....	50
20.	PROPERTY, PLANT AND EQUIPMENT.....	51
20.	PROPERTY, PLANT AND EQUIPMENT continued.....	52
21.	INTANGIBLE ASSETS AND GOODWILL.....	53
22.	TRADE AND OTHER PAYABLES.....	53
23.	INTEREST-BEARING LOANS AND OTHER BORROWINGS.....	54
24.	PROVISIONS.....	55
25.	CONTRIBUTED EQUITY.....	56
26.	ACCUMULATED LOSSES AND RESERVES.....	57
27.	CASHFLOW STATEMENT INFORMATION.....	58
28.	RELATED PARTY DISCLOSURE.....	58
29.	SHARE-BASED PAYMENT PLANS.....	59
30.	FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES.....	59
31.	PARENT ENTITY INFORMATION.....	63
32.	COMMITMENTS.....	64
33.	CONTINGENCIES.....	64
34.	EVENTS AFTER THE REPORTING PERIOD.....	65
35.	AUDITOR'S REMUNERATION.....	65
36.	CLOSED GROUP CLASS ORDER DISCLOSURES.....	66

# VDM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 June 2015

#### 1. CORPORATE INFORMATION

The consolidated financial statements of VDM Group Limited and its controlled entities ("VDM" or the "Group") for the year ended 30 June 2015 were authorised for issue in accordance with resolution of the directors on 25 August 2015.

VDM Group Limited is a for-profit company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange.

The activities of the Group related to establishment and growth of the following business divisions:

- engineering, procurement and construction (Construction Division)
- equipment sales, hire, service and parts sales (Equipment Division)
- import and export of goods to and from Asia (Trading Division)
- mining exploration, development and operation in Africa (Mining Division)

Construction and equipment hire activities related to land development, road construction, and building construction in Western Australia continued to be the principal business activities during the year ended 30 June 2015, which is consistent with the previous reporting period. Information on the Group structure and other related party relationships is provided in note 36.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### a) 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. Comparative information has been reclassified to conform to the current year presentation.

##### b) 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.

##### c) New and amended accounting standards and interpretations

###### (i) Changes in accounting policies, new and amended standards and interpretations

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 30 June 2014, except for the adoption of the following new standards and interpretations effective as of 1 July 2014.

Reference	Title	Application date of standard	Application date for Group
AASB 2012-3	<ul style="list-style-type: none"> <li>▶ Amendments to Australian Accounting Standards - <i>Offsetting Financial Assets and Financial Liabilities</i></li> <li>▶ AASB 2012-3 adds application guidance to AASB 132 <i>Financial Instruments: Presentation</i> to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.</li> </ul>	1 January 2014	1 July 2014

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 30 June 2015**

Reference	Title	Application date of standard	Application date for Group
AASB 2013-3	<ul style="list-style-type: none"> <li>▶ <i>Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets</i></li> <li>▶ AASB 2013-3 amends the disclosure requirements in AASB 136 <i>Impairment of Assets</i>. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.</li> </ul>	1 January 2014	1 July 2014
AASB 1031	<ul style="list-style-type: none"> <li>▶ Materiality</li> <li>▶ The revised AASB 1031 is an interim standard that cross-references to other Standards and the <i>Framework</i> (issued December 2013) that contain guidance on materiality.</li> <li>▶ AASB 1031 will be withdrawn when references to AASB 1031 in all Standards and Interpretations have been removed.</li> <li>▶ AASB 2014-1 Part C issued in June 2014 makes amendments to eight Australian Accounting Standards to delete their references to AASB 1031. The amendments are effective from 1 July 2014*.</li> </ul>	1 January 2014	1 July 2014
AASB 2013-9	<ul style="list-style-type: none"> <li>▶ <i>Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments</i></li> <li>▶ The Standard contains three main parts and makes amendments to a number Standards and Interpretations.</li> <li>▶ Part A of AASB 2013-9 makes consequential amendments arising from the issuance of AASB CF 2013-1.</li> <li>▶ Part B makes amendments to particular Australian Accounting Standards to delete references to AASB 1031 and also makes minor editorial amendments to various other standards.</li> <li>▶ Part C makes amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 <i>Hedge Accounting</i> into AASB 9 <i>Financial Instruments</i>.</li> </ul>	Part A 20 Dec 2013,  Part B 1 Jan 2014,  Part C 1 Jan 2015,	1 July 2014  1 July 2014  1 July 2015
AASB 2014-1 Part A -Annual Improvements 2010–2012 Cycle	<ul style="list-style-type: none"> <li>▶ AASB 2014-1 Part A: This standard sets out amendments to Australian Accounting Standards arising from the issuance by the International Accounting Standards Board (IASB) of International Financial Reporting Standards (IFRSs) <i>Annual Improvements to IFRSs 2010–2012 Cycle</i> and <i>Annual Improvements to IFRSs 2011–2013 Cycle</i>.</li> <li>▶ Annual Improvements to IFRSs 2010–2012 Cycle addresses the following items: <ul style="list-style-type: none"> <li>▶ AASB 2 - Clarifies the definition of 'vesting conditions' and 'market condition' and introduces the definition of 'performance condition' and 'service condition'.</li> <li>▶ AASB 8 - Requires entities to disclose factors used to identify the entity's reportable segments when operating segments have been aggregated. An entity is also required to provide a reconciliation of total reportable segments' asset to the entity's total assets.</li> <li>▶ AASB 116 &amp; AASB 138 - Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is</li> </ul> </li> </ul>	1 July 2014	1 July 2014

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 30 June 2015**

Reference	Title	Application date of standard	Application date for Group
	calculated as the difference between the gross and net carrying amounts.		
Amendments to AASB 1053 – Transition to and between Tiers, and related Tier 2 Disclosure Requirements [AASB 1053]	<p>► The Standard makes amendments to AASB 1053 Application of Tiers of Australian Accounting Standards to:</p> <ul style="list-style-type: none"> <li>• clarify that AASB 1053 relates only to general purpose financial statements;</li> <li>• make AASB 1053 consistent with the availability of the AASB 108 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> option in AASB 1 <i>First-time Adoption of Australian Accounting Standards</i>;</li> <li>• clarify certain circumstances in which an entity applying Tier 2 reporting requirements can apply the AASB 108 option in AASB 1; permit an entity applying Tier 2 reporting requirements for the first time to do so directly using the requirements in AASB 108 (rather than applying AASB 1) when, and only when, the entity had not applied, or only selectively applied, applicable recognition and measurement requirements in its most recent previous annual special purpose financial statements; and</li> <li>• specify certain disclosure requirements when an entity resumes the application of Tier 2 reporting requirements.</li> </ul>	1 July 2014	1 July 2014

The adoption of these amendments did not have any material impact on the financial position or performance of the Group. The Group has not early adopted any other standard, interpretation or amendment that has been issued but not yet effective.

*(ii) Accounting Standards and Interpretations issued but not yet effective*

The following standards and interpretations have been issued by the AASB but are not yet effective for the period ending 30 June 2015. The Group has not yet determined the impact of these standards and interpretations nor has the Group elected to early adopt any other new Standards or amendments that are issued but not yet effective.

