



## Appendix 4D

### Half year report Period ended 31 December 2015

### VDM Group Limited

ABN 95 109 829 334  
ASX Code: VMG

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

Current half year ended – 31 December 2015

Corresponding half year ended - 31 December 2014

<b>Results</b>	<b>\$'000</b>	<b>Up/Down</b>	<b>% Change from corresponding half year</b>
Revenue from continuing operations	<b>141</b>	Down	82.9%
Loss from continuing operations after tax attributable to members	<b>(4,205)</b>	Down	44.9%
Net loss for the period attributable to members	<b>(4,205)</b>	Down	44.9%

**Dividend payments:**

VDM Group does not propose to pay an interim dividend for the half year ended 31 December 2015.

**Net tangible assets:**

	<b>31 Dec 2015</b>	<b>31 Dec 2014</b>
Net tangible (liabilities) / assets per ordinary security (cents per share)	(0.07)	0.21

Additional required Appendix 4D disclosures can be found in the directors' report and consolidated financial statements for the half year ended 31 December 2015.

This Appendix 4D is based on the consolidated financial statements for the half year ended 31 December 2015, which include an Independent Auditor's Review Report from Ernst and Young.



# **VDM GROUP LIMITED**

**and its Controlled Entities**

**ABN 95 109 829 334**

**INTERIM FINANCIAL REPORT  
HALF YEAR ENDED 31 DECEMBER 2015**

# VDM GROUP LIMITED

## CORPORATE INFORMATION

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**ABN 95 109 829 334**

### **DIRECTORS**

Mr Luk Hiuming	Non-executive Chairman
Dr Hua Dongyi	Managing Director and Chief Executive Officer
Mr Michael Fry	Non-executive Director
Mr Vic Jakovich	Non-executive Director

### **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**

Locked Bag 8  
East Perth WA 6892

### **AUDITORS**

Ernst & Young  
11 Mounts Bay Road  
Perth WA 6000

### **Share Register**

Computershare Investor Services Pty Limited  
Level 11, 172 St George's Terrace  
Perth WA 6000  
Telephone 1300 850 505  
(outside Australia) +61 3 9415 4000

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

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

In this report, the following definitions apply:

"**Board**" means the Board of Directors of VDM Group Limited

"**Company**" means VDM Group Limited ABN 95 109 829 334

"**VDM**" or "**Group**" means VDM Group Limited and its controlled entities

**VDM GROUP LIMITED**  
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# VDM GROUP LIMITED

## DIRECTORS' REPORT

### For the half year ended 31 December 2015

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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 half year ended 31 December 2015.

#### 1. DIRECTORS

The names and details of the directors of VDM Group Limited in office during the half year and until the date of this report are set out below. Each Director was in office for this entire period unless stated otherwise.

##### **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

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

*Managing Director and Chief Executive Officer*

Appointed Director on 28 August 2013, appointed Managing Director on 9 September 2013, appointed Executive Chairman and Interim CEO on 29 November 2013, appointed Managing Director and CEO on 29 January 2015

Member of the Audit & Risk Committee

##### **Mr Michael Fry**

*Non-executive Director (independent)*

Appointed 3 June 2011

Chairman of the Audit & Risk Committee

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

*Non-executive Director (independent)*

Appointed 1 February 2014

#### COMPANY SECRETARY

##### **Padraig O'Donoghue, CA**

Appointed 12 February 2014

#### 2. NATURE AND PRINCIPAL ACTIVITIES

Business activities during the year related to establishing VDM's four operating divisions.

*VDM Mining:* mining exploration, development and operation in Africa and Latin America.

*VDM Equipment:* equipment sales, hire, service and parts sales.

*VDM Trading:* export Australian goods to Asian markets & imports Asian goods to Australia.

*VDM Construction:* engineering, procurement and construction.

These activities principally included: 1) acquisition of a mining project located in the Republic of Angola; 2) equipment hire and parts/equipment sales by the equipment division and the Sany-VDM Joint Venture; 3) goods export and import by the trading division; and 4) pre-contract work by the construction division.

The business activities of the comparative reporting period principally related to minor works to close-out the remaining construction contracts and ongoing equipment hire to construction clients.

**VDM GROUP LIMITED**  
**DIRECTORS' REPORT**  
**For the half year ended 31 December 2015**

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**3. OPERATING AND FINANCIAL REVIEW**

VDM's mining division made significant progress towards establishing mining operations in Africa. On 14 December 2015, VDM announced that the Ministry of Geology and Mining of the Republic of Angola signed a Mining Investment Contract ("MIC") granting VDM, Pebric Mining and Consulting LDA ("Pebric") and Seabank Resources LDA ("Seabank") with exclusive mining rights for copper located in the 3,854 square kilometre Cachoeiras do Binga exploration concession area located in the Republic of Angola ("Cachoeiras do Binga Project"). Following execution of the MIC, VDM is required to issue 650 million ordinary shares and pay \$4,785,000 to Seabank as consideration for its 65% participating interest in the Cachoeiras do Binga Project. The shares were issued subsequent to balance date and VDM has agreed with Seabank to pay the \$4,875,000 cash consideration in instalments over the 2016 calendar year.

