



# Appendix 4E

## Full year report Year ended 30 June 2016

### VDM Group Limited

ABN 95 109 829 334  
ASX Code: VMG

**The information contained in this report relates to the following years:**

Current year - year ended 30 June 2016

Prior year - year ended 30 June 2015

<b>Results for the current year (\$000)</b>		<b>Change from the prior year</b>	
Revenue from continuing operations	725	Down	42.2%
Loss from continuing operations after tax attributable to members	(5,424)	Down	56.2%
Net loss for the year attributable to members	(5,424)	Down	56.2%

<b>Net tangible assets</b>	<b>Current Year</b>	<b>Prior year</b>
Net tangible (liabilities)/assets per ordinary security as at 30 June (cents per share)	(0.10)	0.11

**Dividend payments:**

VDM does not propose to pay a dividend for the year ended 30 June 2016.

**Supplementary Comments**

Additional Appendix 4E disclosures are contained in the attached directors' report and consolidated financial statements for the year ended 30 June 2016, which include an independent Auditor's Report from Ernst and Young.



# **VDM GROUP LIMITED**

**and its Controlled Entities**

**ABN 95 109 829 334**

**FINANCIAL REPORT  
YEAR ENDED 30 JUNE 2016**

# VDM GROUP LIMITED

## CORPORATE INFORMATION

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### DIRECTORS

Mr Luk Hiuming  
Dr Hua Dongyi  
Mr Michael Fry

Non-executive Chairman  
Executive Director of Mining  
Non-executive Director

### CHIEF EXECUTIVE OFFICER

Mr Sam Diep

### COMPANY SECRETARY AND CHIEF FINANCIAL OFFICER

Mr Pdraig O'Donoghue

### REGISTERED AND PRINCIPAL OFFICE

Fortescue Centre  
Level 1, 30 Terrace Road  
East Perth WA 6004  
Telephone (08) 9265 1100  
Facsimile (08) 9265 1199  
Website <http://www.vdmgroup.com.au>

### POSTAL ADDRESS

PO Box 3347  
East Perth WA 6892

### AUDITORS

Ernst & Young  
11 Mounts Bay Road  
Perth WA 6000

### SHARE REGISTER

Computershare Investor Services Pty Limited  
GPO Box 2975  
Melbourne, VIC 3001  
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**  
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# VDM GROUP LIMITED

## DIRECTORS' REPORT

### FOR THE YEAR ENDED 30 JUNE 2016

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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 2016.

#### 1. DIRECTORS

##### **Current Directors**

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

##### **Mr 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, 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 Australia Kengkong Investments Co Pty Ltd.

##### **Dr Hua Dongyi**

*Executive Director of Mining*

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, appointed Executive Director of Mining on 1 March 2016.

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. Dr Hua is the Vice President of the Australian China Business Council Western Australia. On 26 July 2016, Dr Hua was appointed Executive Director and Acting CEO of Frontier Services Group Limited, an Africa-focused logistics company listed on the Hong Kong Stock Exchange.

##### **Mr 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 2016

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#### **Past Directors**

The names of directors of VDM Group Limited that left office during the year are as follows:

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

Appointed on 1 February 2014

Resigned as a Director on 24 May 2016

#### **Company Secretary**

#### **Mr Pdraig O'Donoghue**

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 in the resources and contracting services sectors. He has been CFO/Company Secretary of mining companies Consolidated Rutile Limited (ASX:CRT), Jabiru Metals Limited (ASX:JML) and Navigator Resources Limited (ASX:NAV). He was also CFO and Company Secretary of mining contractor Barminco. His early career includes PriceWaterhouseCoopers in Vancouver, Canada and 10-years with Barrick Gold in both head office and international Commercial Manager operational roles.

## **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
Michael Fry	1,000,000

## **3. DIVIDENDS**

There were no dividends declared or paid during the year ended 30 June 2016 (2015: nil).

## **4. NATURE AND PRINCIPAL ACTIVITIES**

Consistent with the prior year, 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)

VDM exited the equipment business after 30 June 2016 (refer to section 7 of the Directors' Report for further details).

#### **General**

At 30 June 2016, VDM employed 20 people in Western Australia (2015: 30).

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

On 14 December 2015, VDM announced that the Ministry of Geology and Mining of the Republic of Angola ("MGM") signed a Mining Investment Contract with VDM and its partners in relation to the Cachoeiras do Binga copper exploration project located in the Republic of Angola ("Cachoeiras do Binga" or "CdB"). The MIC grants VDM and its partners with exclusive mining rights for copper located in the 3,854 km<sup>2</sup> CdB exploration concession area. Signing of the MIC satisfied the only remaining condition related to VDM's acquisition of its 65% participating interest in CdB and accordingly VDM issued 650,000,000 shares to Seabank Resources, LDA (Seabank) on 16 February 2016, as part consideration for the CdB acquisition. As at 30 June 2016, \$4,875,000 is payable to Seabank representing the remaining balance of the consideration.

# VDM GROUP LIMITED

## DIRECTORS' REPORT

### FOR THE YEAR ENDED 30 JUNE 2016

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Mr Sam Diep commenced as VDM's Chief Executive Officer on 29 February 2016, and Dr Dongyi Hua transitioned to a new position of Executive Director of Mining.

#### 6. OPERATING AND FINANCIAL REVIEW

The Mining division progressed towards its goal of establishing mining operations in Africa with the December 2015 signing of a Mining Investment Contract for Cachoeiras do Binga as outlined in previous section 5 of this report.

The Trading division focused on business development activities to establish its import and export trading business with Asia. It completed a limited number of import and export trading contracts with Asian and Australian clients.

The Construction and Trading divisions have partnered to import specialty modular and steel construction products for the Australian building and construction industries, and signed a \$1.5 million structural steel supply contract in June 2016.

The Equipment division provided equipment hire and related services to the construction industry and worked closely with the joint venture company, Sany VDM Pty Ltd, (VDM 49%, Sany 51%) to provide Sany equipment sales, hire, service and parts sales in the Australian market. VDM announced on 28 July 2016 that it is exiting the equipment business and withdrawing from the equipment joint venture that it operates with Sany. Financial details of the operations that were discontinued subsequent to 30 June 2016 are contained in note 30 of the accompanying financial statements.

The Board undertook a comprehensive risk review to identify the key risks to VDM's business. The review included an internal and external stakeholder analysis that identified the diverse needs of the various stakeholders and the potential risks to VDM if those needs are not met. This analysis is updated annually.

<b>Risk</b>	<b>Response</b>
Funding for the CdB exploration program and other corporate activities.	VDM is progressing towards execution of a secured one-year \$18 million loan with significant shareholder, Kengkong and VDM intends to undertake future capital raisings that would be sufficient to repay amounts that become due under the loan.
Size and quality of CdB's contained mineralisation	This risk cannot be mitigated, however VDM will aim to avoid over-investment by undertaking a phased and well-planned exploration program.
Operating in the Republic of Angola	VDM's current Executive Director of Mining has extensive experience and strong relationships in Angola. VDM will utilise Angolan-experienced and reputable exploration contractors and advisors.
Counterparty risks related CdB investment structure and CdB partners	VDM has maintained good relations with its CdB partners and uses written agreements and formal decision-making processes to avoid potential misunderstandings.

Revenue from continuing operations was \$725,000 (2015: \$1,253,000) a decrease of 42% from the prior year reflecting lower construction and equipment revenue, partially offset by higher trading revenue.

The loss after tax of \$5,424,000 (2015: \$12,377,000) is 56.2% lower than the prior year, mainly due to a \$7,819,000 reduction in total expenses. The decrease in expenses includes non-recurring reductions of \$1,621,000 related to impairment charges, \$991,000 related to onerous contracts, and a prior year charge of \$2,730,000 for cashed security bonds (refer to note 6(e) of the accompanying financial statements).

# **VDM GROUP LIMITED DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2016**

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## ***Shareholder Loan***

On 27 January 2016, VDM entered into a Framework Loan Agreement ("FLA") with its largest shareholder, Australia Kengkong Investments Co Pty Ltd ("Kengkong"). During the year Kengkong advanced AUD \$3,000,000 and USD \$1,000,000 to VDM under the terms of a FLA. The FLA contemplates the parties entering into a secured one-year 6% loan facility that will incorporate the FLA liabilities. Until that occurs, the FLA advances plus interest accrued at 6% per annum are immediately repayable in the denominated currency when demanded by Kengkong.

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

On 21 July 2016, Kengkong provided an AUD \$1,500,000 cash advance to VDM of under the terms of the Framework Loan Agreement (refer to note 21 of the accompanying financial statements for terms of the loan).

On 28 July 2016, VDM announced that it is exiting the equipment hire and sales business and withdrawing from the equipment joint venture that it operates with Sany. The Group has taken this decision to focus its resources on delivering positive returns on VDM's African mining assets and successfully building the Trading division. The entire Equipment segment as disclosed in note 4 will be discontinued by VDM, and as at date of this report the process of selling the segment's assets had commenced.

On 28 July 2016, VDM announced that VDM and its Cachoeiras do Binga partners signed a technical services agreement with SRK Consulting and are making plans to mobilise an exploration team to the Cachoeiras do Binga project site to commence the mineral exploration program.

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

VDM intends to undertake future capital raisings in the 2017 financial year. Funds raised will be used to repay the shareholder loan, progress the Cachoeiras do Binga exploration program, advance other potential business growth opportunities, and for 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.

## **10. SHARE OPTIONS**

As at the date of this report, there were no unissued ordinary shares under option (2015: 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.



# VDM GROUP LIMITED

## DIRECTORS' REPORT

### FOR THE YEAR ENDED 30 JUNE 2016

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 meetings	Audit & Risk Committee meetings
<b>Number of meetings held:</b>	6	2
<b>Number of meetings attended:</b>		
H Luk	6	2
D Hua	6	2
M Fry	6	2
<b>Past directors</b>		
V Jakovich	6	-

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

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

The directors received an Independence Declaration from the auditor of VDM Group Limited, attached on page 17. 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 31 of the consolidated financial statements for disclosure relating to the cost of non-audit services conducted during the year.