Reference	Title	Summary	Application date of standard	Application date for Group
AASB 9	<i>Financial Instruments</i>	AASB 9 (December 2014) is a new Principal standard which replaces AASB 139. This new Principal version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010).	1 January 2018	1 July 2018
AASB 2014-3	Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 & AASB 11]	AASB 2014-3 amends AASB 11 to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business.	1 January 2016	1 July 2016
AASB 2014-4	Clarification of Acceptable Methods of Depreciation and	AASB 116 and AASB 138 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of	1 January 2016	1 July 2016

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 30 June 2015**

Reference	Title	Summary	Application date of standard	Application date for Group
	Amortisation (Amendments to AASB 116 and AASB 138)	consumption of the future economic benefits of an asset.		
AASB 15	Revenue from Contracts with Customers	<p>In May 2014, the IASB issued IFRS 15 <i>Revenue from Contracts with Customers</i>, which replaces IAS 11 <i>Construction Contracts</i>, IAS 18 <i>Revenue</i> and related Interpretations (IFRIC 13 <i>Customer Loyalty Programmes</i>, IFRIC 15 <i>Agreements for the Construction of Real Estate</i>, IFRIC 18 <i>Transfers of Assets from Customers</i> and SIC-31 <i>Revenue—Barter Transactions Involving Advertising Services</i>).</p> <p>The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.</p> <p>AASB 2014-5 incorporates the consequential amendments to a number Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 15.</p>	1 January 2017	1 July 2017
AASB 2014-10	Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	<p>AASB 2014-10 amends AASB 10 <i>Consolidated Financial Statements</i> and AASB 128 to address an inconsistency between the requirements in AASB 10 and those in AASB 128 (August 2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture.</p> <p>AASB 2014-10 also makes an editorial correction to AASB 10.</p>	1 January 2016	1 July 2016
AASB 2015-1	Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle	<p>The subjects of the principal amendments to the Standards are set out below:</p> <p>AASB 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>:  AASB 7 <i>Financial Instruments</i>  AASB 119 <i>Employee Benefits</i>  AASB 134 <i>Interim Financial Reporting</i></p>	1 January 2016	1 July 2016
AASB 2015-2	Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101	<p>The Standard makes amendments to AASB 101 <i>Presentation of Financial Statements</i> arising from the IASB's Disclosure Initiative project. The amendments are designed to further encourage companies to apply professional judgment in determining what information to disclose in the financial statements</p>	1 January 2016	1 July 2016
AASB 2015-3	Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality	<p>The Standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards.</p>	1 July 2015	1 July 2015

# VDM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 June 2015

---

#### d) Going concern

VDM incurred a net loss after tax from continuing operations for the year ended 30 June 2015 of \$12,377,000 (2014: \$14,700,000). Net cash flows used in operating activities were \$12,822,000 (2014: \$33,066,000). At 30 June 2015, VDM had net current assets of \$468,000 (30 June 2014: \$5,017,000 of net current liabilities). The cash position of VDM at 30 June 2015 was \$3,524,000 (30 June 2014: \$3,366,000) with a further \$1,426,000 (30 June 2014: \$4,826,000) of security deposits.

VDM will require further capital funding to progress its business strategy including the proposed Angolan copper project investment, other business growth opportunities, and for general corporate working capital.

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 that VDM intends to undertake future capital raisings in the first half of the 2016 financial year. Progress towards this outcome has been made with the recent signing of a conditional share placement agreement with a sophisticated investor for placement of 1,202,087,577 VDM shares at a price of \$0.015 per share to raise \$18 million (refer to note 34 for an outline of the key terms of the share placement agreement).

Should VDM not achieve the matter 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 financial report. The financial report does not include any adjustments to assets and liabilities that may be necessary if VDM is unable to continue as a going concern.

#### e) Basis of consolidation

The consolidated financial statements comprise the financial statements of VDM Limited and its subsidiaries as at 30 June 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

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

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption, and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

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

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

# VDM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 June 2015

---

#### **f) Business Combinations and goodwill**

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 interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests 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 and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and 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, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of AASB 139 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of AASB 139, it is measured in accordance with the appropriate Australian Accounting Standard. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After 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 Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

#### **Prior to 1 July 2009**

Prior to 1 July 2009 business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisitions formed part of the acquisition costs.

#### **g) Investment in associates and joint ventures**

An associate is an entity over which the Group 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.

The Group'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 the Group's share of net assets of the

# VDM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 June 2015

---

associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

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

The aggregate of the Group'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 the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognizes 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, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

#### **h) Current versus non-current classification**

The Group 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 restricted 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 the reporting period; or
- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

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

#### **i) Foreign currency translation**

The Group's consolidated financial statements are presented in Australian dollars, which is also the Parent's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

# VDM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 June 2015

---

#### *Transactions and balances in foreign currencies*

Transactions in foreign currencies are initially recorded by the Group'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 recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

#### *Group companies*

On consolidation, the assets and liabilities of foreign operations are translated into Australian dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation purposes are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

#### **j) 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 the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

##### *Sale of Goods*

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

##### *Sale of development properties*

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

##### *Construction and infrastructure development projects*

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

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

##### *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.

# VDM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 June 2015

---

#### *Interest*

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*

Dividend 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.

#### **k) 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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 June 2015

---

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

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

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

#### *Other taxes*

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

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

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

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

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

#### **l) 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.

#### **m) 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.

# VDM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 June 2015

---

#### n) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

##### *Group as a lessee*

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. An operating lease is a lease other than a finance lease. Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between 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 in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

##### *Group as a lessor*

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

#### o) 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.

#### p) Intangible assets

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.

# VDM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 June 2015

---

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 not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. 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 the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

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

Software – 2.5 years  
Development costs – 5 years

#### **q) 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*

#### *Initial recognition and measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial assets are recognised initially at fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

#### *Subsequent measurement*

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- Available for sale (AFS) financial assets

# VDM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 June 2015

---

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

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. The Group does not have any such investments.

#### *Loans and receivables*

This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables. This category generally applies to trade and other receivables.

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

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. The Group does not have any such investments.

#### *AFS financial assets*

AFS financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions. The Group does not have any such investments.

#### *Impairment of financial assets*

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### *i) Financial liabilities*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, and loans and borrowings..

#### *Subsequent measurement*

The measurement of financial liabilities depends on their classification, as described below:

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

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. The Group does not have any such liabilities.

#### *Loans and borrowings*

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

# VDM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 June 2015

---

#### *Financial guarantee contracts*

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation. The Group does not have any such contracts

#### *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 the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are typically paid within 30 days of recognition.

#### *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 if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously. The Group does not have any such instruments.

#### **r) 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.

#### **s) Impairment of non-financial assets**

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU's) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually as at 30 June and when circumstances indicate that the carrying value may be impaired.

# VDM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 June 2015

---

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised in the statement of profit or loss. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually as at 30 June at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

#### t) 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.

#### u) 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.

#### v) Provisions and employee benefits

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

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

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

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

##### *Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the

# VDM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 June 2015

---

reporting date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

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

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

#### b) Recovery of deferred tax assets

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

#### c) Impairment of non-financial assets

Management assesses impairment of all non-financial assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment.

#### d) Estimation of useful lives of assets

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

#### e) Accounting for outstanding litigations

Where the Group is involved with outstanding litigation, provisions are raised where claims against the Group are probable and are able to be measured, at the best estimate of the expenditure required to settle the obligation at the reporting date. Where claims are not able to be reliably measured or are subject to future events not wholly within control of the Group, disclosure is made by way of a contingent liability note (note 33).

# VDM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 June 2015

---

**f) Construction warranties**

In determining the level of warranty obligations required for construction contracts, VDM has made judgments in respect of the expected performance of the product and the costs of fulfilling the performance of the construction obligations. Historical experience and current knowledge of the performance of products has been used in determining this provision. The related carrying amounts are disclosed in note 24.

**g) Other construction contract obligations**

In determining the level of other construction contract obligations VDM has made judgments in respect of the expected amount of costs, other than warranty costs, that may be incurred in relation to completed construction contracts. Historical experience and current knowledge of the construction contracts and subcontracts has been used in determining this provision. The related carrying amounts are disclosed in note 24.