Under the terms of the acquisition, VDM is responsible for funding 79% of the costs for the Cachoeiras do Binga Project during the exploration and evaluation phase. VDM expects mineral exploration and evaluation activities to be commenced at the project during the 2016 calendar year.

The Sany-VDM Joint Venture ("JV") (VDM 49%, Sany 51%) further advanced towards becoming a major player in the equipment sector. The JV offers Sany equipment for sale and hire in Australia, New Zealand, Papua New Guinea and Fiji Islands, along with servicing and parts-sales. The JV continues to benefit from the direct ownership interest and support of Sany, a world-leading equipment manufacturer. With Sany and its other equipment brands, VDM Equipment has positioned itself with the competitive advantages of a high-quality range of equipment for sale and hire at attractive prices, and with leading customer service and factory support.

The trading division conducted business development activities to establish an import and export trading business with Asia.

In December 2015, the construction division's staff-level was reduced while it pursues modular and steel construction contracts. Staffing and salary levels were also reduced in most other parts of the Group to further lower expenses and conserve cash.

Revenue of \$141,000 (2014: \$826,000) is a decrease of 82.9% from the comparative period due to nil revenue from construction projects and reduced equipment hire.

Total expenses of \$4,286,000 (2014: \$8,263,000) reflect a decrease of 48.1% from the comparative period mainly due to \$1,069,000 of lower impairment expenses and \$3,140,000 of lower other expenses. The reduction in other expenses primarily relates to a charge of \$2,719,000 in the comparative period for security bonds cashed on a disputed construction contract.

**4. SIGNIFICANT EVENTS AFTER THE BALANCE DATE**

On 27 January 2016, VDM announced that it agreed the principal terms for an \$18 million loan facility ("Loan Framework") with its largest shareholder, Australia Kengkong Investments Co Pty Ltd ("Kengkong"), and received an initial \$2 million advance from Kengkong. The Loan Framework contemplates the parties entering into a one-year loan facility agreement for \$18 million with an interest rate of 6% per annum ("Loan Facility"). Terms of the Loan Facility include that failure of VDM shareholders to approve a first priority security interest over the assets of VDM in favour of Kengkong would be a default event, and that VDM shall agree that Kengkong can appoint the majority of the directors on the VDM board as long Kengkong is the single largest shareholder. The \$2 million advance will be incorporated into the Loan Facility unless it is demanded by Kengkong before the Loan Facility takes effect, in which case the advance is immediately repayable.

On 1 February 2016, VDM announced changes to its management structure to align with the increased importance of mining to the Group's business strategy. Dr Hua will transition from his current position as Managing Director and Chief Executive Officer and assume a new part-time position of Executive Director, Mining. In his new executive role, Dr Hua will focus on the growth and success of VDM's mining division. Mr Sam Diep was appointed as VDM's new Chief Executive Officer commencing on 29 February 2016.

**VDM GROUP LIMITED**  
**DIRECTORS' REPORT**  
**For the half year ended 31 December 2015**

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On 16 February 2016, the Company issued 650 million shares as part of the consideration for the acquisition of VDM's 65% participating interest in the Cachoeiras do Binga Project located in the Republic of Angola.

**5. AUDITOR'S INDEPENDENCE DECLARATION**

The auditor's independence declaration is set out on page 7 and forms part of the Directors' Report for the half year ended 31 December 2015.

**Rounding**

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

Signed in accordance with a resolution of the directors.



**Dr Dongyi Hua**  
Managing Director and CEO  
Perth, Western Australia  
29 February 2016

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

As lead auditor for the review of VDM Group Limited for the half - year ended 31 December 2015. 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 review; and
- b. no contraventions of any applicable code of professional conduct in relation to the review.