On 30 April 2015, the Board granted approval under section 324DAA of the Corporations Act 2001 for Mr Tim Dachs to continue as the Group's audit partner for two additional successive financial years, being the financial year ending 30 June 2017. The approval was granted at the recommendation of the audit and risk committee, based on the following reasons:

- VDM experienced board changes and employee turnover due to downsizing that impacted on the Group's historical knowledge. Mr Dachs's continuity provides benefits related to his knowledge of historical matters of the Group.
- Ernst and Young rotated the Group's audit manager in 2015, and the continuation of Mr Dachs as partner provides continuity of knowledge to the audit team.
- The Audit and Risk Committee was satisfied that granting the extension will not give rise to a conflict of interest situation.

#### 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 Instrument 2016/9. The Company is an entity to which the Instrument applies.

# VDM GROUP LIMITED REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2016

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## REMUNERATION REPORT

This remuneration report for the year ended 30 June 2016 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, and excludes non-executive directors.

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 2016 (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.

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<b>Current directors</b>	
Luk Hiuming	<i>Non-Executive Chairman – appointed as a Director on 21 March 2014, appointed Chairman 29 January 2015</i>
Hua Dongyi	<i>Executive Director of Mining – appointed Director on 28 August 2013, Managing Director on 9 September 2013, Executive Chairman and Interim Chief Executive Officer on 29 November 2013, Managing Director and Chief Executive Officer on 29 January 2015, and Executive Director of Mining on 1 March 2016.</i>
Michael Fry	<i>Non-Executive Director – appointed 3 June 2011</i>

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<b>Past directors</b>	
Vic Jakovich	<i>Non-Executive Director – resigned on 24 May 2016</i>

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<b>Current executives</b>	
Sam Diep	<i>Chief Executive Officer – appointed 29 February 2016</i>
P O'Donoghue	<i>Chief Financial Officer and Company Secretary – appointed 12 February 2014</i>
Xiaojin Zhu	<i>Senior Vice President, Construction – appointed 1 December 2014</i>

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## 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

# **VDM GROUP LIMITED**

## **REMUNERATION REPORT**

### **FOR THE YEAR ENDED 30 JUNE 2016**

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ensuring maximum stakeholder benefit from the retention of a high performing director and executive team.

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 2015 Annual General Meeting*

The 2015 remuneration report received positive shareholder support at the November 2015 Annual General Meeting, with a vote of 97.3% 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.

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.

# VDM GROUP LIMITED

## REMUNERATION REPORT

### FOR THE YEAR ENDED 30 JUNE 2016

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#### *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.

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 financial years.

<b>Financial Year</b>	<b>EBIT \$'000</b>	<b>Closing share price \$</b>
2016	(5,433)	0.003
2015	(12,713)	0.006
2014	(16,288)	0.01
2013	(58,769)	0.01
2012	(29,759)	0.05

As a result of the negative EBIT performance in 2016, no STI awards were made in the 2016 financial year (2015: nil).

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

VDM does not have equity-based incentives plans for employees, however the below option arrangements were approved as a cost-effective and non-cash remuneration incentive to attract and retain the two key executives who hold VDM's CEO and the Mining Director positions.

On 1 February 2016, VDM announced the CEO appointment and remuneration terms of Mr Sam Diep, which included the following stock options:

- 10 million options with an exercise price of \$0.015, exercisable 1-year after employment start date and expiring 4-years after employment start date.
- 10 million options with an exercise price of \$0.020, exercisable 2-years after employment start date and expiring 5-years after employment start date.
- 10 million options with an exercise price of \$0.025, exercisable 3-years after employment start date and expiring 6-years after employment start date.

On 21 March 2016, VDM announced the employment terms for Dr Dongyi Hua's new position as Executive Director of Mining, which included the following stock options:

- 10 million options with an exercise price of \$0.015, exercisable 1-year after date of employment variation and expiring 4-years after date of employment variation.
- 10 million options with an exercise price of \$0.020, exercisable 2-years after date of employment variation and expiring 5-years after date of employment variation.
- 10 million options with an exercise price of \$0.025, exercisable 3-years after date of employment variation and expiring 6-years after date of employment variation.

There are no performance or market conditions related to Dr Hua's options, however the grant of the options is subject to shareholder approval, which has not yet been obtained by VDM, and accordingly his options have not yet been granted.

There are no performance or market conditions related to Mr Diep's options, however as at 30 June 2016, his options had not yet been granted.

The options will not carry any voting or dividend rights.

# VDM GROUP LIMITED

## REMUNERATION REPORT

### FOR THE YEAR ENDED 30 JUNE 2016

#### 4. EXECUTIVE REMUNERATION OUTCOMES (INCLUDING LINK TO PERFORMANCE)

**Table 1: Executive remuneration for the year ended 30 June 2016**

	Base Salary & Fees	Cash Bonus	Non-Monetary Benefits	Super Contributions	Value of Share-based Payments	Termination Benefits	Total	Performance Related
	\$	\$	\$	\$	\$	\$	\$	%
<b>Executive directors</b>								
D Hua	373,527	-	-	19,183	-	-	392,710	0%
<b>Current key management personnel</b>								
S Diep <sup>1</sup>	118,013	-	-	11,600	-	-	129,613	0%
P O'Donoghue	188,641	-	-	17,921	-	-	206,562	0%
X Zhu	238,146	-	-	20,192	-	-	258,338	0%
Totals	918,327	-	-	68,896	-	-	987,223	0%

Notes:

1. S Diep was appointed on 29 February 2016.

**Table 2: Executive remuneration for the year ended 30 June 2015**

	Base Salary & Fees	Cash Bonus	Non-Monetary Benefits	Super Contributions	Value of Share-based Payments	Termination Benefits	Total	Performance 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%
Totals	937,447	-	-	48,388	-	-	985,835	0%

Notes:

- X Zhu was appointed on 1 December 2014.

# VDM GROUP LIMITED

## REMUNERATION REPORT

### FOR THE YEAR ENDED 30 JUNE 2016

#### 5. EXECUTIVE CONTRACTS

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

##### *Chief Executive Officer*

The Chief Executive Officer, Sam Diep is employed under a rolling contract. Mr Diep's fixed remuneration is \$369,308 per annum. The termination provisions of Mr Diep's employment contract are as follows:

	<b>Notice period</b>	<b>Payment in lieu of notice</b>	<b>Treatment of STI on termination</b>	<b>Treatment of LTI on termination</b>
Employer-initiated termination	3 months	3 months	Pro-rated for time and performance subject to Board discretion	Unexercised options expire
Termination for serious misconduct	None	None	None	Unexercised options expire
Employee-initiated termination	3 months	3 months	Pro-rated for time and performance subject to Board discretion	Unexercised options expire

##### *Executive Director of Mining*

The Executive Director of Mining, Dr Hua is employed under a rolling contract. With effect from 1 March 2016, Dr Hua's fixed remuneration is \$216,810 per annum. The termination provisions of Dr Hua's employment contract are as follows:

	<b>Notice period</b>	<b>Payment in lieu of notice</b>	<b>Treatment of STI on termination</b>	<b>Treatment of LTI on termination</b>
Employer-initiated termination	6 months	6 months	Pro-rated for time and performance subject to Board discretion	Unexercised options expire
Termination for serious misconduct	None	None	None	Unexercised options expire
Employee-initiated termination	3 months	3 months	Pro-rated for time and performance subject to Board discretion	Unexercised options expire

##### *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

## REMUNERATION REPORT

### FOR THE YEAR ENDED 30 JUNE 2016

#### 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 2016 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.

The table below provides the NED fees for the year ended 30 June 2016.

	<b>Annual NED fees including superannuation</b>
Board Chairman	\$65,000
Other Non-executive Directors	\$63,750

**Table 3: Non-executive remuneration for the year ended 30 June 2016**

	Base Salary & Fees	Cash Bonus	Non- Monetary Benefits	Super Contributions	Value of Share-based Payments	Termination Benefits	Total	Performance Related
	\$	\$	\$	\$	\$	\$	\$	%
<b>Current non-executive directors</b>								
M Fry	58,219	-	-	5,531	-	-	63,750	0%
H Luk	65,000	-	-	-	-	-	65,000	0%
<b>Past non-executive directors</b>								
V Jakovich <sup>1</sup>	53,368	-	-	5,070	-	-	58,438	0%
Totals	176,587	-	-	10,601	-	-	187,188	0%

##### *Notes:*

1. V Jakovich resigned as a Director on 24 May 2016.

# VDM GROUP LIMITED

## REMUNERATION REPORT

### FOR THE YEAR ENDED 30 JUNE 2016

**Table 4: Non-executive remuneration for the year ended 30 June 2015**

	Base Salary & Fees	Cash Bonus	Non-Monetary Benefits	Super Contributions	Value of Share-based Payments	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%
<b>Totals</b>	<b>208,678</b>	<b>-</b>	<b>-</b>	<b>12,706</b>	<b>-</b>	<b>-</b>	<b>221,384</b>	<b>0%</b>

Notes:

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

## 7. ADDITIONAL DISCLOSURES RELATING TO OPTIONS AND SHARES

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

**Table 5: Shareholdings of key management personnel (held directly and indirectly)**

	Balance 1 July 2015	Granted as remuneration	Options exercised	Net change other	Balance 30 June 2016
<b>Current directors</b>					
D Hua	1,085,110,976	-	-	-	1,085,110,976
M Fry	1,000,000	-	-	-	1,000,000
H Luk	2,070,000,000	-	-	-	2,070,000,000
<b>Past directors</b>					
V Jakovich	44,471,421	-	-	-	44,471,421
<b>Total shareholding</b>	<b>3,200,582,397</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,200,582,397</b>

### Option holdings of KMP

There were no options granted to KMP during the year ended 30 June 2016 (2015: nil). There were no options held by KMP as at 30 June 2016 (2015: nil).

The employment contract of CEO Mr Diep provides for the grant of options without any performance conditions and the employment contract of Executive Director of Mining Dr Hua provides for the grant of options without any performance conditions. The grant of Dr Hua's options subject to shareholder approval, which has not yet been obtained. Refer to section 5 of the Remuneration Report for details of the options.

### Performance rights holdings of KMP

There were no performance rights granted to KMP during the year ended 30 June 2016 (2015: nil). There were no performance rights held by KMP as at 30 June 2016 (2015: nil).