**h) Onerous contracts**

In determining the provision for onerous contracts, VDM has made judgments in respect of the expected benefits to be derived from the contracts and the unavoidable cost of meeting the obligations of the contract. The related carrying amounts are disclosed in note 24.

**i) Inventory net realisable value**

In determining inventories net realisable value, management has made judgments in respect of 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 and the expected timing in which the sale will take place.

# VDM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 June 2015

#### 4. SEGMENT INFORMATION

VDM is arranged under four operating divisions: Construction, Equipment, Trading and Mining. Refer to the "Review and Results of Operations" in the Directors' Report for an overview of the four operating divisions. The Construction and Equipment divisions are included as reportable segments. The Trading and Mining divisions are not yet considered reportable segments due to the relatively small scale of their operations during the year and accordingly they have been combined with the corporate functions as unallocated.

The following table represents revenue, profit and selected balance sheet information for the reportable segments for the year ended 30 June 2015. VDM reported as a single operating segment in the prior year consisting of Construction Western Operations and accordingly no comparative segment information is provided.

The accounting policies adopted for the reportable segment are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2015,

Year ended 30 June 2015	Construction \$'000	Equipment \$'000	Unallocated \$'000	Total \$'000
<b>Revenue</b>				
Sales	345	561	97	1,003
Other revenue	34	-	216	250
<b>Total segment revenue</b>	<b>379</b>	<b>561</b>	<b>313</b>	<b>1,253</b>
<b>Results</b>				
<b>Segment results before tax</b>	<b>(3,599)</b>	<b>(1,624)</b>	<b>(7,670)</b>	<b>(12,893)</b>
Finance Costs	-	12	319	331
Depreciation & amortisation	10	504	193	707
Impairment charges	-	489	1,137	1,626
Share of loss from Joint Venture	-	63	-	63
<b>Reconciliation of segment results before tax to net loss after tax</b>				
Segment results before tax				(12,893)
Income tax benefit				516
Net loss after tax per the statement of comprehensive income				(12,377)
<b>Total assets</b>	<b>134</b>	<b>1,932</b>	<b>8,408</b>	<b>10,474</b>
<b>Total liabilities</b>	<b>1,548</b>	<b>153</b>	<b>3,581</b>	<b>5,282</b>
<b>Other disclosures</b>				
Investment in an associate and a joint venture (note 19)	-	917	-	917
Capital expenditure	-	-	-	-

#### Major Customers

VDM Group has a number of customers to which it provides services. During 2015, VDM had three customers that contributed greater than 10% of revenue. These three customers contributed a combined total of 61% of VDM revenue, with individual contributions of 32% from a construction segment customer, and 15% and 14% from two equipment segment customers (2014: three customers that contributed greater than 10% of revenue, composed of three construction segment customers totalling 67% of revenue with individual contributions of 43%, 13% and 11%).

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 30 June 2015**

	2015 \$'000	2014 \$'000
<b>5. OTHER REVENUE</b>		
Interest	190	127
Rental income	16	-
Other	44	57
<b>Other revenue</b>	<b>250</b>	<b>184</b>

**6. OTHER INCOME**

Gain on disposal of property, plant and equipment	200	1,056
<b>Other income</b>	<b>200</b>	<b>1,056</b>

**7. EXPENSES**

**a) Finance costs**

Hire purchase contracts and insurance premium funding	41	33
Shareholder loans and other finance charges	290	212
<b>Finance costs</b>	<b>331</b>	<b>245</b>

**b) Depreciation and amortisation**

Depreciation	617	1,468
Amortisation of development costs and software	90	140
<b>Depreciation and amortisation</b>	<b>707</b>	<b>1,608</b>
<b>Depreciation and amortisation included in cost of services</b>	<b>515</b>	<b>882</b>

**c) Impairment charges**

Impairment of development properties (note 17)	1,137	-
Impairment of property, plant and equipment (note 20)	489	101
<b>Impairment charges</b>	<b>1,626</b>	<b>101</b>

**d) Employee benefits expense**

Wages and salaries	4,268	11,335
Restructuring/ redundancy costs	159	765
Superannuation expense	293	554
Share based payment write-back	-	(248)
Other employee benefits expense	52	324
<b>Total employee benefits expense</b>	<b>4,772</b>	<b>12,730</b>
<b>Employee benefit expenses included in cost of services</b>	<b>2,529</b>	<b>6,614</b>
<b>Employee benefit expenses included in administration expenses</b>	<b>2,243</b>	<b>6,566</b>

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 30 June 2015**

	2015 \$'000	2014 \$'000
<b>8. INCOME TAX</b>		
<b>a) Income Tax Expense</b>		
<i>Current income tax:</i>		
Income tax benefit on adjustments in respect of current income tax of previous years	(516)	(1,706)
<i>Deferred income tax:</i>		
Relating to origination & reversal of temporary differences	-	-
Prior year tax losses no longer recognised	-	-
Adjustments in respect of deferred income tax of previous years	-	-
<b>Income tax benefit reported in the statement of comprehensive income</b>	<b>(516)</b>	<b>(1,706)</b>
<i>Statement of changes in equity</i>		
<b>Deferred income tax:</b>		
Paid up capital	-	-
<b>Income tax expense / (benefit) reported in equity</b>	<b>-</b>	<b>-</b>
<b>b) Numerical reconciliation between aggregate tax expense recognised in the income statement and the tax expense calculated in the statutory income tax return</b>		
Accounting loss before tax from continuing operations	(12,893)	(16,406)
Accounting loss before tax from discontinued operations	-	(6,678)
<b>Accounting loss before income tax</b>	<b>(12,893)</b>	<b>(23,084)</b>
Prima facie income tax benefit @ 30%	(3,868)	(6,925)
Employee share based payments	-	74
Non-deductible items	374	408
Unrecognised deductible temporary differences	3,494	6,443
Prior year over provision	(516)	(1,706)
<b>Aggregate income tax benefit</b>	<b>(516)</b>	<b>(1,706)</b>
Income tax benefit reported in the consolidated income statement	(516)	(1,706)
Income tax expense / (benefit) attributed to discontinued operations	-	-
<b>Aggregate income tax benefit</b>	<b>(516)</b>	<b>(1,706)</b>

# VDM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 June 2015

#### c) Recognised deferred tax asset and liabilities

	Statement of financial position		Statement of comprehensive income	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
<b>Deferred tax liabilities</b>				
Contracts in progress and inventory	(45)	(59)	(15)	(2,387)
Other	-	-	-	(306)
Gross deferred tax liabilities	(45)	(59)	(15)	(2,693)
<b>Deferred tax assets</b>				
Provision for employee entitlements	97	140	43	1,154
Provisions – other	942	981	39	(156)
Trade and other receivable	476	1,541	1,065	(669)
Trade and other payables	147	720	573	2,761
Property, plant and equipment	630	483	147	-
Contributed equity	605	727	291	374
Other	-	437	437	11
Deferred tax assets not recognised	(2,852)	(4,970)	(2,580)	(782)
Gross deferred tax assets	45	59	15	2,693
Deferred tax expense			-	-
Net deferred tax asset recognised in the balance sheet	-	-		

#### d) Tax losses

VDM Group has recognised a deferred tax asset of \$nil (2014: \$nil) for Australian income tax purposes on the basis that it is not 'probable' that the carried forward revenue loss will be utilised against future assessable taxable profits.

VDM has estimated tax losses of \$138,794,000 (2014: \$119,524,000). 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 pre-2015 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 2015, 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 (2014: nil).