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



Ernst & Young



T Dachs  
Partner  
29 February 2016



**VDM GROUP LIMITED**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
For the half year ended 31 December 2015

		31 Dec 2015	31 Dec 2014
	Notes	\$000	\$000
<b>Continuing operations</b>			
<b>Revenue</b>	3	<b>141</b>	<b>826</b>
<b>Expenses</b>			
Materials and inventory		(91)	(72)
Employee benefits expense	4a	(2,045)	(2,432)
Occupancy related expenses		(452)	(590)
Depreciation and amortisation	4b	(230)	(361)
Impairment	4c	-	(1,069)
Onerous contracts expense		(780)	(124)
Legal expenses		(371)	(273)
Other expenses	4e	(317)	(3,342)
<b>Total expenses</b>		<b>(4,286)</b>	<b>(8,263)</b>
Profit/(loss) on sale of assets		77	88
Share of profit/(loss) from joint venture		(141)	(22)
<b>Other income and expenses</b>		<b>(64)</b>	<b>66</b>
<b>Earnings before interest and income tax expense (EBIT)</b>		<b>(4,209)</b>	<b>(7,371)</b>
Finance income/(costs)	4d	4	(346)
<b>Loss before income tax</b>		<b>(4,205)</b>	<b>(7,717)</b>
Income tax (expense)/benefit	5	-	83
<b>Loss for the period attributable to owners of the parent</b>		<b>(4,205)</b>	<b>(7,634)</b>
Other comprehensive income for the period, net of tax		-	-
<b>Total comprehensive loss for the period attributable to owners of the parent</b>		<b>(4,205)</b>	<b>(7,634)</b>
<b>Earnings per share</b>			
Basic loss per share (cents per share)		<b>(0.09)</b>	(0.16)
Diluted loss per share (cents per share)		<b>(0.09)</b>	(0.16)

**VDM GROUP LIMITED**  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**as at 31 December 2015**

		31 Dec 2015	30 Jun 2015
	Notes	\$000	\$000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	7	478	3,524
Security deposits	8	726	486
Trade and other receivables		374	301
Contracts in progress		155	-
Inventory		67	74
Other assets		166	10
<b>Total current assets</b>		<b>1,966</b>	<b>4,395</b>
<b>Non-current assets</b>			
Security deposits	8	350	940
Investment accounted for using the equity method	10	776	917
Exploration and evaluation expenditure	6	8,275	-
Development properties	9	2,012	2,012
Property, plant and equipment	11	1,935	2,201
Intangible assets	12	4	9
<b>Total non-current assets</b>		<b>13,352</b>	<b>6,079</b>
<b>Total assets</b>		<b>15,318</b>	<b>10,474</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	13	6,225	1,113
Amount due to customers for contract work		363	-
Interest-bearing loans and borrowings	14	-	64
Provisions	15	2,897	2,750
<b>Total current liabilities</b>		<b>9,485</b>	<b>3,927</b>
<b>Non-current liabilities</b>			
Provisions	15	1,557	1,355
<b>Total non-current liabilities</b>		<b>1,557</b>	<b>1,355</b>
<b>Total liabilities</b>		<b>11,042</b>	<b>5,282</b>
<b>Net assets</b>		<b>4,276</b>	<b>5,192</b>
<b>Equity</b>			
Contributed equity	16	285,482	285,444
Equity reserve	17	457	457
Shares to be issued	17	3,250	-
Retained earnings	17	(284,913)	(280,709)
<b>Total equity</b>		<b>4,276</b>	<b>5,192</b>

**VDM GROUP LIMITED**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**For the half year ended 31 December 2015**

	Notes	31 Dec 2015 \$000	31 Dec 2014 \$000
<b>Cash Flows from Operating Activities</b>			
Receipts from customers		371	795
Payments to suppliers and employees		(4,383)	(7,876)
Interest received		39	63
Interest paid		-	(553)
GST refunded		524	278
Income tax paid		-	(342)
<b>Net cash flows used in operating activities</b>		<b>(3,449)</b>	<b>(7,635)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(27)	-
Release from security deposit		351	476
Proceeds from sale of property, plant and equipment		144	323
(Investment in)/sale of associate		-	(980)
Repayments of external loans		-	124
Net inflow/(outflow) from sale of subsidiaries		-	57
Proceeds from sale of development property		-	309
<b>Net cash flows from investing activities</b>		<b>468</b>	<b>309</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		-	10,000
Repayment of borrowings		(65)	(102)
Proceeds from issue of shares		-	3,000
Transaction costs on issue of shares		-	(517)
<b>Net cash flows (used in) / from financing activities</b>		<b>(65)</b>	<b>12,381</b>
Net (decrease)/increase in cash and cash equivalents		(3,046)	5,055
Cash and cash equivalents at beginning of period		3,524	(1,532)
<b>Cash and cash equivalents at end of period</b>	7	<b>478</b>	<b>3,524</b>