# VDM GROUP LIMITED REMUNERATION REPORT FOR THE YEAR ENDED 30 JUNE 2016

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## 8. LOANS TO KEY MANAGEMENT PERSONNEL

There were no loans granted to KMP's during the year ended 30 June 2016 (2015: 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*

On 27 January 2016, VDM entered into a Framework Loan Agreement ("FLA") with its largest shareholder, Australia Kengkong Investments Co Pty Ltd ("Kengkong"). Subsequently, Kengkong, advanced AUD \$3,000,000 and USD \$1,000,000 to VDM under the terms of a FLA. The FLA contemplates the parties entering into a secured one-year 6% loan facility that will incorporate the FLA liabilities. Until that occurs, the FLA advances plus interest accrued at 6% per annum are immediately repayable in the denominated currency when demanded by Kengkong. VDM's Non-executive Chairman Mr Luk controls Kengkong.

#### *H&H*

VDM owes H&H Holdings Australia Pty Ltd ("H&H") \$75,000 of underwriting commissions for the Company's December 2013 Rights Issue. No interest accrues and the outstanding amount is due when demanded by H&H. Dr Hua, VDM's Executive Director of Mining controls H&H.

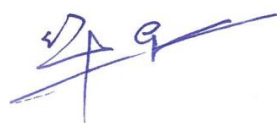
### (b) Amounts recognised at the reporting date in relation to the other transactions:

	2016 \$'000
<b>Statement of Comprehensive Income</b>	
Interest expense (i)	75
Total finance costs	75
<b>Current Liabilities</b>	
Trade and other payables (ii)	75
Interest-bearing loans and other borrowings (iii)	4,421
Total liabilities	4,496

#### *Notes:*

- (i) Interest expense on Kengkong shareholder loan (6% per annum).
- (ii) Underwriting commission due to H&H.
- (iii) Shareholder loan due to Kengkong inclusive of accrued interest

This report is made in accordance with a resolution of the directors.



**Dr Hua Dongyi**  
**Executive Director of Mining**  
Perth, Western Australia  
26 August 2016

## Auditor's Independence Declaration to the Directors of VDM Group Limited

As lead auditor for the audit of VDM Group Limited for the financial year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

- a. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b. no contraventions of any applicable code of professional conduct in relation to the audit.

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



Ernst & Young



T G Dachs  
Partner  
26 August 2016

**VDM GROUP LIMITED**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2016**

	Notes	2016 \$000	2015 \$000
<b>Continuing operations</b>			
<b>Revenue</b>	5	<b>725</b>	<b>1,253</b>
<b>Expenses</b>			
Materials and inventory		(485)	(151)
Employee benefits expense	6a	(3,413)	(4,728)
Occupancy related expenses		(850)	(1,218)
Depreciation and amortisation	6b	(421)	(707)
Impairment	6c	(5)	(1,626)
Onerous contracts expense		(207)	(1,198)
Legal expenses		(99)	(590)
Finance costs	6d	(84)	(370)
Other expenses	6e	(614)	(3,695)
<b>Total expenses</b>		<b>(6,178)</b>	<b>(14,283)</b>
Profit/(loss) on sale of assets		264	200
Share of profit/(loss) from joint venture		(235)	(63)
<b>Other income and expenses</b>		<b>29</b>	<b>137</b>
<b>Loss before income tax</b>		<b>(5,424)</b>	<b>(12,893)</b>
Income tax (expense)/benefit	7	-	516
<b>Loss for the year attributable to owners of the parent</b>		<b>(5,424)</b>	<b>(12,377)</b>
Other comprehensive income for the year, net of tax		-	-
<b>Total comprehensive loss for the year attributable to owners of the parent</b>		<b>(5,424)</b>	<b>(12,377)</b>
<b>Earnings per share</b>			
Basic loss per share (cents per share)	8	<b>(0.11)</b>	(0.30)
Diluted loss per share (cents per share)	8	<b>(0.11)</b>	(0.30)

**VDM GROUP LIMITED**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2016**

	Notes	2016 \$000	2015 \$000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	10	2,045	3,524
Security deposits	11	204	486
Trade and other receivables	12	194	301
Inventory	13	69	74
Other assets	14	1	10
<b>Total current assets</b>		<b>2,513</b>	<b>4,395</b>
<b>Non-current assets</b>			
Security deposits	11	872	940
Investment accounted for using the equity method	15	682	917
Exploration and evaluation assets	16	8,275	-
Development properties	17	2,012	2,012
Property, plant and equipment	18	1,723	2,201
Intangible assets	19	-	9
<b>Total non-current assets</b>		<b>13,564</b>	<b>6,079</b>
<b>Total assets</b>		<b>16,077</b>	<b>10,474</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	20	5,847	1,113
Interest-bearing loans and borrowings	21	4,421	64
Provisions	22	2,073	2,750
<b>Total current liabilities</b>		<b>12,341</b>	<b>3,927</b>
<b>Non-current liabilities</b>			
Provisions	22	690	1,355
<b>Total non-current liabilities</b>		<b>690</b>	<b>1,355</b>
<b>Total liabilities</b>		<b>13,031</b>	<b>5,282</b>
<b>Net assets</b>		<b>3,046</b>	<b>5,192</b>
<b>Equity</b>			
Contributed equity	23	288,722	285,444
Equity reserve	24	457	457
Retained earnings	24	(286,133)	(280,709)
<b>Total equity</b>		<b>3,046</b>	<b>5,192</b>

**VDM GROUP LIMITED**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

	Notes	2016 \$000	2015 \$000
<b>Cash Flows from Operating Activities</b>			
Receipts from customers		1,122	1,211
Payments to suppliers and employees		(8,307)	(13,808)
Interest received		93	171
Interest paid		-	(553)
GST refunded		666	499
Income tax paid		-	(342)
<b>Net cash flows used in operating activities</b>	25	<b>(6,426)</b>	<b>(12,822)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(27)	-
Release from security deposit		351	663
Proceeds from sale of property, plant and equipment		352	460
Investment in associate		-	(980)
Receipts from other debtors		-	181
Proceeds from sale of development property		-	309
<b>Net cash flows from investing activities</b>		<b>676</b>	<b>633</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		4,346	10,000
Repayment of borrowings		(65)	(188)
Proceeds from issue of shares		-	3,000
Transaction costs on issue of shares		(10)	(466)
<b>Net cash flows from / (used in) financing activities</b>		<b>4,271</b>	<b>12,346</b>
Net (decrease) / increase in cash and cash equivalents		(1,479)	158
Cash and cash equivalents at beginning of year		3,524	3,366
<b>Cash and cash equivalents at end of year</b>	10	<b>2,045</b>	<b>3,524</b>

**VDM GROUP LIMITED**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2016**

	<b>Issued Capital Ordinary \$000</b>	<b>Accumulated Losses \$000</b>	<b>Equity Reserve \$000</b>	<b>Shares to be issued \$000</b>	<b>Total \$000</b>
<b>Balance at 1 July 2015</b>	<b>285,444</b>	<b>(280,709)</b>	<b>457</b>	<b>-</b>	<b>5,192</b>
Comprehensive loss for the year	-	(5,424)	-	-	(5,424)
Total comprehensive loss for the year	-	(5,424)	-	-	(5,424)
<b>Transactions with owners in their capacity as owners</b>					
Shares issued on 16 February 2016, as part consideration for interest in Cachoeiras do Binga	3,250	-	-	-	3,250
Capital raising costs	(10)	-	-	-	(10)
Capital raising costs reclassified to expenses	38	-	-	-	38
<b>Balance at 30 June 2016</b>	<b>288,722</b>	<b>(286,133)</b>	<b>457</b>	<b>-</b>	<b>3,046</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)
Total comprehensive loss for the year	-	(12,377)	-	-	(12,377)
<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>

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

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# VDM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2016

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#### 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 2016 were authorised for issue in accordance with a 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 2016, which is consistent with the previous year. Information on the Group structure and other related party relationships is provided in note 26.

VDM exited the equipment business after 30 June 2016 and the entire Equipment Division was discontinued subsequent to the year end (refer to note 30 for further details).

#### 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 year. Comparative information has been reclassified to conform to the current year presentation. In the current year, the Group has changed the presentation of the statement of comprehensive income to a classification based on the nature of expenses rather than the function. Presentation of the nature of expenses better reflects the manner in which the diversified Group manages its expenses. Comparative year expenses were reclassified for consistency.

##### 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 2015, except for:

- the adoption of the following two accounting policies in the year:
  - joint arrangements – refer to note 2(g)
  - exploration and evaluation expenditure – refer to note 2(t)
- the adoption of the new standards and interpretations effective as of 1 July 2015 that are outlined in the following table.



**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

Reference	Title and Summary	Application date of standard	Application date for Group
<b>AASB 2013-9</b>	<p><i>Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments</i></p> <p>The Standard contains three main parts and makes amendments to a number of Standards and Interpretations.</p> <p>Part A of AASB 2013-9 makes consequential amendments arising from the issuance of AASB CF 2013-1.</p> <p>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.</p> <p>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>.</p>	1 January 2015	1 July 2015
<b>AASB 2015-3</b>	<p>Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 <i>Materiality</i></p> <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
<b>AASB 2015-4</b>	<p>Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent</p> <p>The amendment aligns the relief available in AASB 10 <i>Consolidated Financial Statements</i> and AASB 128 <i>Investments in Associates and Joint Ventures</i> in respect of the financial reporting requirements for Australian groups with a foreign parent.</p>	1 July 2015	1 July 2015

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.