#### f) Tax consolidation

##### *Members of the tax consolidation group and the tax sharing arrangement*

VDM Group Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2004. VDM Group Limited is the head entity of the tax-consolidated group. Members of Group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 30 June 2015**

	2015 \$'000	2014 \$'000
<b>9. DISCONTINUED OPERATION</b>		
<b>Financial performance of discontinued operations</b>		
Revenue	-	19,988
Expenses	-	(24,950)
Finance costs	-	(4)
Loss on re-measurement of plant and equipment to fair value less costs to sell	-	(1,712)
Loss on sale of discontinued operations	-	(6,678)
Tax (expense) / benefit	-	-
Loss from discontinued operations	-	(6,678)
<b>Earnings per share from discontinued operations</b>		
Basic, loss for the year, from discontinued operations (cents per share)	-	(0.22)
Diluted, loss for the year from discontinued operations (cents per share)	-	(0.22)
<b>Assets and liabilities and cash flow information of the discontinued operations</b>		
<i>Assets</i>		
Cash and cash equivalents	-	3,666
Development properties	-	675
Plant and equipment	-	765
Intangible assets	-	80
Contracts in progress	-	6,181
Trade receivables	-	1,472
Other assets	-	387
	-	13,226
<i>Liabilities</i>		
Trade and other liabilities	-	8,714
Interest bearing debt	-	159
Provision for employee entitlements	-	1,274
	-	10,147
Net assets attributable to discontinued operations	-	3,079
Sale proceeds	-	3,079
Transactions costs	-	(3,666)
Net proceeds	-	(587)
Less cash and cash equivalents	-	(57)
Net cash flows from disposal of the disposed entities	-	(644)
<i>Net cash flows attributable to discontinued operations</i>		
Operating	-	(1,708)
Investing	-	731
Financing	-	(1,080)
Net cash (outflow) / inflow	-	(2,057)

The Group had no discontinued operations during the year.

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 30 June 2015**

---

2015  
\$'000

2014  
\$'000

**10. EARNINGS PER SHARE**

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	(12,377)	(14,700)
Net loss from discontinued operations attributable to ordinary equity holders of the parent	-	(6,678)
Net loss attributable to ordinary equity holders of the parent for basic earnings	(12,377)	(21,378)

**b) Weighted average number of shares**

Weighted average number of ordinary shares for basic and diluted earnings per share	4,109,030,815	2,012,060,172
---	---------------	---------------

---

**11. DIVIDENDS PROPOSED AND PAID**

**a) Declared and paid during the year**

*Dividends on ordinary shares:*

Final dividend for 2014: nil cents per share (2013: nil cents per share)	-	-
Interim dividend for 2015: nil cents per share (2014: nil cents per share)	-	-
Dividends paid during the year	-	-

**b) Dividend proposed, not recognised as a liability**

Final dividend for 2015: nil cents per share (2014: 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% (2014: 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

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 30 June 2015**

---

	<b>2015</b>	2014
	<b>\$'000</b>	\$'000
<b>12. CASH AND CASH EQUIVALENTS</b>		
Cash at bank and in hand	<b>3,524</b>	3,366
Cash and cash equivalents	<b>3,524</b>	3,366

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	<b>3,524</b>	3,366
Cash for reconciliation of cash flow statement	<b>3,524</b>	3,366

**13. SECURITY DEPOSITS**

Security deposits	<b>1,426</b>	4,826
Current	<b>486</b>	1,242
Non-current	<b>940</b>	3,584
	<b>1,426</b>	4,826

Under the terms of agreements with its bank guarantee and bond providers, VDM holds cash under security deposits as collateral for bank guarantees and bonds issued in favour of VDM. Such cash is not available for immediate use.

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 30 June 2015**

	2015 \$'000	2014 \$'000
<b>14. TRADE AND OTHER RECEIVABLES</b>		
Trade receivables	1,818	5,891
Other debtors	70	890
Retentions	-	16
Loans to related entities	-	788
Impairment of trade and other receivables	(1,587)	(6,595)
<b>Trade and other receivables</b>	<b>301</b>	<b>990</b>

**a) Ageing of trade receivables**

0-30 days	134	331
31- 60 days	18	99
> 60 days PDNI*	79	323
> 60 days IM**	1,587	5,138
<b>Trade receivables</b>	<b>1,818</b>	<b>5,891</b>

\* PDNI – Past due but not impaired

\*\*IM – Impaired

**b) Allowance for impairment loss**

Balance at 1 July	6,595	4,364
Charge for the year	212	3,108
Utilised	(5,220)	(877)
<b>Balance at 30 June</b>	<b>1,587</b>	<b>6,595</b>

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. Impairment losses of \$212,000 (2014: \$3,108,000 impairment loss) have been recognised during the year.

**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 30.

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 30 June 2015**

	2015 \$'000	2014 \$'000
<b>15. CONTRACTS IN PROGRESS</b>		
Contract costs incurred to date	-	53,109
Profit recognised to date (less recognised losses)	-	5,235
Less progress billings	-	(58,351)
<b>Total construction contracts in progress</b>	<b>-</b>	<b>(7)</b>
<i>Represented by:</i>		
Amounts due from customers for contract work	-	42
Amounts due to customers for contract work	-	(49)
<b>Total construction contracts in progress</b>	<b>-</b>	<b>(7)</b>
Amounts due from customers for contract work	-	42
Other work in progress	-	7
<b>Total contracts in progress</b>	<b>-</b>	<b>49</b>
Amounts due to customers for contract work	-	(49)
<b>Total amounts due to customers for contract work</b>	<b>-</b>	<b>(49)</b>

VDM had no contracts in progress as at 30 June 2015.

**16. INVENTORY**

Consumables at cost	74	150
<b>Inventory</b>	<b>74</b>	<b>150</b>

**17. DEVELOPMENT PROPERTIES**

Development properties	2,012	3,389
Current	-	3,389
Non-current	2,012	-
	<b>2,012</b>	<b>3,389</b>

**a) Reconciliation of carrying amount**

Balance at 1 July	3,389	4,061
Additions	8	3
Discontinued operations (note 9)	-	(675)
Disposals	(248)	-
Impairment of development properties (i)	(1,137)	-
<b>Balance at 30 June</b>	<b>2,012</b>	<b>3,389</b>

*(i) Impairment of development properties*

The 30 June 2015 balance represents VDM's interest in a single development property located in Western Australia. During the current period management performed a net realisable value assessment which resulted in recognition of a \$1,137,000 impairment to its carrying value (2014: nil).

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 30 June 2015**

	2015	2014
	\$'000	\$'000
<b>18. OTHER CURRENT ASSETS</b>		
Prepayments	10	36
Other current assets	10	36

**19. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD**

Sany VDM Pty Ltd is an Australian company, jointly-owned by VDM and Sany, a major international equipment manufacturer, which was established during the year for purpose of sales, hire, service and parts sales of equipment in Australia. During the year, VDM contributed \$980,000 to Sany VDM Pty Ltd for a 49% ownership interest in its share capital.