**VDM GROUP LIMITED**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the half year ended 31 December 2015**

	<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>5,192</b>
Comprehensive loss for the half-year	-	(4,205)	-	-	(4,205)
Total comprehensive loss for the half-year	-	(4,205)	-	-	(4,205)
<b>Transactions with owners in their capacity as owners</b>					
Shares to be issued	-	-	-	3,250	3,250
Capital raising costs reclassified to expenses	38	-	-	-	38
<b>Balance at 31 December 2015</b>	<b>285,482</b>	<b>(284,914)</b>	<b>457</b>	<b>3,250</b>	<b>4,275</b>
<b>Balance at 1 July 2014</b>	<b>268,509</b>	<b>(268,331)</b>	<b>457</b>	-	<b>635</b>
Comprehensive loss for the year	-	(7,634)	-	-	(7,634)
Total comprehensive loss for the year	-	(7,634)	-	-	(7,634)
<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	(553)	-	-	-	(553)
<b>Balance at 31 December 2014</b>	<b>285,456</b>	<b>(275,965)</b>	<b>457</b>	-	<b>9,948</b>

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the half year ended 31 December 2015**

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# VDM GROUP LIMITED

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### For the half year ended 31 December 2015

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#### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

##### (a) Corporate information

The consolidated financial statements of VDM Group Limited (the "Company") and its controlled entities ("VDM" or the "Group") for the half year ended 31 December 2015 were authorised for issue in accordance with a resolution of the directors on 24 February 2016.

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

Business activities during the year related to establishing VDM's four operating divisions: mining, equipment, trading, and construction. These activities principally included: 1) acquisition of a mining project located in the Republic of Angola; 2) equipment hire and parts/equipment sales for the equipment division and the Sany-VDM JV; 3) goods export and import by the trading division; and 4) pre-contract work for the construction division.

The business activities of the comparative reporting period principally related to minor works to close-out the remaining construction contracts, and equipment hire to construction industry clients.

##### (b) Basis of preparation

The interim consolidated financial statements for the half year ended 31 December 2015, represent a general purpose financial report prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual consolidated financial statements as at 30 June 2015 and any public announcements made by VDM during the interim reporting period in accordance with the continuous disclosure requirements of the ASX listing rules.

In the current period, 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 amounts were reclassified for consistency.

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

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

- i. exploration and evaluation expenditure; and
- ii. joint arrangements

##### 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.

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the half year ended 31 December 2015**

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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 6.

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.

Interests in Joint operations are disclosed in note 6.

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. The policies adopted in the preparation of the interim consolidated financial statements for joint ventures and the equity method are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2015.

Investments in joint ventures are disclosed in note 10

The Group has adopted all Australian Accounting Standards and Interpretations effective from 1 July 2015. The adoption of new and amended standards and interpretations had no 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 is not yet effective.

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the half year ended 31 December 2015**

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(d) **Going Concern**

VDM incurred a net loss after tax from continuing operations for the half year ended 31 December 2015 of \$4,205,000 (2014: \$7,634,000). Net cash flows used in operating activities were \$3,449,000 (2014: \$7,635,000). At 31 December 2015, VDM had net current liabilities of \$7,519,000 (31 June 2015: \$468,000 of net current assets). The cash position of VDM at 31 December 2015 was \$478,000 (30 June 2015: \$3,524,000) with a further \$1,076,000 (30 June 2015: \$1,426,000) of security deposits.

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

This report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business.

In forming this view, the directors have taken the following into consideration.

- On 27 January 2016, VDM agreed the principal terms for an \$18 million loan facility ("Loan Framework") with its largest shareholder, Australia Kengkong Investments Co Pty Ltd ("Kengkong"), and received an initial \$2 million advance from Kengkong. The Loan Framework contemplates the parties entering into a one-year loan facility agreement for \$18 million with an interest rate of 6% per annum ("Loan Facility"). Terms of the Loan Facility include that failure of VDM shareholders to approve a first priority security interest over the assets of VDM in favour of Kengkong would be a default event, and that VDM shall agree that Kengkong can appoint the majority of the directors on the VDM board as long Kengkong is the single largest shareholder. The \$2 million advance will be incorporated into the Loan Facility unless it is demanded by Kengkong before the Loan Facility takes effect, in which case the advance is immediately repayable.
- The directors expect VDM and Kengkong to enter into the above Loan Facility 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 Loan Facility.

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.



**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the half year ended 31 December 2015**

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**(e) Significant Accounting Judgements, Estimates and Assumptions**

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 judgement, estimates and assumptions are made, which are in addition to the significant judgements, estimates and assumptions identified in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2015.

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 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
  - 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.

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 statement of comprehensive income.

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the half year ended 31 December 2015**

**2. SEGMENT INFORMATION**

VDM is arranged under four operating divisions: i) construction, ii) equipment, iii) trading and iv) mining. Refer to the "Review and Results of Operations" 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 half year ended 31 December 2015.