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

(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 year ending 30 June 2016. 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
<b>AASB 9</b> <i>Financial Instruments</i>	<p>AASB 9 (December 2014) is a new standard which replaces AASB 139. This new version supersedes AASB 9 issued in December 2009 (as amended) and AASB 9 (issued in December 2010) and includes a model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.</p> <p>AASB 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early adoption. The own credit changes can be early adopted in isolation without otherwise changing the accounting for financial instruments.</p> <p>Classification and measurement</p> <p>AASB 9 includes requirements for a simpler approach for classification and measurement of financial assets compared with the requirements of AASB 139. There are also some changes made in relation to financial liabilities.</p>	1 January 2018	1 July 2018
<b>AASB 2014-3</b> <i>Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations [AASB 1 &amp; AASB 11]</i>	<p>AASB 2014-3 amends AASB 11 <i>Joint Arrangements</i> to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require:</p> <p>(a) the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in AASB 3 <i>Business Combinations</i>, to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11</p> <p>(b) the acquirer to disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations</p> <p>This Standard also makes an editorial correction to AASB 11.</p>	1 January 2016	1 July 2016
<b>AASB 2014-4</b> <i>Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116)</i>	<p>AASB 116 <i>Property Plant and Equipment</i> and AASB 138 <i>Intangible Assets</i> both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset.</p> <p>The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an</p>	1 January 2016	1 July 2016

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

Reference & Title	Summary	Application date of standard	Application date for Group
<i>and AASB 138)</i>	<p>asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.</p> <p>The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.</p>		
<b>AASB 15</b> <i>Revenue from Contracts with Customers</i>	<p>AASB 15 <i>Revenue from Contracts with Customers</i> replaces the existing revenue recognition standards AASB 111 <i>Construction Contracts</i>, AASB 118 <i>Revenue</i> and related Interpretations</p> <p>AASB 15 specifies the accounting treatment for revenue arising from contracts with customers (except for contracts within the scope of other accounting standards such as leases or financial instruments). The core principle of AASB 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. An entity recognises revenue in accordance with that core principle by applying the following steps:</p> <ol style="list-style-type: none"> <li>(a) Step 1: Identify the contract(s) with a customer</li> <li>(b) Step 2: Identify the performance obligations in the contract</li> <li>(c) Step 3: Determine the transaction price</li> <li>(d) Step 4: Allocate the transaction price to the performance obligations in the contract</li> <li>(e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation</li> </ol> <p>Early application is permitted.</p>	1 January 2018	1 July 2018
<b>AASB 2015-1</b> <i>Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle</i>	<p>The subjects of the principal amendments to the Standards are set out below:</p> <p><i>AASB 5 Non-current Assets Held for Sale and Discontinued Operations:</i></p> <ul style="list-style-type: none"> <li>• Changes in methods of disposal – where an entity reclassifies an asset (or disposal group) directly from being held for distribution to being held for sale (or visa versa), an entity shall not follow the guidance in paragraphs 27–29 to account for this change.</li> </ul> <p><i>AASB 7 Financial Instruments: Disclosures:</i></p> <ul style="list-style-type: none"> <li>• Servicing contracts - clarifies how an entity should apply the guidance in paragraph 42C of AASB 7 to a servicing contract to decide whether a servicing</li> </ul>	1 January 2016	1 July 2016

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

Reference & Title	Summary	Application date of standard	Application date for Group
	<p>contract is 'continuing involvement' for the purposes of applying the disclosure requirements in paragraphs 42E-42H of AASB 7.</p> <ul style="list-style-type: none"> <li>• Applicability of the amendments to AASB 7 to condensed interim financial statements - clarify that the additional disclosure required by the amendments to AASB 7 <i>Disclosure-Offsetting Financial Assets and Financial Liabilities</i> is not specifically required for all interim periods. However, the additional disclosure is required to be given in condensed interim financial statements that are prepared in accordance with AASB 134 <i>Interim Financial Reporting</i> when its inclusion would be required by the requirements of AASB 134.</li> </ul> <p>AASB 119 <i>Employee Benefits</i>:</p> <ul style="list-style-type: none"> <li>• Discount rate: regional market issue - clarifies that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations should be denominated in the same currency as the liability. Further it clarifies that the depth of the market for high quality corporate bonds should be assessed at the currency level.</li> </ul> <p>AASB 134 <i>Interim Financial Reporting</i>:</p> <ul style="list-style-type: none"> <li>• Disclosure of information 'elsewhere in the interim financial report' - amends AASB 134 to clarify the meaning of disclosure of information 'elsewhere in the interim financial report' and to require the inclusion of a cross-reference from the interim financial statements to the location of this information.</li> </ul>		
<p><b>AASB 2015-2</b>  <i>Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101</i></p>	<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. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments also clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.</p>	<p>1 January 2016</p>	<p>1 July 2016</p>
<p><b>AASB 16</b>  <i>Leases</i></p>	<p>The key features of AASB 16 are as follows:  Lessee accounting</p>	<p>1 January 2019</p>	<p>1 July 2019</p>

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

Reference & Title	Summary	Application date of standard	Application date for Group
	<ul style="list-style-type: none"> <li>• Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.</li> <li>• A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities.</li> <li>• Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.</li> <li>• AASB 16 contains disclosure requirements for lessees.</li> </ul> <p>Lessor accounting</p> <ul style="list-style-type: none"> <li>• AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.</li> <li>• AASB 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk.</li> </ul> <p>Early application is permitted, provided the new revenue standard, AASB 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as AASB 16.</p>		
<p><b>2016-1</b>  <i>Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses</i>  [AASB 112]</p>	<p>This Standard amends AASB 112 <i>Income Taxes</i> (July 2004) and AASB 112 <i>Income Taxes</i> (August 2015) to clarify the requirements on recognition of deferred tax assets for unrealised losses on debt instruments measured at fair value.</p>	<p>1 January 2017</p>	<p>1 July 2017</p>
<p><b>2016-2</b>  <i>Amendments to Australian Accounting Standards – Disclosure</i></p>	<p>This Standard amends AASB 107 <i>Statement of Cash Flows</i> (August 2015) to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising</p>	<p>1 January 2017</p>	<p>1 July 2017</p>

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2016**

<b>Reference &amp; Title</b>	<b>Summary</b>	<b>Application date of standard</b>	<b>Application date for Group</b>
<i>Initiative: Amendments to AASB 107</i>	from financing activities, including both changes arising from cash flows and non-cash changes.		
<b>IFRS 2 (Amendments)</b> <i>Classification and Measurement of Share-based Payment Transactions [Amendments to IFRS 2]</i>	<p>This standard amends to IFRS 2 <i>Share-based Payment</i>, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for:</p> <ul style="list-style-type: none"> <li>• The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments</li> <li>• Share-based payment transactions with a net settlement feature for withholding tax obligations</li> <li>• A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled</li> </ul>	1 January 2018	1 July 2018

# **VDM GROUP LIMITED**

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 30 JUNE 2016**

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#### **d) Going concern**

VDM incurred a net loss after tax from continuing operations for the year ended 30 June 2016 of \$5,424,000 (2015: \$12,377,000). Net cash flows used in operating activities were \$6,426,000 (2015: \$12,822,000). At 30 June 2016, VDM had net current liabilities of \$9,828,000 (30 June 2015: \$468,000 of net current assets). The cash position of VDM at 30 June 2016 was \$2,045,000 (30 June 2015: \$3,524,000) with a further \$1,076,000 of security deposits (30 June 2015: \$1,426,000).

VDM will require further capital funding to progress its business strategy including the Cachoeiras do Binga exploration program, 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

- On 27 January 2016, VDM agreed the principal terms for an \$18 million loan facility ("Framework Loan Agreement" or "FLA") with its largest shareholder, Australia Kengkong Investments Co Pty Ltd ("Kengkong"). As at 30 June 2016, VDM had received advances under the FLA of AUD \$3,000,000 and USD \$1,000,000. Subsequent to year end, on 21 July 2016, received an additional AUD \$1,500,000 advance under the FLA (refer to note 21 for terms of the Framework Loan Agreement).
- The FLA contemplates the parties entering into a one-year secured loan for \$18 million with an interest rate of 6% per annum ("Secured Loan Agreement" or "SLA"). Advances under the FLA will be incorporated into the SLA. The SLA document is in the advanced stages of drafting.
- VDM will be required to grant a first priority security interest over the assets of VDM in favour of Kengkong as a condition subsequent of the SLA. Under the ASX Listing Rules this grant of securities will require shareholder approval.
- The directors expect VDM and Kengkong to enter into the above SLA and expect shareholders to approve the proposed security terms.
- VDM intends to undertake future equity capital raisings that would be sufficient to repay amounts that become due under the SLA.

Should VDM not achieve the matters set out above, there is material uncertainty as to whether VDM will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the 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 2016. 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



## VDM GROUP LIMITED

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2016

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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.

#### **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.



# VDM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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) Joint arrangements**

The Group undertakes certain business activities through joint arrangements. A joint arrangement is an arrangement over which two or more parties have joint control. Joint control is the contractually agreed sharing of control over an arrangement which exists only when the decisions about the relevant activities (being those that significantly affect the returns of the arrangement) require the unanimous consent of the parties sharing control. The Group's joint arrangements are of two types, either:

- i. joint operations; or
- ii. joint ventures.

A joint operation is a type of joint arrangement in which the parties with joint control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. In relation to its interests in joint operations, the financial statements of the Group includes:

- assets, including its share of any assets held jointly;
- liabilities, including its share of any liabilities incurred jointly;
- revenue from the sale of its share of the output arising from the joint operation;
- share of the revenue from the sale of the output by the joint operation; and
- expenses, including its share of any expenses incurred jointly

All such amounts are measured in accordance with the terms of each arrangement which are in proportion to the Group's interest in the joint operation.

A joint venture is a type of joint arrangement in which the parties with joint control of the arrangement have rights to the net assets of the arrangement. Investments in joint ventures are accounted for using the equity method.

#### **h) Investments 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.

The Group's investments in associates and joint ventures 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 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

## **VDM GROUP LIMITED**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 30 JUNE 2016**

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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 associates and joint ventures 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 associates and joint ventures 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 investments in associates or joint ventures. At each reporting date, the Group determines whether there is objective evidence that the investment in the associates or joint ventures 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 associates and joint ventures' in the statement of profit or loss.

Upon loss of significant influence over the associates or joint control over the joint ventures, 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.

#### **i) 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.

#### **j) 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.

##### *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.

## **VDM GROUP LIMITED**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 30 JUNE 2016**

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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.

#### **k) 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.

# VDM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2016

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#### *Rendering of services*

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

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

#### *Interest*

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.

### **l) 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.

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

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

#### *Tax consolidation legislation*

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

VDM Group Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. VDM 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.