Current assets	1,847	-
Non-current assets	35	-
Current liabilities	10	-
Non-current liabilities	-	-
Equity	1,872	-
Group's carrying amount of the investment	917	-

**a) Reconciliation of carrying amount**

Balance at 1 July	-	-
Investment in share capital of Sany VDM Pty Ltd	980	-
Share of equity accounted loss	(63)	-
Balance at 30 June	917	-

**b) Share of equity accounted loss**

Revenue	69	-
Cost of sales	(2)	-
Administrative expenses	(195)	-
Finance costs	-	-
Loss before tax	(128)	-
Income tax expense	-	-
Loss for the year (continuing operations)	(128)	-
Total comprehensive loss for the year (continuing operations)	(128)	-
Group's share of loss for the year	(63)	-

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 30 June 2015**

	2015	2014
	\$'000	\$'000
<b>20. PROPERTY, PLANT AND EQUIPMENT</b>		
Leasehold improvements at cost	687	683
Accumulated Depreciation	(269)	(177)
	<b>418</b>	<b>506</b>
Freehold land and buildings at cost	887	900
Accumulated Depreciation	(8)	-
	<b>879</b>	<b>900</b>
Plant & equipment under lease at cost	611	611
Accumulated depreciation	(452)	(124)
	<b>159</b>	<b>487</b>
Plant & equipment at cost	7,857	8,582
Accumulated depreciation	(7,112)	(7,155)
	<b>745</b>	<b>1,427</b>
Property, plant and equipment	<b>2,201</b>	<b>3,320</b>

*Pledged assets*

Included in the balances above are assets of VDM to the value of \$159,000 (2014: \$487,000) held under finance lease contracts and hire purchase contracts. These assets are pledged as security for the related hire purchase liabilities.

*Impairment of plant and equipment*

A review of all plant and equipment held by the Group was performed during the year, as part of this review management assessed if plant and equipment was being carried above its expected recoverable amount. As a result of this review the Group determined that certain assets' economic performance was worse than expected and that the carrying value of these assets was greater than the fair value less costs to dispose ("FVLCD"). Management has determined the FVLCD based on market comparable transactions (level 2 fair value). As a result the Company impaired these assets and recognised an impairment charge of \$489,000 in the current period (2014: \$101,000).

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 30 June 2015**

	2015	2014
	\$'000	\$'000
<b>20. PROPERTY, PLANT AND EQUIPMENT continued</b>		
<b>a) Reconciliation of carrying amount</b>		
<i>Leasehold Improvements</i>		
As at 1 July net of accumulated depreciation	506	908
Additions	-	173
Disposals	-	(11)
Write down	-	(14)
Impairment	-	(101)
Depreciation	(101)	(221)
Discontinued operations	-	(840)
Transfer from plant & equipment and plant and equipment under lease	-	612
Transfer from freehold land and buildings	13	-
<b>At 30 June</b>	<b>418</b>	<b>506</b>
<i>Freehold land and buildings</i>		
As at 1 July net of accumulated depreciation	900	-
Depreciation	(8)	-
Transferred from non-current assets held for sale	-	900
Transfer to leasehold improvements	(13)	-
<b>At 30 June</b>	<b>879</b>	<b>900</b>
<i>Plant and equipment under lease</i>		
As at 1 July net of accumulated depreciation	487	1,114
Additions	-	-
Disposals	-	(19)
Impairment	(256)	-
Depreciation	(72)	(133)
Transfer to plant & equipment and leasehold improvements	-	(7)
Discontinued operations	-	(468)
<b>At 30 June</b>	<b>159</b>	<b>487</b>
<i>Plant and equipment</i>		
As at 1 July net of accumulated depreciation	1,427	4,337
Additions	-	889
Disposals	(46)	(811)
Impairment	(233)	-
Depreciation	(436)	(1,114)
Transfer from inventory	33	-
Transfer to plant & equipment under lease and leasehold improvements	-	(605)
Write down	-	(100)
Discontinued operations	-	(1,169)
<b>At 30 June</b>	<b>745</b>	<b>1,427</b>
<b>Property plant &amp; equipment at 30 June</b>	<b>2,201</b>	<b>3,320</b>

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 30 June 2015**

	2015 \$'000	2014 \$'000
<b>21. INTANGIBLE ASSETS</b>		
Software	3,025	3,025
Accumulated amortisation and impairment	(3,016)	(2,926)
<b>Intangible assets</b>	<b>9</b>	<b>99</b>

**a) Reconciliation of carrying amount**

<i>Intangible assets</i>		
At 1 Jul	99	307
Additions	-	12
Amortisation	(90)	(140)
Discontinued operations	-	(80)
<b>At 30 June</b>	<b>9</b>	<b>99</b>

**b) Impairment of intangible assets and goodwill**

There was no impairment loss recognised in the statement of comprehensive income during the year ended 30 June 2015 in relation to intangible assets (2014: nil).

**22. TRADE AND OTHER PAYABLES**

Trade payables and accruals	1,042	3,004
Employee related payables	68	59
GST payable	38	82
<b>Trade and other payables</b>	<b>1,148</b>	<b>3,145</b>

**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 30.

**c) Financial guarantees**

VDM Group Limited provides financial guarantees to its subsidiaries by way of a Deed of Cross Guarantee as disclosed in note 36.

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 30 June 2015**

	2015 \$'000	2014 \$'000
<b>23. INTEREST-BEARING LOANS AND OTHER BORROWINGS</b>		
Interest bearing shareholder convertible loan	-	4,569
Hire purchase liabilities (note 32(b))	<b>64</b>	240
<b>Interest bearing loans and other borrowings</b>	<b>64</b>	<b>4,809</b>
Current	<b>64</b>	4,760
Non-current	-	49

**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**

Terms of the hire purchase agreements provide for a fixed interest rate. Information regarding interest rate, foreign exchange and liquidity risk exposure is disclosed in note 30.

**c) Assets pledged as security**

*Finance arrangements*

Plant and equipment under lease	159	487
---------------------------------	-----	-----

*Floating charge*

All the remaining wholly owned assets	10,315	15,738
---------------------------------------	--------	--------

**d) Finance facilities**

Credit cards	150	139
--------------	-----	-----

Bank guarantees	1,245	2,085
-----------------	-------	-------

Contract performance bonds	-	5,287
----------------------------	---	-------

<b>Total finance facilities available</b>	<b>1,395</b>	<b>7,511</b>
---	--------------	--------------

The bank guarantee facility and contract performance bond facility limits are equal the amount of bank guarantees and bonds issued and outstanding in favour of VDM. The facility limits automatically reduce as bank guarantees and bonds are returned or expire. The credit card facility is available subject to annual review.

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 30 June 2015**

	2015 \$'000	2014 \$'000
<b>24. PROVISIONS</b>		
<b>Current</b>		
Employee entitlements	305	457
Insurance excess	-	170
Construction warranties	665	765
Loss making construction contracts	-	8
Onerous contracts	1,279	1,666
Other construction contract obligations	466	2,361
	<b>2,715</b>	<b>5,427</b>
<b>Non-current</b>		
Employee entitlements	17	10
Onerous contracts	1,197	1,118
	<b>1,214</b>	<b>1,128</b>
<b>Total provisions</b>	<b>3,929</b>	<b>6,555</b>

**a) Movement in provisions**

	Balance 1 July 2014 \$'000	Arising during the year \$'000	Utilised during the year \$'000	Unused amounts reversed \$'000	Balance 30 June 2015 \$'000
Employee entitlements	467	78	(124)	(99)	322
Provision for insurance excess	170	-	(170)	-	-
Construction warranties	765	43	(122)	(21)	665
Loss making construction contracts	8	-	(8)	-	-
Onerous contracts	2,784	1,198	(1,506)	-	2,476
Other construction contract obligations	2,361	-	(1,117)	(778)	466
<b>Total provisions</b>	<b>6,555</b>	<b>1,319</b>	<b>(3,047)</b>	<b>(898)</b>	<b>3,929</b>

**b) Nature and timing of provisions**

**Construction warranties**

A provision is recognised for expected warranty claims on completed construction projects based on past experience. It is expected that these costs will be incurred in the next financial year.