	Construction	Equipment	Trading	Mining	Total Segments	Unallocated	Total
	\$000	\$000	\$000	\$000	\$000	\$000	\$000
<b>Revenue</b>							
External revenue	20	54	14	-	88	53	141
<b>Total segment revenue</b>	<b>20</b>	<b>54</b>	<b>14</b>	<b>-</b>	<b>88</b>	<b>53</b>	<b>141</b>
<b>Results</b>							
<b>Segment results before tax</b>	<b>(435)</b>	<b>(452)</b>	<b>(171)</b>	<b>-</b>	<b>(1,058)</b>	<b>(3,147)</b>	<b>(4,205)</b>
Finance Costs	-	1	-	-	1	(5)	(4)
Depreciation & amortisation	3	134	-	-	137	93	230
Share of loss from Joint Venture	-	-	-	-	-	141	141
<b>Reconciliation of segment results before tax to net loss after tax</b>							
Segment results before tax							(4,205)
<b>Net loss after tax per the statement of comprehensive income</b>							<b>(4,205)</b>
<b>Total assets</b>	<b>44</b>	<b>2,657</b>	<b>358</b>	<b>8,284</b>	<b>11,343</b>	<b>3,975</b>	<b>15,318</b>
<b>Total liabilities</b>	<b>1,290</b>	<b>74</b>	<b>378</b>	<b>-</b>	<b>1,742</b>	<b>9,300</b>	<b>11,042</b>
<b>Other disclosures</b>							
Investment in an associate and a joint venture	-	776	-	-	776	-	776
Exploration and evaluation asset additions	-	-	-	8,275	8,275	-	8,275
Property plant and equipment additions	-	14	-	-	14	13	27

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the half year ended 31 December 2015**

The following table presents the revenue, profit, and selected expenditure information for the half year ended 31 December 2014 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 were included in unallocated.

	Construction \$000	Equipment \$000	Total Segments \$000	Unallocated \$000	Total \$000
<b>Revenue</b>					
External revenue	388	282	670	156	826
<b>Total segment revenue</b>	<b>388</b>	<b>282</b>	<b>670</b>	<b>156</b>	<b>826</b>
<b>Results</b>					
<b>Segment results before tax</b>	<b>(3,028)</b>	<b>(526)</b>	<b>(3,554)</b>	<b>(4,080)</b>	<b>(7,634)</b>
Finance Costs	-	8	8	338	346
Depreciation & amortisation	3	278	281	80	361
Share of loss from Joint Venture	-	-	-	22	22
<b>Reconciliation of segment results before tax to net loss after tax</b>					
Segment results before tax					(7,634)
<b>Net loss after tax per the statement of comprehensive income</b>					<b>(7,634)</b>
<b>Total assets</b>	<b>134</b>	<b>1,932</b>	<b>2,066</b>	<b>8,408</b>	<b>10,474</b>
<b>Total liabilities</b>	<b>1,548</b>	<b>153</b>	<b>1,701</b>	<b>3,581</b>	<b>5,282</b>
<b>Other disclosures</b>					
Investment in an associate and a joint venture	-	958	958	-	958
Property plant and equipment additions	-	-	-	-	-

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the half year ended 31 December 2015**

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	<b>31 Dec 2015</b>	<b>31 Dec 2014</b>
	<b>\$000</b>	<b>\$000</b>
<b>3. REVENUE</b>		
<b>Sales revenue</b>		
Revenue from operating activities	64	696
<b>Total sales revenue</b>	<b>64</b>	<b>696</b>
<b>Other revenue</b>		
Interest	59	70
Net rental income	13	1
Other	5	59
<b>Total other revenue</b>	<b>77</b>	<b>130</b>
<b>Total revenue</b>	<b>141</b>	<b>826</b>

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the half year ended 31 December 2015**

	31 Dec 2015	31 Dec 2014
	\$000	\$000
<b>4. EXPENSES</b>		
<b>a) Employee benefits expense</b>		
Wages and salaries	1,667	1,914
Restructuring/redundancy costs	196	75
Superannuation expense	141	478
Other employee benefits expense	41	(35)
<b>Total employee benefits expense</b>	<b>2,045</b>	<b>2,432</b>
<b>b) Depreciation and amortisation</b>		
Depreciation	225	310
Amortisation of development costs and software	5	51
<b>Total depreciation and amortisation</b>	<b>230</b>	<b>361</b>
<b>c) Impairment charges</b>		
Impairment of development properties	-	1,069
<b>Total impairment charges</b>	<b>-</b>	<b>1,069</b>
<b>d) Finance costs</b>		
Hire purchase contracts	(3)	319
Bank fees	(1)	27
<b>Total finance costs</b>	<b>(4)</b>	<b>346</b>
<b>e) Other expenses</b>		
Insurances	147	172
Telecommunications	19	148
Computer costs	109	103
Other	42	2,919
<b>Total other expenses</b>	<b>317</b>	<b>3,342</b>

Other expenses in the comparative period include a \$2,719,000 charge for security bonds cashed on a disputed construction contract (current period: nil).