#### **m) 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.

#### **n) 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

## **VDM GROUP LIMITED**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 30 JUNE 2016**

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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.

#### **o) 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.

#### **p) 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.



## **VDM GROUP LIMITED**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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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.

#### **q) 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.

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.

# VDM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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

#### **r) 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

###### *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



## **VDM GROUP LIMITED**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **FOR THE YEAR ENDED 30 JUNE 2016**

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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.

#### *ii) 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.

#### *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.

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### FOR THE YEAR ENDED 30 JUNE 2016

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#### *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.

#### **s) 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.

#### **t) Exploration and evaluation expenditure:**

Expenditure on acquisition, exploration and evaluation of mineral resources relating to an area of interest is partially or fully capitalised, and recognised as an exploration and evaluation asset where rights to tenure of the area of interest are current and;

- i. it is expected that expenditure will be recouped through successful development and exploitation of the area of interest or alternatively by its sale and/or;
- ii. exploration and evaluation activities are continuing in an area of interest but at reporting date have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves.

An area of interest refers to an individual geological area whereby the presence of a mineral deposit is considered favourable or has been proved to exist. It is common for an area of interest to contract in size progressively, as exploration and evaluation lead towards identification of a mineral deposit, which may prove to contain economically recoverable reserves. When this happens during the exploration for and evaluation of mineral resources, exploration and evaluation expenditures are still included in the cost of the exploration and evaluation asset notwithstanding that the size of the area of interest may contract as the exploration and evaluation operations progress. In most cases, an area of interest will comprise a single mine or deposit.

#### *Impairment*

The carrying value of exploration and evaluation assets are assessed for impairment regularly and if information becomes available suggesting that the recovery of any of the assets is unlikely or that the Group no longer holds tenure, the relevant asset amount is written off to the profit or loss in the period when the new information becomes available.

Exploration and evaluation assets are disclosed in note 16.

#### **u) 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.

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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.

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.

#### **v) 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.

#### **w) Earnings per share**

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

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

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

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

#### **x) 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

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virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

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

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

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

#### *Long service leave*

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

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### **FOR THE YEAR ENDED 30 JUNE 2016**

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#### **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 18.

#### **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 29).

#### **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 22.

#### **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 22.

#### **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 22.

#### **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.

#### **j) Joint arrangements**

Judgement is required to determine when the Group has joint control, which requires an assessment of the relevant activities and when the decisions in relation to those activities require unanimous consent. The Group has determined that the relevant activities for its joint arrangements relate to the operating and capital decisions of the arrangement, such as: the approval the capital expenditure programme for each year, and appointing, remunerating and terminating the key management

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personnel of, or service providers to, the joint arrangement. The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries.

Judgement is also required to classify a joint arrangement as either a joint operation or joint venture. Classifying the arrangement requires the Group to assess their rights and obligations arising from the arrangement.

Specifically, it considers:

- The structure of the joint arrangement – whether it is structured through a separate vehicle
- When the arrangement is structured through a separate vehicle, the Group also considers the rights and obligations arising from:
  - the legal form of the separate vehicle;
  - the terms of the contractual arrangement; and
  - other facts and circumstances (when relevant).

This assessment often requires significant judgement, and a different conclusion on joint control and also whether the arrangement is a joint operation or a joint venture, may materially impact the accounting.

**k) Exploration and evaluation expenditures**

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgements to determine whether expenditure will be capitalised and carried as exploration and expenditure assets or be written off to the profit or loss in the period.

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**4. SEGMENT INFORMATION**

VDM is arranged under four operating divisions: i) construction, ii) equipment, iii) trading, and iv) mining. Refer to the "Operating and Financial Review" in the Directors' Report for an overview of the four operating divisions. Each division was a reportable segment in the current reporting period.

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

The following table presents the revenue, profit and selected balance sheet information for the Group's reportable segments for the year ended 30 June 2016.

	Construction \$000	Equipment \$000	Trading \$000	Mining \$000	Unallocated \$000	Total \$000
<b>Revenue</b>						
External revenue	53	196	402	4	70	725
<b>Total segment revenue</b>	<b>53</b>	<b>196</b>	<b>402</b>	<b>4</b>	<b>70</b>	<b>725</b>
<b>Results</b>						
<b>Segment results before tax</b>	<b>(521)</b>	<b>(908)</b>	<b>(196)</b>	<b>(133)</b>	<b>(3,666)</b>	<b>(5,424)</b>
Finance Costs	-	1	-	-	83	84
Depreciation & amortisation	5	231	-	-	185	421
Impairment	-	5	-	-	-	5
Share of loss from Joint Venture	-	235	-	-	-	235
<b>Reconciliation of segment results before tax to net loss after tax</b>						
Segment results before tax						(5,424)
<b>Net loss after tax per the statement of comprehensive income</b>						<b>(5,424)</b>
<b>Total assets</b>	<b>77</b>	<b>2,380</b>	<b>503</b>	<b>8,284</b>	<b>4,833</b>	<b>16,077</b>
<b>Total liabilities</b>	<b>2,516</b>	<b>77</b>	<b>22</b>	<b>5,025</b>	<b>5,391</b>	<b>13,031</b>
<b>Other disclosures</b>						
Investment in an associate and a joint venture	-	682	-	-	-	682
Exploration and evaluation asset additions	-	-	-	8,275	-	8,275
Property plant and equipment additions	-	14	-	-	13	27

**Major Customers**

VDM Group has a number of customers to which it provides goods and services. During 2016, VDM had two customers that contributed greater than 10% of revenue. These two customers contributed a combined total of 53% of VDM revenue, with individual contributions of 42% and 11% from two trading segment customers (2015: three customers contributed greater than 10% of revenue, comprised of one construction segment customer with 32% of revenue and two equipment segment customers with 15% and 14%, for a combined total of 61% of revenue).

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The following table presents the revenue, profit, and selected expenditure information for the year ended 30 June 2015 and selected balance sheet information as at 30 June 2015 for the Group's reportable segments. The trading and mining divisions were not considered reportable segments in the prior comparative period and, accordingly were included in unallocated.

	Construction	Equipment	Unallocated	Total
	\$000	\$000	\$000	\$000
<b>Revenue</b>				
External revenue	379	561	313	1,253
<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
<b>Net loss after tax per the statement of comprehensive income</b>				<b>(12,377)</b>
<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	-	917	-	917
Property plant and equipment additions	-	-	-	-



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	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
<b>5. REVENUE</b>		
<b>Sales revenue</b>		
Revenue from operating activities	606	1,003
<b>Total sales revenue</b>	<b>606</b>	<b>1,003</b>
<b>Other revenue</b>		
Interest	93	190
Net rental income	21	16
Other	5	44
<b>Total other revenue</b>	<b>119</b>	<b>250</b>
<b>Total revenue</b>	<b>725</b>	<b>1,253</b>

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	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
<b>6. EXPENSES</b>		
<b>a) Employee benefits expense</b>		
Wages and salaries	2,929	4,028
Restructuring/redundancy costs	223	159
Superannuation expense	238	618
Other employee benefits expense	23	(77)
<b>Total employee benefits expense</b>	<b>3,413</b>	<b>4,728</b>
<b>b) Depreciation and amortisation</b>		
Depreciation	412	617
Amortisation of development costs and software	9	90
<b>Total depreciation and amortisation</b>	<b>421</b>	<b>707</b>
<b>c) Impairment charges</b>		
Impairment of development properties	-	1,137
Impairment of property, plant and equipment	5	489
<b>Total impairment charges</b>	<b>5</b>	<b>1,626</b>
<b>d) Finance costs</b>		
Hire purchase interest	1	41
Bank Fees and other finance charges	8	39
Interest	75	290
<b>Total finance costs</b>	<b>84</b>	<b>370</b>
<b>e) Other expenses</b>		
Insurances	287	389
Telecommunications	38	145
Computer Costs	157	204
Other	132	2,957
<b>Total other expenses</b>	<b>614</b>	<b>3,695</b>

The other category of other expenses in the prior year includes a \$2,730,000 charge for security bonds cashed on a disputed construction contract (current year: nil).

<b>Expenses by function (prior year comparison)</b>		
Cost of sales	2,080	3,417
Administration expenses	3,753	8,709
Finance costs	76	331
Impairment losses	5	1,626
Share of equity accounted loss	235	63
<b>Total expenses</b>	<b>6,149</b>	<b>14,146</b>

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	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
<b>7. INCOME TAX</b>		
<b>a) The components of tax expense comprise:</b>		
<i>Current income tax:</i>		
Income tax benefit on adjustments in respect of current income tax of previous years	-	(516)
<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>-</b>	<b>(516)</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	(5,424)	(12,893)
<b>Total accounting loss before income tax</b>	<b>(5,424)</b>	<b>(12,893)</b>
Prima facie income tax benefit @ 30%	(1,627)	(3,868)
Prior year tax over provision	-	(516)
Tax adjustment for non-deductible expenses	5	493
Temporary differences and unrecognised tax losses	1,622	3,375
<b>Aggregate income tax benefit</b>	<b>-</b>	<b>(516)</b>
Income tax benefit reported in the consolidated income statement	-	(516)
<b>Aggregate income tax benefit</b>	<b>-</b>	<b>(516)</b>

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c) <b>Recognised deferred tax asset and liabilities</b>	<b>Statement of financial position</b>		<b>Statement of comprehensive income</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Deferred tax liabilities</b>				
Contracts in progress and inventory	-	-	-	15
Other	-	-	-	5
<b>Gross deferred tax liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20</b>
<b>Deferred tax assets</b>				
Provision for employee entitlements	61	97	35	43
Provisions – other	718	743	25	530
Trade and other receivable	484	476	(8)	1,065
Trade and other payables	143	326	184	751
Contributed equity	304	602	290	291
Deferred tax assets not recognised	(1,710)	(2,244)	(526)	(2,700)
<b>Gross deferred tax assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(20)</b>
<b>Deferred tax expense</b>			<b>-</b>	<b>-</b>
<b>Net deferred tax asset recognised in the balance sheet</b>	<b>-</b>	<b>-</b>		

**d) Tax losses**

VDM Group has recognised a deferred tax asset of \$nil (2015: \$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 \$121,334,317 (2015: \$114,176,123). 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 2015 financial year, therefore in order to be able to utilise the pre-2016 losses in the future, VDM may 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 2016, there were 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 (2015: 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.