**Onerous contracts**

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

**Other construction contract obligations**

A provision is recognised for expected costs, other than warranty claims, related to construction contracts. The 30 June 2014 comparatives have been adjusted to reclassify the provision for other construction cost obligations of \$2,361,000 from trade and other payables to appropriately reflect the nature of the obligations.

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 30 June 2015**

	2015 \$'000	2014 \$'000
<b>25. CONTRIBUTED EQUITY</b>		
<b>a) Ordinary shares</b>		
Issued and fully paid	<b>285,444</b>	268,509

<i>Movement in ordinary shares</i>	Number of Shares	\$'000
<b>Balances at 1 July 2014</b>	<b>3,127,660,952</b>	<b>268,509</b>
Conversion of Kengkong convertible loans to shares at conversion price of \$0.01 per share on 1 December 2014	1,450,000,000	14,500
Private placement of shares issued at \$0.012 per share on 3 December 2014	250,000,000	3,000
Capital raising costs		(565)
<b>Balances at 30 June 2015</b>	<b>4,827,660,952</b>	<b>285,444</b>

**c) Treasury shares**

	2015 Number of Shares	2014 Number of Shares
Treasury shares held in trust	-	80,094

<i>Movement in treasury shares</i>	Number of Shares
<b>Balance at 1 July 2014</b>	<b>80,094</b>
Sold for proceeds of \$841	(80,094)
<b>Balance at 30 June 2015</b>	<b>-</b>

The number of treasury shares at 1 July 2014 includes a correction to the previously reported number to reduce it by 142,770 shares.

**d) 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.

**e) 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.

Following the prior year's significant restructuring and implementation of the new business strategy, the Company remains focussed on returning to profitability in the short to medium term and maintaining an appropriate level 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.

# VDM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 June 2015

---

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.

VDM is not subject to any externally imposed capital requirements.

2015	2014
\$'000	\$'000

#### 26. ACCUMULATED LOSSES AND RESERVES

##### a) Movement in accumulated losses

Balance at 1 July	(268,332)	(246,954)
Net loss attributable to members of VDM Group Limited	(12,377)	(21,378)
<b>Balance at 30 June</b>	<b>(280,709)</b>	<b>(268,332)</b>

The accumulated losses balance at 1 July 2013 includes a \$179,000 correction to the previously reported amount. The adjustment flows through to the balance at 1 July 2014.

##### f) Movement in other capital reserve

Balance at 1 July	-	248
Share based payment (note 29)	-	(248)
<b>Balance at 30 June</b>	<b>-</b>	<b>-</b>

##### b) Movement in equity reserve

Balance at 1 July	457	457
<b>Balance at 30 June</b>	<b>457</b>	<b>457</b>

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.

# VDM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 June 2015

---

#### 27. CASHFLOW STATEMENT INFORMATION

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

	2015 \$'000	2014 \$'000
Net loss after tax	(12,377)	(21,378)
<i>Non- cash items:</i>		
Depreciation and amortisation	707	1,608
Impairment of assets	1,626	101
Assets written off	-	114
Gain on disposal of property, plant and equipment	(261)	(1,058)
Share based payment reversal	-	(248)
Share of loss of a joint venture	63	-
Loss recognised on re-measurement to fair value less costs to sell	-	1,712
Interest expense accrued	-	242
lease expense	-	194
<i>Change in operating assets and liabilities:</i>		
Decrease in trade and other receivables	849	9,434
Decrease in contracts in progress	-	(5,531)
Decrease in inventory	43	158
Decrease in trade and other creditors	(1,991)	(11,302)
Decrease in provisions	(623)	(4,818)
Decrease in income taxes payable	(858)	(2,294)
<b>Net cash flows used in operation activities</b>	<b>(12,822)</b>	<b>(33,066)</b>

#### 28. RELATED PARTY DISCLOSURE

Note 36 provides the information about VDM's structure including details of the subsidiaries and the parent company.

##### a) Ultimate parent

VDM Group Limited is the ultimate Australian parent entity.

##### b) Loans to associate

VDM has nil loans to associates at 30 June 2015 (2014: \$788,000 loan to associate that was fully provided for).

##### c) Transactions with key management personnel

Refer to 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 2015 and 2014.

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 30 June 2015**

	2015 \$'000	2014 \$'000
<b>e) Compensation for key management personnel</b>		
Short term	1,146	1,477
Post employment	61	79
Share-based payments	-	(248)
Termination benefits	-	443
<b>Total compensation</b>	<b>1,207</b>	<b>1,751</b>

**29. SHARE-BASED PAYMENT PLANS**

**a) Recognised share based payment reversal**

Reversal arising from equity-settled share based payment transactions	-	(248)
<b>Share based payment reversal</b>	<b>-</b>	<b>(248)</b>

**b) Termination of previous share-based payment plans**

At 30 June 2015, there were nil outstanding options under the employee option plan and nil outstanding performance rights under the executive performance rights plan (30 June 2014: nil). There were no share-based payments or reversals during the year ended 30 June 2015. In February 2015, the Board terminated the all of VDM's share-based employee remuneration plans, being the employee option plan and the executive performance rights plan.

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

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 30 June 2015**

**2015**                      2014  
**\$'000**                        \$'000

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

<b>Financial assets</b>	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash and cash equivalents (note 12)	<b>3,524</b>	3,366
Security deposits (note 13)	<b>1,426</b>	4,826
<b>Balance at the end of the year</b>	<b>4,950</b>	8,192
<b>Financial liabilities</b>		
Interest bearing borrowings and loans (note 23)	<b>64</b>	4,809

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.

<b>Post-tax gain / (loss)</b>	<b>Impact on profit</b>	
+ 1% (100 basis points)	<b>35</b>	57
- 1% (100 basis points)	<b>(35)</b>	(57)

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 sheet date, VDM had no foreign currency denominated 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 financial institutions thus minimising the risk of default of counterparties.

**2015**                      2014  
**\$'000**                        \$'000

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

Cash and cash equivalents (note 12)	<b>3,524</b>	3,366
Security deposits (note 13)	<b>1,426</b>	4,826
Trade and other receivables (note 14)	<b>301</b>	990
	<b>5,251</b>	9,182

# VDM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 June 2015

---

#### c) Liquidity risk

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

VDM 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 table also excludes contractual commitments classified as operating leases (refer to note 32). 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 2015. Repayment obligations in respect of the bank loans, hire purchase facilities and trade and other payables are as follows:

	<b>2015</b>	2014
	<b>\$'000</b>	\$'000
Not later than one year	<b>1,212</b>	7,905
Later than one year but not later than two years	-	49
Later than two years but not later than three years	-	-
Later than three years	-	-
	<b>1,212</b>	7,954

---

# VDM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 June 2015

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

	Total \$'000	0-60 days \$'000	61 days- 1 year \$'000	1-5 years \$'000	>5 Years \$'000
<b>Year ended 30 June 2015</b>					
<i>Financial assets</i>					
Cash & cash equivalents (note 12)	3,524	3,524	-	-	-
Security deposits (note 13)	1,426	357	129	940	-
Trade receivables and other receivables (note 14)	301	134	167	-	-
	5,251	4,015	296	940	-
<i>Financial liabilities</i>					
Trade and other payables (note 22)	1,148	1,148	-	-	-
HP liabilities (note 32)	65	50	15	-	-
	1,213	1,198	15	-	-
<b>Net maturity</b>	<b>4,038</b>	<b>2,817</b>	<b>281</b>	<b>940</b>	<b>-</b>

<b>Year ended 30 June 2014</b>					
<i>Financial assets</i>					
Cash & cash equivalents	3,366	3,366	-	-	-
Security deposits	4,826	207	1,035	3,584	-
Other receivables	237	237	-	-	-
Trade receivables	753	430	323	-	-
	9,182	4,240	1,358	3,584	-
<i>Financial liabilities</i>					
Trade payables	1,843	758	1,085	-	-
Other payables	1,302	1,302	-	-	-
HP liabilities	253	34	170	49	-
Interest bearing loans and borrowings	4,722	-	4,722	-	-
	8,120	2,094	5,977	49	-
<b>Net maturity</b>	<b>1,062</b>	<b>2,146</b>	<b>(4,619)</b>	<b>3,535</b>	<b>-</b>

#### d) Fair value

At 30 June 2015 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.