<b>Expenses by function (prior year comparison)</b>		
Cost of sales	1,158	1,317
Administration expenses	3,051	5,816
Finance costs	(4)	319
Impairment losses	-	1,069
Share of equity accounted profit	141	22
<b>Total expenses</b>	<b>4,346</b>	<b>8,543</b>

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the half year ended 31 December 2015**

	31 Dec 2015	31 Dec 2014
	\$000	\$000
<b>5. INCOME TAX</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	(4,205)	(7,717)
<b>Total accounting loss before income tax</b>	<b>(4,205)</b>	<b>(7,717)</b>
Prima facie income tax benefit @ 30%	(1,261)	(2,315)
Prior year tax over provision	-	(83)
Tax adjustment for non-deductible expenses	1	351
Temporary differences and unrecognised tax losses	1,260	1,964
<b>Aggregate income tax expense / (benefit)</b>	<b>-</b>	<b>(83)</b>
Income tax benefit reported in the consolidated income statement	-	(83)
<b>Aggregate income tax expense / (benefit)</b>	<b>-</b>	<b>(83)</b>

**d) Tax losses**

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

VDM has estimated tax losses of \$115,437,000 (30 June 2015: \$114,176,000). Utilisation of the carried forward tax losses by the Group 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 in January 2014, therefore in order to be able to utilise the tax losses incurred before that date VDM will be required to satisfy the SBT. Where VDM derives assessable income in a future income year, an assessment of whether the same business has been carried on between just before the COT failure and the intervening period will determine whether the losses are available for utilisation.

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the half year ended 31 December 2015**

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	<b>31 Dec 2015</b>	<b>31 Dec 2014</b>
	<b>\$000</b>	<b>\$000</b>
<b>6. EXPLORATION AND EVALUATION ASSETS</b>		
<b>Balance as at 1 July</b>	-	-
Additions	8,275	-
<b>Balance as at 31 December</b>	<b>8,275</b>	-

During the period VDM acquired a 65% participating interest in the Cachoeiras do Binga Project for 650 million ordinary shares (refer to note 17) and \$4,785,000 cash (refer to note 13). The shares were issued subsequent to balance date and VDM has agreed with Seabank to pay the cash consideration in instalments over the 2016 calendar year.

This project is a joint operation 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.

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the half year ended 31 December 2015**

	31 Dec 2015	31 Jun 2015
	\$000	\$000
<b>7. CASH AND CASH EQUIVALENTS</b>		
Cash at bank and in hand	478	3,524
<b>Cash and cash equivalents</b>	<b>478</b>	<b>3,524</b>

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

**8. SECURITY DEPOSITS**

<b>Security Deposits</b>	<b>1,076</b>	<b>1,426</b>
Current	726	486
Non-current	350	940
<b>Total security deposits</b>	<b>1,076</b>	<b>1,426</b>

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

**9. 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	-	(1,138)
<b>Balance at 31 December</b>	<b>2,012</b>	<b>2,012</b>

*Impairment Assessment*

During the current period management performed a net realisable value assessment which resulted in recognition of nil impairment to development properties (2014: \$1,138,000 impairment).



**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the half year ended 31 December 2015**

	<b>31 Dec 2015</b>	<b>30 Jun 2015</b>
	<b>\$000</b>	<b>\$000</b>
<b>10. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD</b>		
Current assets	1,597	1,847
Non-current assets	31	35
Current liabilities	44	10
Non-current liabilities	-	-
Equity	1,584	1,872
<b>Group's carrying amount of the investment</b>	<b>776</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 period	(141)	(63)
<b>Balance at 31 December</b>	<b>776</b>	<b>917</b>
<b>b) Share of equity accounted loss</b>		
Revenue	85	52
Cost of sales	(30)	(2)
Administrative expenses	(345)	(194)
Finance costs	2	16
Loss before tax	(288)	(128)
Income tax expense	-	-
Loss for the period	(288)	(128)
Total comprehensive loss for the period	(288)	(128)
<b>Group's share of loss for the period</b>	<b>(141)</b>	<b>(63)</b>

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

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the half year ended 31 December 2015**