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	2016 \$000	2015 \$000
<b>8. LOSS PER SHARE</b>		
<b>a) Loss used in calculating loss per share</b>		
Net loss from continuing operations attributable to ordinary equity holders of the parent	(5,424)	(12,377)
<b>Net loss attributable to ordinary equity holders of the parent for basic earnings</b>	<b>(5,424)</b>	<b>(12,377)</b>
<b>b) Weighted average number of shares</b>	<b>No.</b>	<b>No.</b>
Weighted average number of ordinary shares for basic and diluted earnings per share	<b>5,068,071,911</b>	<b>4,109,030,815</b>
<b>9. DIVIDENDS PROPOSED AND PAID</b>		
<b>a) Declared and paid during the year</b>		
<i>Dividends on ordinary shares:</i>		
Final dividend for 2015: nil cents per share (2014: nil cents per share)	-	-
Interim dividend for 2016: nil cents per share (2015: nil cents per share)	-	-
<b>Dividends paid during the year</b>	<b>-</b>	<b>-</b>
<b>b) Dividend proposed, not recognised as a liability</b>		
Final dividend for 2016: nil cents per share (2015: nil cents per share)	-	-
<b>c) Franking credits:</b>		
<i>Franking credits available for the subsequent financial year:</i>		
Franking account balance as at the end of the financial year at 30% (2015: 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	-	-
<b>Franking credits available for future periods</b>	<b>3,459</b>	<b>3,459</b>

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	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
<b>10. CASH AND CASH EQUIVALENTS</b>		
Cash at bank and in hand	2,045	3,524
<b>Cash and cash equivalents</b>	<b>2,045</b>	<b>3,524</b>
<i>Reconciliation to cash flow statement</i>		
For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:		
Cash at bank and in hand	2,045	3,524
<b>Cash for reconciliation of cash flow statement</b>	<b>2,045</b>	<b>3,524</b>

Cash at bank earns interest at floating rates or term deposit rates.

**11. SECURITY DEPOSITS**

<b>Security Deposits</b>	<b>1,076</b>	<b>1,426</b>
Current	204	486
Non-current	872	940
<b>Total security deposits</b>	<b>1,076</b>	<b>1,426</b>

Security deposits are comprised of cash pledged as collateral for bank guarantees issued by the Group. The security deposits are not available for immediate use.

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	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
<b>12. TRADE AND OTHER RECEIVABLES</b>		
Trade receivables	1,783	1,818
Other debtors	26	70
Impairment of trade and other receivables	(1,615)	(1,587)
<b>Total trade and other receivables</b>	<b>194</b>	<b>301</b>
<b>a) Ageing of trade receivables</b>		
0 - 30 days	47	134
31 - 60 days	29	18
> 60 days PDNI*	92	79
> 60 days IM*	1,615	1,587
<b>Total trade receivables</b>	<b>1,783</b>	<b>1,818</b>
<b>b) Allowance for impairment loss</b>		
Balance at 1 July 2015	1,587	6,595
Charge for the year	44	212
Utilised	(16)	(5,220)
<b>Balance at 30 June 2016</b>	<b>1,615</b>	<b>1,587</b>

\* PDNI – past due not impaired

\*\* IM - impaired

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.

**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 27.

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	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
<b>13. INVENTORY</b>		
Consumables at cost	69	74
<b>Total inventory</b>	<b>69</b>	<b>74</b>
<b>14. OTHER CURRENT ASSETS</b>		
Prepayments	1	10
<b>Total other current assets</b>	<b>1</b>	<b>10</b>
<b>15. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD</b>		
Current assets	1,747	1,847
Non-current assets	38	35
Current liabilities	392	10
Non-current liabilities	-	-
Equity	1,393	1,872
<b>Group's carrying amount of the investment</b>	<b>682</b>	<b>917</b>
<b>a) Reconciliation of carrying amounts</b>		
Balance at 1 July	917	-
Investment in share capital of Sany VDM Pty Ltd	-	980
Share of equity accounted loss for the year	(235)	(63)
<b>Balance at 30 June</b>	<b>682</b>	<b>917</b>
<b>b) Share of equity accounted loss</b>		
Revenue	1,167	52
Cost of sales	(878)	(2)
Administrative expenses	(772)	(194)
Finance costs	3	16
Loss before tax	(480)	(128)
Income tax expense	-	-
Loss for the year	(480)	(128)
Total comprehensive loss for the year	(480)	(128)
<b>Group's share of loss for the year</b>	<b>(235)</b>	<b>(63)</b>

Sany VDM Pty Ltd is an Australian company, jointly-owned by VDM and Sany. VDM holds a 49% interest. The arrangement is classified as a joint venture, which is consistent with the prior year.

On 28 July 2016, VDM announced that it was withdrawing from the joint venture with Sany (refer to note 30).



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	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
<b>16. EXPLORATION AND EVALUATION ASSETS</b>		
<b>Balance as at 1 July</b>	-	-
Additions	8,275	-
<b>Balance as at 30 June</b>	<b>8,275</b>	-

During the year VDM acquired a 65% participating interest in the Cachoeiras do Binga Project for consideration comprised of 650 million ordinary shares (refer to note 23) and \$4,875,000 cash. The cash component remains payable (refer to note 20).

This project is classified as a joint operation and is located in the Republic of Angola.

Ultimate recoupment of the exploration and evaluation assets is dependent on the successful development and commercial exploitation or sale of the respective mining areas.

**17. DEVELOPMENT PROPERTIES**

Development properties	2,012	2,012
<b>Total development properties</b>	<b>2,012</b>	<b>2,012</b>
<b>Reconciliation of carrying amounts</b>		
Balance at 1 July	2,012	3,389
Additions	-	9
Disposals	-	(248)
Impairment of development properties	-	(1,137)
<b>Balance at 30 June</b>	<b>2,012</b>	<b>2,013</b>

*Impairment Assessment*

Management performed a net realisable value assessment which resulted in recognition of nil impairment to development properties (2015: \$1,137,000 impairment).

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	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
<b>18. PROPERTY, PLANT AND EQUIPMENT</b>		
Leasehold improvements at cost	673	687
Accumulated Depreciation	(408)	(270)
<b>Total leasehold improvements</b>	<b>265</b>	<b>417</b>
Freehold land and buildings at cost	887	887
Accumulated Depreciation	(16)	(8)
<b>Total freehold land and buildings</b>	<b>871</b>	<b>879</b>
Plant & equipment under lease at cost	-	611
Accumulated depreciation	-	(451)
<b>Total plant &amp; equipment under lease</b>	<b>-</b>	<b>160</b>
Plant & equipment at cost	6,366	7,858
Accumulated depreciation	(5,779)	(7,113)
<b>Total plant &amp; equipment</b>	<b>587</b>	<b>745</b>
<b>Total property, plant and equipment</b>	<b>1,723</b>	<b>2,201</b>

*Pledged assets*

Nil of the above asset value relates to assets pledged as security under hire purchase liabilities (2015: \$160,000).

*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 \$5,000 (2015: \$489,000).

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	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
<b>18. PROPERTY, PLANT AND EQUIPMENT (continued)</b>		
<b>Reconciliation of carrying amounts</b>		
<i>Leasehold Improvements</i>		
Balance at 1 July net of accumulated depreciation	417	506
Additions	14	-
Depreciation	(166)	(102)
Transfer from freehold land and buildings	-	13
<b>Balance at 30 June</b>	<b>265</b>	<b>417</b>
<i>Freehold land and buildings</i>		
Balance at 1 July net of accumulated depreciation	879	900
Depreciation	(8)	(8)
Transfer to leasehold improvements	-	(13)
<b>Balance at 30 June</b>	<b>871</b>	<b>879</b>
<i>Plant and equipment under lease</i>		
Balance at 1 July net of accumulated depreciation	160	488
Impairment	-	(256)
Depreciation	(28)	(72)
Transfer to plant and equipment	(132)	-
<b>Balance at 30 June</b>	<b>-</b>	<b>160</b>
<i>Plant and equipment</i>		
Balance at 1 July net of accumulated depreciation	745	1,427
Additions	13	-
Disposals	(88)	(47)
Impairment	(5)	(233)
Depreciation	(210)	(435)
Transfer from plant and equipment under lease	132	-
Transfer from inventory	-	33
<b>Balance at 30 June</b>	<b>587</b>	<b>745</b>
<b>Total property, plant and equipment</b>	<b>1,723</b>	<b>2,201</b>

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	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
<b>19. INTANGIBLE ASSETS</b>		
Software	3,025	3,025
Accumulated amortisation and impairment	(3,025)	(3,016)
<b>Total intangible assets</b>	<b>-</b>	<b>9</b>
<b>Reconciliation of carrying amounts</b>		
<i>Intangible assets</i>		
Balance at 1 July	9	99
Additions	-	-
Amortisation	(9)	(90)
Discontinued operations	-	-
<b>Balance at 30 June</b>	<b>-</b>	<b>9</b>
<b>20. TRADE AND OTHER PAYABLES</b>		
Trade payables and accruals	747	1,007
Employee related payables	38	68
GST payable	37	38
Other payables	5,025	-
<b>Total trade and other payables</b>	<b>5,847</b>	<b>1,113</b>

Other payables includes \$4,875,000 payable in relation to the acquired interest in Cachoeiras do Binga (refer to note 16).

**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 27.

**c) Entities subject to class order relief**

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

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	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
<b>21. INTEREST-BEARING LOANS AND OTHER BORROWINGS</b>		
Shareholder loan- AUD denominated (e)	3,061	-
Shareholder loan - USD denominated (e)	1,360	-
Hire purchase liabilities	-	64
<b>Total Interest bearing loans and other borrowings</b>	<b>4,421</b>	<b>64</b>

**a) Fair values**

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

**b) Interest rate, foreign exchange and liquidity risk**

Information regarding interest rate, foreign exchange and liquidity risk exposure is disclosed in note 27.