# VDM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 June 2015

---

#### 31. PARENT ENTITY INFORMATION

	2015	Parent Entity 2014
	\$'000	\$'000
Information relating to VDM Group Limited		
Current assets	4,766	8,270
Total assets	7,012	9,792
Current liabilities	1,513	8,665
Total liabilities	1,820	9,158
Issued capital	285,444	268,509
Accumulated loss	(280,709)	(268,332)
Option reserve	457	457
<b>Total shareholder's equity</b>	<b>5,192</b>	<b>634</b>
Loss of parent entity	(12,377)	(21,378)
<b>Total comprehensive loss of the parent entity</b>	<b>(12,377)</b>	<b>(21,378)</b>

#### a) Bank guarantees

As at 30 June 2015 VDM Group Limited had \$403,000 (2014: \$313,000) held in bank guarantees with banks relating to bonds on leased property.

#### b) Guarantees in relation to debts of subsidiaries

Pursuant to class order 98/1418 VDM Group Limited 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 Limited 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) Property, plant and equipment commitments

VDM Group Limited had no capital commitments at 30 June 2015 (2014: nil).

# VDM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 June 2015

	2015 \$'000	2014 \$'000
<b>32. COMMITMENTS</b>		
<b>a) Operating leases</b>		
Within one year	2,372	2,794
One year or later but no later than 5 years	4,356	5,788
After more than 5 years	-	-
<b>Total minimum lease payments</b>	<b>6,728</b>	<b>8,582</b>

During the year VDM made operating lease payments totalling \$2,758,000 (2014: \$2,458,000).

The Group has entered into operating leases on commercial properties. These leases have average terms of between 2 and 3 years. The leases include a clause for an annual fixed percentage increase in the rental charge.

#### **b) Hire purchase commitments**

Not later than 1 year	65	204
After 1 year but not more than 5 years	-	49
<b>Total minimum lease payment</b>	<b>65</b>	<b>253</b>
Future finance charges	(1)	(13)
<b>Present value of minimum lease payments (note 23)</b>	<b>64</b>	<b>240</b>
<b>Total hire purchase liability Included in the financial statements as:</b>		
Current - hire purchase liability	64	191
Non - current - hire purchase liability	-	49
<b>Included in interest bearing loans and other borrowings (note 23)</b>	<b>64</b>	<b>240</b>

#### **c) Property, plant and equipment commitments**

VDM has no capital expenditure commitments at 30 June 2015 (2014: nil).

### **33. CONTINGENCIES**

#### **a) Legal claims**

There were three matters existing as at 30 June 2015 that may lead to VDM incurring material losses if claims made by counterparties are successful for the full amount of the values claimed.

##### **Subcontractor claim**

VDM engaged a subcontractor on a project in Western Australia. The subcontractor commenced a court action against VDM following termination of the subcontract in 2011. Both VDM and the subcontractor have offsetting claims and VDM continues to defend its position.

##### **Construction claim**

VDM and a customer have offsetting claims relating to a terminated construction project in Western Australia in 2013. The customer cashed \$2.4 million of security bonds provided by VDM under the contract in 2013, and neither party has taken legal action to enforce their claims.

##### **Engineering claim**

VDM has been afforded confirmation of cover by its insurers for a claim related to an offshore engineering project. VDM's maximum exposure is \$120,000 which represents the balance of the insurance policy excess.

# VDM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 June 2015

---

#### b) Bank guarantees and insurance bonds

As at 30 June 2015 VDM had bank guarantees of \$1,245,000 as security for leased commercial property and to guarantee performance of contracts (2014: \$1,957,000).

As at 30 June 2015 VDM had nil insurance bonds to guarantee performance of contracts (2014: \$5,287,000).

#### 34. EVENTS AFTER THE REPORTING PERIOD

On 30 July 2015 VDM announced that ASX granted VDM a waiver to listing rule 14.7 to allow VDM to issue 650 million shares (Consideration Shares) to Seabank Resources, LDA (Seabank). VDM shareholders approved the issue of the Consideration Shares at the annual general meeting held on 28 November 2014. However, as a result of protracted negotiations of the mineral investment contract, more than 3 months has passed since that date. Accordingly, VDM required a waiver of ASX listing rule 14.7 to allow it to issue the Consideration Shares without a further shareholder approval. ASX has granted the waiver on condition the Consideration Shares are issued no later than the earlier of the VDM's next annual general meeting or 30 November 2015, and otherwise on the same terms and conditions as approved by shareholders at the 28 November 2014 annual general meeting. In the announcement, VDM advised that although protracted, the negotiations to complete the mineral investment contract are advancing and VDM expects to satisfy the conditions of the waiver and issue the Consideration Shares as consideration to acquire a participating interest in the Angolan Copper Project Joint Venture within the timeframe required by the waiver.

On 18 August 2015 VDM announced that it has entered into a conditional share placement agreement with a sophisticated investor for placement of 1,202,087,577 VDM shares at a price of \$0.015 per share to raise \$18 million. The conditional share placement agreement includes the following key terms:

- Completion of the share placement is conditional on VDM having entered into a mineral investment contract with the Government of the Republic of Angola, Seabank, and Pebric Mining and Consulting LDA in relation to the Cachoeiras do Binga copper exploration project (MIC Condition).
- VDM must use all reasonable endeavours to ensure the above MIC Condition is satisfied as soon as practicable and in any event before 31 December 2015 or such other date that the investor and VDM agree.
- Subject to completion of the share placement occurring, any future issue of securities by VDM during the period until 17 August 2016 is subject to the investor's prior approval. However, VDM is not required to obtain the investor's consent to issue the 650 million Consideration Shares to Seabank.

#### 35. AUDITOR'S REMUNERATION

	2015	2014
<i>Amount received or receivable by Ernst &amp; Young for:</i>		
Auditing financial statements	<b>110,000</b>	127,000
Non audit fees (tax compliance & other advisory)	<b>162,000</b>	130,000
Total auditor's remuneration	<b>272,000</b>	257,000