	<b>31 Dec 2015</b>	<b>30 Jun 2015</b>
	<b>\$000</b>	<b>\$000</b>
<b>11. PROPERTY, PLANT AND EQUIPMENT</b>		
Leasehold improvements at cost	673	687
Accumulated Depreciation	(324)	(270)
<b>Total leasehold improvements</b>	<b>349</b>	<b>417</b>
Freehold land and buildings at cost	887	887
Accumulated Depreciation	(12)	(8)
<b>Total freehold land and buildings</b>	<b>875</b>	<b>879</b>
Plant & equipment under lease at cost	611	611
Accumulated depreciation	(470)	(451)
<b>Total plant &amp; equipment under lease</b>	<b>141</b>	<b>160</b>
Plant & equipment at cost	7,545	7,858
Accumulated depreciation	(6,975)	(7,113)
<b>Total plant &amp; equipment</b>	<b>570</b>	<b>745</b>
<b>Total property, plant and equipment</b>	<b>1,935</b>	<b>2,201</b>

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the half year ended 31 December 2015**

	31 Dec 2015	30 Jun 2015
	\$000	\$000
<b>11. 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	(82)	(102)
Transfer from freehold land and buildings	-	13
<b>Balance at 31 December</b>	<b>349</b>	<b>417</b>
<i>Freehold land and buildings</i>		
Balance at 1 July net of accumulated depreciation	879	900
Depreciation	(4)	(8)
Transfer to leasehold improvements	-	(13)
<b>Balance at 31 December</b>	<b>875</b>	<b>879</b>
<i>Plant and equipment under lease</i>		
Balance at 1 July net of accumulated depreciation	160	488
Impairment	-	(256)
Depreciation	(19)	(72)
<b>Balance at 31 December</b>	<b>141</b>	<b>160</b>
<i>Plant and equipment</i>		
Balance at 1 July net of accumulated depreciation	745	1,427
Additions	13	-
Disposals	(68)	(47)
Impairment	-	(233)
Depreciation	(120)	(435)
Transfer from inventory	-	33
<b>Balance at 31 December</b>	<b>570</b>	<b>745</b>
<b>Total property, plant and equipment</b>	<b>1,935</b>	<b>2,201</b>

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the half year ended 31 December 2015**

	<b>31 Dec 2015</b>	<b>30 Jun 2015</b>
	<b>\$000</b>	<b>\$000</b>
<b>12. INTANGIBLE ASSETS</b>		
Software	3,025	3,025
Accumulated amortisation and impairment	(3,021)	(3,016)
<b>Total intangible assets</b>	<b>4</b>	<b>9</b>
<b>Reconciliation of carrying amounts</b>		
<i>Intangible assets</i>		
Balance at 1 July	9	99
Additions	-	-
Amortisation	(5)	(90)
Discontinued operations	-	-
<b>Balance at 31 December</b>	<b>4</b>	<b>9</b>
<b>13. TRADE AND OTHER PAYABLES</b>		
Trade payables and accruals	1,139	1,007
Employee related payables	96	68
GST payable	115	38
Other payables	4,875	-
<b>Total trade and other payables</b>	<b>6,225</b>	<b>1,113</b>
Other payables includes amounts owing to Seabank as consideration for its 65% participating interest in the Cachoeiras do Binga Project.		
<b>14. INTEREST-BEARING LOANS AND OTHER BORROWINGS</b>		
Interest bearing shareholder loan	-	-
Hire purchase liabilities	-	64
<b>Total Interest bearing loans and other borrowings</b>	<b>-</b>	<b>64</b>

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the half year ended 31 December 2015**

	<b>31 Dec 2015</b>	<b>30 Jun 2015</b>
	<b>\$000</b>	<b>\$000</b>
<b>15. PROVISIONS</b>		
<b>Current</b>		
Employee entitlements	194	305
Construction warranties	653	665
Onerous contracts	1,179	1,279
Other construction contract obligations	386	466
Other general provisions	485	35
<b>Total current provisions</b>	<b>2,897</b>	<b>2,750</b>
<b>Non-Current</b>		
Employee entitlements	18	17
Onerous contracts	1,420	1,197
Other general provisions	119	141
<b>Total non-current provisions</b>	<b>1,557</b>	<b>1,355</b>
<b>Total provisions</b>	<b>4,454</b>	<b>4,105</b>
<b>16. CONTRIBUTED EQUITY</b>		
<b>Ordinary shares</b>		
Issued and fully paid	285,482	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>
Capital raising costs	-	38
<b>Balance at 31 December</b>	<b>4,827,660,952</b>	<b>285,482</b>

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the half year ended 31 December 2015**

	<b>31 Dec 2015</b>	<b>30 Dec 2015</b>
	<b>\$000</b>	<b>\$000</b>
<b>17. ACCUMULATED LOSSES AND RESERVES</b>		
<b>a) Movement in accumulated losses</b>		
Balance at 1 July	(280,709)	(273,075)
Net loss attributable to members of VDM Group Limited	(4,205)	(7,634)
<b>Balance at 31 December</b>	<b>(284,914)</b>	<b>(280,709)</b>
<b>b) Shares to be issued</b>		
Balance at 1 July	-	-
Shares to be issued	3,250	-
<b>Balance at 31 December</b>	<b>3,250</b>	<b>-</b>
<b>c) Movement in equity reserve</b>		
Balance at 1 July	457	457
<b>Balance at 31 December</b>	<b>457</b>	<b>457</b>

*Shares to be issued*

650,000,000 ordinary shares are to be issued as part of the consideration for acquisition of the Group's interest in the Cachoeiras do Binga Project.