**c) Assets pledged as security**

<i>Finance arrangements:</i>		
Plant and equipment under lease	-	159
<i>Floating charge:</i>		
All the remaining wholly owned assets	-	10,315
<b>d) Financing facilities</b>		
Credit cards	40	150
Bank guarantees	1,036	1,245
<b>Balance at 30 June 2016</b>	<b>1,076</b>	<b>1,395</b>

Hire purchase lease liabilities were fully repaid in the year. The bank floating charge was released and discharged in the year. The credit card and bank guarantee facilities are secured by cash security deposits (refer to note 11). The bank guarantee facility limit is equal the amount of bank guarantees issued and outstanding in favour of VDM. The credit card facility is available subject to annual review.

**e) Shareholder loans**

VDM's largest shareholder, Australia Kengkong Investments Co Pty Ltd ("Kengkong"), advanced AUD \$3,000,000 and USD \$1,000,000 to VDM under the terms of a Framework Loan Agreement ("FLA") (2015: nil). The FLA contemplates the parties entering into a secured one-year 6% per annum loan facility that will incorporate the FLA liabilities. Until that occurs, the FLA advances, plus accrued interest of 6% per annum are immediately repayable in the denominated currency when demanded by Kengkong. An interest rate of 20% per annum applies if VDM defaults on the loan.

The 30 June 2016 shareholder loan balances include \$75,000 of accrued interest.

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	2016 \$000	2015 \$000
<b>22. PROVISIONS</b>		
<b>Current</b>		
Employee entitlements	181	305
Construction warranties	567	665
Onerous contracts	850	1,279
Other construction contract obligations	297	466
Other provisions	178	35
<b>Total current provisions</b>	<b>2,073</b>	<b>2,750</b>
<b>Non-Current</b>		
Employee entitlements	24	17
Onerous contracts	576	1,197
Other provisions	90	141
<b>Total non-current provisions</b>	<b>690</b>	<b>1,355</b>
<b>Total provisions</b>	<b>2,763</b>	<b>4,105</b>

**a) Movement in provisions**

	Balance 1 Jul 2015 \$000	Arising during the year \$000	Utilised during the year \$000	Unused amounts reversed \$000	Balance 30 Jun 2016 \$000
Employee entitlements	322	154	(271)	-	205
Construction warranties	665	-	(1)	(97)	567
Onerous contracts	2,476	207	(1,257)	-	1,426
Other construction contract obligations	467	-	(99)	(71)	297
Other provisions	175	127	(34)	-	268
<b>Total provisions</b>	<b>4,105</b>	<b>488</b>	<b>(1,662)</b>	<b>(168)</b>	<b>2,763</b>

**b) Nature and timing of provisions**

*Construction warranties* are estimated costs for warranty claims on completed construction projects based on past experience. It is estimated that these costs will be incurred in the next financial year.

*Onerous contracts* are estimated net unavoidable costs of meeting obligations under onerous contracts.

*Other construction contract obligations* are estimated costs, other than warranty claims, related to construction contracts.

*Other provisions* is mainly comprised of a lease incentive liabilities and remaining deductibles under insurance claims. The insurance deductible portion is estimated to be incurred in the next financial year. The lease incentive is amortised over the remaining term of the lease and this provision has been apportioned between current and non-current according to the amortisation schedule.

Provisions estimated to be settled after the end of the next financial year are classified as non-current. Provisions estimated to be settled in the next financial year are classified as current.

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	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
<b>23. CONTRIBUTED EQUITY</b>		
<b>a) Ordinary shares</b>		
Issued and fully paid	288,722	285,444
	<b>Number of Shares</b>	<b>\$000</b>
<b>Balance at 1 July</b>	<b>4,827,660,952</b>	<b>285,444</b>
Shares issued on 16 February 2016, as part consideration for interest in Cachoeiras do Binga	650,000,000	3,250
Capital raising costs	-	(10)
Capital raising costs reclassified to expenses	-	38
<b>Balance at 30 June</b>	<b>5,477,660,952</b>	<b>288,722</b>

**b) 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.

**c) 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 significant restructuring and implementation of the new business strategy in the 2015 financial year, the Company remains focussed on returning to profitability in the short to medium term and maintaining an appropriate level of working capital. Until achievement of profitable operations and positive operating cash flow, the Directors do not anticipate paying dividends.

The level of dividends paid 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.

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	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
<b>24. ACCUMULATED LOSSES AND RESERVES</b>		
<b>a) Movement in accumulated losses</b>		
Balance at 1 July	(280,709)	(268,332)
Net loss attributable to members of VDM Group Limited	(5,424)	(12,377)
<b>Balance at 30 June</b>	<b>(286,133)</b>	<b>(280,709)</b>
<b>b) Movement in equity reserve</b>		
Balance at 1 July	457	457
<b>Balance at 30 June</b>	<b>457</b>	<b>457</b>

*Equity reserve*

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 did not result in a loss of control. The reserve is attributable to the equity of the parent.



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	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
<b>25. CASHFLOW STATEMENT INFORMATION</b>		
<b>Reconciliation of net profit after tax to the net cash flows from operations</b>		
Net loss after tax	(5,424)	(12,377)
<i>Non-cash items:</i>		
Depreciation and amortisation	421	707
Impairment of assets	5	1,626
Profit on disposal of property, plant and equipment	(264)	(200)
Share of equity accounted loss	235	63
<i>Change in operating assets and liabilities:</i>		
Decrease in trade and other receivables	170	849
Decrease in inventory	18	43
Decrease in trade and other creditors	(1,430)	(2,052)
Increase/(Decrease) in provisions	(157)	(623)
Decrease in income taxes payable	-	(858)
<b>Net cash flows used in operation activities</b>	<b>(6,426)</b>	<b>(12,822)</b>

**26. RELATED PARTY DISCLOSURE**

Note 32 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) Due from associates**

Sany VDM Pty Ltd is an Australian company, jointly-owned by VDM and Sany in which VDM holds a 49% interest. As at 30 June 2016, Sany VDM Pty Ltd owed \$83,000 to VDM for reimbursement of expenses paid by VDM on behalf of the joint venture (2015: nil). The amount due is included in trade and other receivables.

**c) Transactions with key management personnel**

*Kengkong*

On 27 January 2016, VDM entered into a Framework Loan Agreement ("FLA") with its largest shareholder, Australia Kengkong Investments Co Pty Ltd ("Kengkong"). Subsequently, Kengkong, advanced AUD \$3,000,000 and USD \$1,000,000 to VDM under the terms of a FLA. The FLA contemplates the parties entering into a secured one-year 6% loan facility that will incorporate the FLA liabilities. Until that occurs, the FLA advances plus interest accrued at 6% per annum are immediately repayable in the denominated currency when demanded by Kengkong. VDM's Non-executive Chairman Mr Luk controls Kengkong.

*H&H*

VDM owes H&H Holdings Australia Pty Ltd ("H&H") \$75,000 of underwriting commissions for the Company's December 2013 Rights Issue. No interest accrues and the outstanding amount is due when demanded by H&H. Dr Hua, VDM's Executive Director of Mining controls H&H.

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**26. RELATED PARTY DISCLOSURE (continued)**

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

There were no transactions entered into with related parties other than key management personnel during the years ended 30 June 2016, and 30 June 2015, except for those noted above.

	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
<b>e) Compensation for key management personnel</b>		
Short term	1,095	1,146
Post employment	79	61
Share-based payments	-	-
Termination benefits	-	-
<b>Total compensation</b>	<b>1,174</b>	<b>1,207</b>

**27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

Credit, liquidity and market risk (including interest rate and foreign exchange risk) arise in the normal course of 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, loans, 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.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

**2016**                      **2015**  
**\$000**                              **\$000**

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

<b>Financial assets</b>		
Cash and cash equivalents (note 10)	2,045	3,524
Security deposits (note 11)	1,076	1,426
<b>Balance at the end of the year</b>	<b>3,121</b>	<b>4,950</b>
<b>Financial liabilities</b>		
Interest bearing borrowings and loans (note 21)	<b>4,421</b>	<b>64</b>

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>		
+ 1% (100 basis points)	22	35
- 1% (100 basis points)	(22)	(35)

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.

The financial instruments exposed to US dollar foreign exchange rate risk are as follows:

<b>Financial assets</b>		
Cash and cash equivalents	1,844	-
<b>Balance at the end of the year</b>	<b>1,844</b>	<b>-</b>
<b>Financial liabilities</b>		
Interest bearing borrowings and loans (note 21)	<b>1,360</b>	<b>-</b>

The following table summarises the sensitivity on US dollar foreign exchange rate exposures, in existence at the balance sheet date. The sensitivity is based on foreseeable changes over a financial year.

<b>Post-tax gain / (loss)</b>		
+ 10% (100 basis points)	34	-
- 10% (100 basis points)	(34)	-

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**27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

**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.

	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
The maximum exposure to credit risk at the reporting date was as follows:		
Cash and cash equivalents	2,045	3,524
Security deposits	1,076	1,426
Trade and other receivables	194	301
	<b>3,315</b>	<b>5,251</b>

**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 and exploration expenditures through operating cash flow and equity capital raisings.