# VDM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the year ended 30 June 2015

#### 36. CLOSED GROUP CLASS ORDER DISCLOSURES

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

Subsidiary Name	Country of Incorporation	% equity interest	
		2015	2014
* VDM Trading Pty Ltd	Australia	100%	100%
* VDM Mining Pty Ltd	Australia	100%	100%
* VDM Equipment Pty Ltd	Australia	100%	100%
* VDM Construction Pty Ltd	Australia	100%	100%
* Keytown Constructions Pty Ltd	Australia	100%	100%
* VDM Developments Pty Ltd	Australia	100%	100%
* VDM Engineering (Eastern Operations) Pty Ltd	Australia	100%	100%
* Burchill VDM Pty Ltd	Australia	100%	100%
* VDM Consulting Pty Ltd	Australia	100%	100%
* VDM Group Ltd International (Dubai Branch) Pty Ltd	Australia	100%	100%
* BCA Consultants Pty Ltd	Australia	100%	100%
* Barlow Gregg VDM Pty Ltd	Australia	100%	100%
* VDM Investments Pty Ltd	Australia	100%	100%
* VDM Consulting (NSW) Pty Ltd	Australia	100%	100%
* VDM Consulting (VIC) Pty Ltd	Australia	100%	100%
* VDM Equity Incentives Pty Ltd	Australia	100%	100%
* VDM CCE Pty Ltd	Australia	100%	100%
* VDM Projects Pty Ltd	Australia	0%	100%
* VDM Asset Management Pty Ltd	Australia	0%	100%
* VDM Contracting Pty Ltd	Australia	0%	100%
* Belleng VDM Pty Ltd	Australia	0%	100%
* Anagan Pty Ltd	Australia	0%	100%
VDM Africa Holdings Ltd	British Virgin Islands	100%	0%
The EB Trust	Australia	100%	100%
VDM Hyperspace Pty Ltd	Australia	0%	100%
VDM Consulting (UAE) Pty Ltd	Australia	0%	100%
VDMAHP Pty Ltd	Australia	0%	50%
Track Procurement Services Pty Ltd	Australia	0%	50%

#### a) Joint ventures in which VDM is a Joint Venturer

VDM has a 49% interest in Sany VDM Pty Ltd (2014: nil). For more details refer to note 19.

#### b) Entities subject to class order relief

\* The annotated companies and VDM Group Limited entered into a Deed of Cross Guarantee on 1 February 2010 (the "Closed Group"). The effect of the deed is that VDM Group Limited 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 Limited 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.

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 30 June 2015**

---

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

**c) Statement of comprehensive income**

	<b>Closed Group</b>	
	<b>2015</b>	2014
	<b>\$'000</b>	\$'000
Loss from continuing operations before income tax	<b>(11,745)</b>	(16,388)
Income tax benefit	<b>1,096</b>	1,706
Loss after tax from continuing operations	<b>(10,649)</b>	(14,682)
(Loss)/profit from discontinued operations	-	(6,678)
Net Loss for the year	<b>(10,649)</b>	(21,360)
Non-controlling interest	-	-
Dividends paid	-	-
Accumulated losses at the beginning of the year	<b>(266,960)</b>	(245,600)
Accumulated losses at the end of the year	<b>(277,609)</b>	(266,960)

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the year ended 30 June 2015**

	<b>Closed Group</b>	
	<b>2015</b>	2014
	<b>\$'000</b>	\$'000
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	3,521	3,363
Security deposits	486	1,242
Trade and other receivables	5,416	6,099
Contracts in progress	-	49
Development properties	-	241
Inventory	74	150
Other assets	10	36
<b>Total current assets</b>	<b>9,507</b>	11,180
<b>Non-current assets</b>		
Security deposits	940	3,584
Investment accounted for using the equity method	917	-
Development properties	-	-
Property, plant and equipment	2,201	3,320
Deferred tax assets	-	-
Intangible assets	9	99
<b>Total non-current assets</b>	<b>4,067</b>	7,003
<b>TOTAL ASSETS</b>	<b>13,574</b>	18,183
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	1,148	3,151
Amounts due to customers for contract work	-	49
Current tax liabilities	-	1,438
Deferred tax liability	-	-
Interest-bearing loans and borrowings	64	4,760
Provisions	2,715	5,427
<b>Total current liabilities</b>	<b>3,927</b>	14,825
<b>Non-current liabilities</b>		
Interest-bearing loans and other borrowings	-	49
Deferred tax liabilities	-	-
Lease incentive liability	141	175
Provisions	1,214	1,128
<b>Total non-current liabilities</b>	<b>1,355</b>	1,352
<b>TOTAL LIABILITIES</b>	<b>5,282</b>	16,177
<b>NET ASSETS</b>	<b>8,292</b>	2,006
<b>EQUITY</b>		
Contributed equity	285,444	268,509
Reserves	457	457
Accumulated losses	(277,609)	(266,960)
<b>TOTAL EQUITY</b>	<b>8,292</b>	2,006

The closed group comparatives have been restated to reflect the current year closed group account allocations.

# VDM GROUP LIMITED

## DIRECTORS' DECLARATION

### For the year ended 30 June 2015

---

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 2015 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(d), 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 2015; 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 36 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board



**Dr Hua Dongyi**  
**Managing Director and CEO**  
Perth, Western Australia  
31 August 2015

## 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 2015, 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(b), 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 consolidated entity's financial position as at 30 June 2015 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(b).

## Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2015. 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 2015, complies with section 300A of the *Corporations Act 2001*

## Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2(d) 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.



Ernst & Young



T G Dachs  
Partner  
Perth  
31 August 2015

# VDM GROUP LIMITED

## ASX ADDITIONAL INFORMATION

### For the year ended 30 June 2015

#### 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 16 October 2015.

<b>Shareholder</b>	<b>Number of ordinary fully paid shares held</b>	<b>% held of shares</b>
Australia Kengkong Investments Co Pty Ltd	2,070,000,000	42.88
H & H Holdings Australia Pty Ltd	1,085,110,976	22.48
J P Morgan Nominees Australia Limited	290,747,139	6.02
Sino Plant Holding Limited	250,000,000	5.18
Golden Bloom Investments Pty Ltd	125,000,000	2.59
UBS Nominees Pty Ltd	110,384,232	2.29
Citicorp Nominees Pty Limited	71,203,789	1.47
Jako Industries Pty Ltd	44,471,421	0.92
HSBC Custody Nominees miss Shan He	20,581,794	0.43
Austindo (WA) Pty Ltd	20,502,126	0.42
Mr Brian Hon Leung Lee	20,300,000	0.42
Mr Aaron Francis Quirk	18,000,000	0.37
Duncraig Investment Services Pty Ltd	13,478,250	0.28
Mr John Finlay Mckenzie Rowley	12,400,000	0.26
Miss Fang Ning Du	12,000,000	0.25
Mrs Cheng Huang	10,849,293	0.22
M & C Coghlan Pty Ltd	9,500,000	0.20
Noel Kennedy Smith	8,000,000	0.17
UOB Kay Hian Private Limited	8,000,000	0.17
<b>Total</b>	<b>4,208,510,384</b>	<b>87.19</b>

#### 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.

<b>Shareholder</b>	<b>Number of ordinary fully paid shares held</b>	<b>% held of shares</b>
Australia Kengkong Investments Co Pty Ltd	2,070,000,000	42.88
H & H Holdings Australia Pty Ltd	1,085,110,976	22.48
Sino Plant Holding Limited	250,000,000	5.18

# VDM GROUP LIMITED

## ASX ADDITIONAL INFORMATION

### For the year ended 30 June 2015

---

#### DISTRIBUTION OF SHAREHOLDINGS

<b>Range of holding</b>	<b>Number of shareholders</b>	<b>Number of ordinary shares</b>	<b>% of shares</b>
1 - 1,000	170	16,902	-
1,001 - 5,000	111	350,410	0.01
5,001 - 10,000	88	697,925	0.01
10,001 - 100,000	672	38,296,998	0.79
100,001 - 9,999,999,999	832	4,788,298,717	99.18
Rounding			0.01
<b>Total</b>	<b>1,873</b>	<b>4,827,660,952</b>	<b>100.00</b>

The number of shareholders with less than a marketable parcel is 764 holding in total 16,060,660 shares.

#### VOTING RIGHTS

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



Level 1, Fortescue Centre  
30 Terrace Road  
East Perth WA 6004  
T +61 8 9265 1100  
F +61 8 9265 1199

[www.vdmgroup.com.au](http://www.vdmgroup.com.au)