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

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the half year ended 31 December 2015**

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**18. COMMITMENTS AND CONTINGENCIES**

Changes to commitments and contingencies previously disclosed in the Group's annual consolidated financial statements for the year ended 30 June 2015, are specified below.

**a) Legal claims**

*Subcontractor claim*

The subcontractor claim reported in the Group's annual consolidated financial statements for the year ended 30 June 2015, was dismissed by the court and plaintiff was ordered to pay VDM's defence costs.

*Engineering claim*

The remaining unused balance of the insurance excess relating to the engineering claim reported in the Group's annual consolidated financial statements for the year ended 30 June 2015, has been fully provided on the balance sheet.

*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. VDM has lodged its defence with the court denying the plaintiff's entitlement to indemnification.

**b) Bank guarantees and insurance bonds**

As at 31 December 2015, VDM issued bank guarantees of \$1,060,000 as security for leased commercial property and to guarantee performance of contracts (30 June 2015: \$1,245,000).

As at 31 December 2015, VDM had nil insurance bonds (30 June 2015: nil).

**19. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE**

On 27 January 2016, VDM announced that it agreed the principal terms for an \$18 million loan facility ("Loan Framework") with its largest shareholder, Australia Kengkong Investments Co Pty Ltd ("Kengkong"), and received an initial \$2 million advance from Kengkong. The Loan Framework contemplates the parties entering into a one-year loan facility agreement for \$18 million with an interest rate of 6% per annum ("Loan Facility"). Terms of the Loan Facility include that failure of VDM shareholders to approve a first priority security interest over the assets of VDM in favour of Kengkong would be a default event, and that VDM shall agree that Kengkong can appoint the majority of the directors on the VDM board as long Kengkong is the single largest shareholder. The \$2 million advance will be incorporated into the Loan Facility unless it is demanded by Kengkong before the Loan Facility takes effect, in which case the advance is immediately repayable.

On 1 February 2016, VDM announced changes to its management structure to align with the increased importance of mining to the Group's business strategy. Dr Hua will transition from his current position as Managing Director and Chief Executive Officer and assume a new part-time position of Executive Director, Mining. In his new executive role, Dr Hua will focus on the growth and success of VDM's mining division. Mr Sam Diep was appointed as VDM's new Chief Executive Officer commencing on 29 February 2016.

On 16 February 2016, VDM issued 650 million shares as part of the consideration for the acquisition of VDM's 65% participating interest in the Cachoeiras do Binga Project located in the Republic of Angola.

**VDM GROUP LIMITED**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**For the half year ended 31 December 2015**

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**20. RELATED PARTY TRANSACTIONS**

There were no transactions entered into with related parties other than remuneration of key management personnel during the half year ended 31 December 2015.

**21. FAIR VALUE**

For all financial assets and liabilities recognised in the statement of financial position, carrying amounts approximate the fair value of the financial assets and financial liabilities.



**VDM GROUP LIMITED**  
**DIRECTORS' DECLARATION**  
**For the half year ended 31 December 2015**

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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 2015, and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standard 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- (b) Subject to the satisfactory achievement of the matters described in note 1(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.

On behalf of the Board



**Dr Hua Dongyi**  
**Managing Director and CEO**  
Perth, Western Australia  
29 February 2016

## To the members of VDM Group Limited

### Report on the half-year financial report

We have reviewed the accompanying half-year financial report of VDM Group Limited, which comprises the consolidated statement of financial position as at 31 December 2015, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year then ended on that date, 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 half-year end or from time to time during the half-year.

### Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001*. As the auditor of VDM Group Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Independence

In conducting our review 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.

## Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of VDM Group Limited is not in accordance with the *Corporations Act 2001*, including:

- a. giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- b. complying with Accounting Standard AASB 134 Interim Financial Reporting and the *Corporations Regulations 2001*.

## Emphasis of matter

Without qualifying our conclusion, we draw attention to Note 1 in the financial report which describes the principal conditions that raise doubt about the consolidated 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 consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.



Ernst & Young



T Dachs  
Partner  
Perth  
29 February 2016