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 projects which have not been recognised as income. The table also excludes contractual commitments classified as operating leases (refer to note 29). 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 2016. Repayment obligations in respect of loans, hire purchase facilities and trade and other payables are as follows:

Not later than one year	10,268	1,178
Later than one year but not later than two years	-	-
Later than two years but not later than three years	-	-
Later than three years	-	-
	<b>10,268</b>	<b>1,178</b>

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

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

	<b>Total</b>	<b>0-60</b>	<b>61 Days</b>	<b>1- 5</b>	<b>&gt;5</b>
	<b>\$000</b>	<b>Days</b>	<b>- 1 Year</b>	<b>Years</b>	<b>Years</b>
		<b>\$000</b>	<b>\$000</b>	<b>\$000</b>	<b>\$000</b>
<b>Year ended 30 June 2016</b>					
<i>Financial Assets</i>					
Cash & cash equivalents (note 10)	2,045	2,045	-	-	-
Security deposits (note 11)	1,076	-	204	872	-
Trade receivables and other receivables (note 12)	194	194	-	-	-
<b>Total financial assets</b>	<b>3,315</b>	<b>2,239</b>	<b>204</b>	<b>872</b>	<b>-</b>
<i>Financial liabilities</i>					
Trade and other payables (note 20)	5,847	822	5,025	-	-
Interest bearing loans and borrowings	4,421	-	4,421	-	-
<b>Total financial liabilities</b>	<b>10,268</b>	<b>822</b>	<b>9,446</b>	<b>-</b>	<b>-</b>
<b>Net maturity</b>	<b>(6,953)</b>	<b>1,417</b>	<b>(9,242)</b>	<b>872</b>	<b>-</b>
<b>Year ended 30 June 2015</b>					
<i>Financial Assets</i>					
Cash & cash equivalents	3,524	3,524	-	-	-
Security deposits	1,426	357	129	940	-
Other receivables	-	-	-	-	-
Trade receivables	301	134	167	-	-
<b>Total financial assets</b>	<b>5,251</b>	<b>4,015</b>	<b>296</b>	<b>940</b>	<b>-</b>
<i>Financial liabilities</i>					
Trade payables	1,113	1,113	-	-	-
Other payables	-	-	-	-	-
HP liabilities	65	50	15	-	-
Interest bearing loans and borrowings	-	-	-	-	-
<b>Total financial liabilities</b>	<b>1,178</b>	<b>1,163</b>	<b>15</b>	<b>-</b>	<b>-</b>
<b>Net maturity</b>	<b>4,073</b>	<b>2,852</b>	<b>281</b>	<b>940</b>	<b>-</b>

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)**

**d) Fair value**

At 30 June 2016 there are no financial assets or financial liabilities which are accounted for at fair value. Carrying amounts approximate the fair value of financial assets and financial liabilities presented in the Consolidated Statement of Financial Position.

	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
<b>28. PARENT ENTITY INFORMATION</b>		
Current assets	2,130	4,766
Total assets	13,113	7,012
Current liabilities	9,948	1,513
Total liabilities	10,067	1,820
Issued capital	288,722	285,444
Accumulated loss	(286,133)	(280,709)
Option reserve	457	457
<b>Total shareholders equity</b>	<b>3,046</b>	<b>5,192</b>
Loss of parent entity	(5,424)	(12,377)
<b>Total comprehensive loss of the parent entity</b>	<b>(5,424)</b>	<b>(12,377)</b>

**a) Bank guarantees**

As at 30 June 2016, VDM Group Limited had \$403,000 of bank guarantees on issue as security for leased properties (2015: \$403,000).

As at 30 June 2016, VDM Group Limited was exposed contingent liabilities of AOA 53,313,000 related to bank guarantees provided to the Angolan government for contractual obligations under the Cachoeiras do Binga Mining Investment Contract. AOA is the currency of the Republic of Angola and the 30 June 2016 contingent amount translates to AUD \$430,000 (2015: nil).

**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 2016 (2015: nil).

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
<b>29. COMMITMENTS</b>		
<b>a) Operating leases</b>		
Within one year	2,052	2,372
One year or later but no later than 5 years	1,999	4,356
After more than 5 years	-	-
<b>Total minimum lease payments</b>	<b>4,051</b>	<b>6,728</b>
<b>b) Hire purchase commitments</b>		
Not later than 1 year	-	65
After 1 year but not more than 5 years	-	-
<b>Total minimum lease payment</b>	<b>-</b>	<b>65</b>
Future finance charges	-	(1)
<b>Present value of minimum lease payments (note 22)</b>	<b>-</b>	<b>64</b>
<b>Total hire purchase liability Included in the financial statements as:</b>		
Current - hire purchase liability	-	64
Non - current - hire purchase liability	-	-
<b>Included in interest bearing loans and other borrowings (note 22)</b>	<b>-</b>	<b>64</b>

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

VDM has no capital expenditure commitments at 30 June 2016 (2015: nil).

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**29. COMMITMENTS (CONTINUED)**

**d) Legal claims**

The following matters could lead to VDM incurring material losses if the claimants are successful with their claims:

Construction claim

VDM and a customer have offsetting claims relating to a terminated construction project in Western Australia in 2013 and neither party has taken legal action to enforce their claims. The amount and expected timing of the claims is not disclosed as this could prejudice VDM in the dispute.

Engineering claim

The claim is related to an offshore engineering project and is covered by insurance. The remaining \$120,000 deductible under the insurance claim has been recognised as a current provision on the statement of financial position as at 30 June 2016 (refer to note 22).

The following legal claim that was disclosed in the 30 June 2015 financial report has been closed-off during the year:

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. The subcontractor claim was dismissed by the court and the plaintiff was ordered to pay VDM's defence cost.

The following legal claim that was disclosed in the 31 December 2015 financial report has been closed-off during the year:

Indemnity claim

VDM Group Limited sold a 100%-owned Australian subsidiary company in 2013, by sale of shares. The purchaser commenced court action against VDM during the current reporting period claiming indemnification from VDM for a potential claim against the purchased subsidiary company. The claim was dismissed by the court.

**e) Bank guarantees**

As at 30 June 2016, VDM had \$1,036,000 of bank guarantees on issue as security for leased commercial property and to guarantee performance of contracts (2015: \$1,245,000).



**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**30. EVENTS AFTER THE YEAR END**

**a) Events after the year end**

On 21 July 2016, Kengkong provided an AUD \$1,500,000 cash advance to VDM of under the terms of the Framework Loan Agreement (refer to note 21 for terms of the loan).

On 28 July 2016, VDM announced that it is exiting the equipment hire and sales business and withdrawing from the equipment joint venture that it operates with Sany. The Group has taken this decision to focus its resources on delivering positive returns on VDM's African mining assets and successfully building the Trading division. The entire Equipment segment as disclosed in note 4 will be discontinued by VDM, and as at date of this report the process of selling the segment's assets had commenced.

On 28 July 2016, VDM announced that VDM and its Cachoeiras do Binga partners signed a technical services agreement with SRK Consulting and are making plans to mobilise an exploration team to the Cachoeiras do Binga project site to commence the mineral exploration program.

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>31. AUDITOR'S REMUNERATION</b>		
<i>Amount received or receivable by Ernst &amp; Young for:</i>		
Auditing financial statements	74,458	110,000
Non audit fees (tax compliance & other advisory)	-	162,000
<b>Total auditor's remuneration</b>	<b>74,458</b>	<b>272,000</b>

**VDM GROUP LIMITED**  
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**32. 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		
		2016	2015	
* 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	0%	100%	(i)
* VDM Group Limited International (Dubai Branch) Pty Ltd	Australia	100%	100%	
* BCA Consultants Pty Ltd	Australia	100%	100%	
* Barlow Gregg VDM Pty Ltd	Australia	0%	100%	(i)
* VDM Investments Pty Ltd	Australia	0%	100%	(i)
* VDM Consulting (NSW) Pty Ltd	Australia	0%	100%	(i)
* VDM Consulting (VIC) Pty Ltd	Australia	0%	100%	(i)
* VDM Equity Incentives Pty Ltd	Australia	0%	100%	(i)
* VDM CCE Pty Ltd	Australia	0%	100%	(i)
VDM Africa Holdings Ltd	British Virgin Islands	100%	100%	
The EB Trust	Australia	100%	100%	

Note (i): These dormant entities were deregistered during the year.

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

VDM has a 49% ownership interest in Sany VDM Pty Ltd (2015: 49%). For more details refer to notes 15 and 26(b).

**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**  
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**32. CLOSED GROUP CLASS ORDER DISCLOSURES (CONTINUED)**

The consolidated statement of comprehensive income and statement of financial position of the entities that are members of the Closed Group are as follows:

**c) Statement of comprehensive income**

	<b>Closed Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
Loss from continuing operations before income tax	(5,418)	(11,745)
Income tax benefit	-	1,096
<b>Loss after tax from continuing operations</b>	<b>(5,418)</b>	<b>(10,649)</b>
<b>Net Loss for the year</b>	<b>(5,418)</b>	<b>(10,649)</b>
Non-controlling interest	-	-
Dividends paid	-	-
Accumulated losses at the beginning of the year	(277,609)	(266,960)
<b>Accumulated losses at the end of the year</b>	<b>(283,027)</b>	<b>(277,609)</b>

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**32. CLOSED GROUP CLASS ORDER DISCLOSURES (CONTINUED)**

<b>d) Statement of financial position</b>	<b>Closed Group</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$000</b>	<b>\$000</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	2,043	3,521
Security deposits	204	486
Trade and other receivables	5,315	5,416
Inventory	69	74
Other assets	1	10
<b>Total Current Assets</b>	<b>7,632</b>	<b>9,507</b>
<b>Non-Current Assets</b>		
Security deposits	872	940
Investment accounted for using the equity method	682	917
Exploration and evaluation assets	8,275	-
Property, plant and equipment	1,723	2,201
Intangible assets	-	9
<b>Total Non-Current Assets</b>	<b>11,552</b>	<b>4,067</b>
<b>Total Assets</b>	<b>19,184</b>	<b>13,574</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Trade and other payables	5,848	1,113
Interest-bearing loans and borrowings	4,421	64
Provisions	2,073	2,750
<b>Total Current Liabilities</b>	<b>12,342</b>	<b>3,927</b>
<b>Non-Current Liabilities</b>		
Provisions	690	1,355
<b>Total Non-Current Liabilities</b>	<b>690</b>	<b>1,355</b>
<b>Total Liabilities</b>	<b>13,032</b>	<b>5,282</b>
<b>Net Assets</b>	<b>6,152</b>	<b>8,292</b>
<b>Equity</b>		
Contributed equity	288,722	285,444
Equity reserve	457	457
Retained earnings	(283,027)	(277,609)
<b>Total Equity</b>	<b>6,152</b>	<b>8,292</b>

## **VDM GROUP LIMITED DIRECTORS' DECLARATION FOR THE YEAR ENDED 30 JUNE 2016**

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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 2016 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 2016; and
- (e) subject to the satisfactory achievement of the matters described in note 2(d), as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 32 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**  
**Executive Director of Mining**  
Perth, Western Australia  
26 August 2016

## 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 2016, 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 2016 and of its performance for the year ended on that date;
  - 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).

## 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.

## Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2016. 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 2016, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



T G Dachs  
Partner  
Perth  
26 August 2016