Appendix 4D

Half year report
Period ended on 31 December 2012
VDM Group Limited

ABN 95 109 829 334
ASX Code: VMG

The information contained in this report relates to the following years:
Current half year ended – 31 December 2012
Previous half year ended – 31 December 2011

Results for announcement to the market				**$'000**
Revenue from continuing operations	Up	18.6%	To	126,818
Loss from continuing operations after tax attributable to members		N/A		(56,848)
Net loss for the period attributable to members		N/A		(60,064)

Dividend Payments

VDM Group does not propose to pay an interim dividend for the half year ended 31 December 2012.

Net tangible assets

	Current half year	Previous half year
Net tangible assets per ordinary security	2.8 cents	7.7 cents

Additional Appendix 4D disclosure requirements can be found in the notes to the 2012 half-year financial statements and the Directors Report.

This report is based on the consolidated 2012 half-year financial statements which have been reviewed by Ernst & Young with the Independent Auditor's Review Report included in the 2012 half-year financial statements.

VDM GROUP LIMITED

and its controlled entities

ABN 95 109 829 334

INTERIM FINANCIAL REPORT

HALF-YEAR ENDED 31 DECEMBER 2012

CONTENTS

CORPORATE INFORMATION

ABN 95 109 829 334

DIRECTORS
Mr M Perrott AM (Chairman)
Mr A Broad
Mr B Nazer
Mr M Fry
Mr R Mickle

COMPANY SECRETARY
Mr D Coyne

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

The ASX Code is VMG

DIRECTORS' REPORT

Your directors submit their report for the half-year ended 31 December 2012.

DIRECTORS

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

Name	
Michael Perrott AM (Non-Executive Chairman)	
Andrew Broad (Managing Director)	
Barry Nazer (Non-Executive Director)	
Michael Fry (Non-Executive Director)	
Richard Mickle (Non-Executive Director)	
Tim Crossley (Non-Executive Director)	Resigned 23 October 2012

REVIEW AND RESULTS OF OPERATIONS

For the financial period ended 31 December 2012, the loss after tax attributable to the owners of VDM Group was $60,064,000 (2011: $46,895,000 loss). The loss included impairment charges of $18,507,000 (2011: $3,598,000). The loss from discontinued operations of $3,216,000 (2011: $26,914,000), included a write down of goodwill recognised on re-measurement of asset values to fair value less costs to sell, of $4,004,000 (2011: $31,732,000).

Revenue from continuing operations was $126,818,000, an increase of 18.6% on revenue recorded in 2011 for the same period.

On a divisional basis, Eastern Operations recorded revenue of $35,074,000, 26.5% lower than the $47,740,000 recorded in the previous corresponding period. The reduction in revenue is due to cessation of activities in the residential and commercial building market in Queensland during 2012 and the sale of the consulting businesses in New South Wales, Victoria and the Northern Territory in the second half of financial year 2012. EBIT for this Division was a loss of $4,198,000 (2011: $894,000 loss), which included a goodwill impairment charge of $1,790,000 (2011: nil). The results for this Division were impacted by business development costs incurred in pursuing construction project opportunities in the Queensland resources sector and costs associated with finalisation of remaining residential and commercial building contracts, including rectification costs of buildings assumed when the Company acquired the Bellero business.

Western Operations recorded revenue of $90,325,000, 54.1% higher than the $58,614,000 recorded in the previous corresponding period. Revenue growth was achieved on the back of construction projects in the resources sector that were awarded in late calendar year 2011 and early calendar year 2012. Excluded from revenue during the period is any revenue from claims and variations that is subject to ongoing negotiations with clients, and such negotiations are not yet sufficiently progressed so as to meet the revenue recognition criteria in Australian Accounting Standard AASB 111 Construction Contracts.

Whilst negotiations with clients regarding the outstanding claims and variations remain in progress, the Directors have not recognised this revenue pending completion of client negotiations. The value of contingent revenue exceeds $10,000,000. All costs associated with the contingent revenue have been fully expensed during the period.

EBIT for Western Operations was a loss of $31,648,000 (2011: $9,350,000 loss) including impairment charges of $16,717,000 (2011: $311,000) and the exclusion of approximately $10,000,000 of contingent revenue. Included in the period is a provision made against amounts owing on a construction contract where the client has gone into administration. Also included are provisions made against the recoverability of amounts owing from joint venture partners for amounts funded by VDM in prior years on land developments that are unlikely to be repaid in full by the joint venture partners.

INTERESTS IN 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:

	Ordinary shares	Options
M Perrott AM	6,200,000	3,100,000
A Broad	1,200,000	350,000
B Nazer	1,228,568	614,284
M Fry	500,000	250,000
R Mickle	-	-

DIVIDENDS

There were no dividends declared and paid during the half year ended 31 December 2012.

When making payment of the final dividend from profits earned during the year ended 30 June 2010, VDM Group announced that these dividends were fully franked for Australian Income Tax purposes. VDM Group had sufficient franking credits available to fully frank these dividends and it was the view at that time that this dividend was frankable.

As a consequence of the amendments to the corporation Act 2001 on the 28 June 2010 relating to the payment of dividends, the Commissioner of Taxation issued a Taxation Ruling on 27 June 2012 expressing a view that for a tax consolidated group 'the head company itself must have ascertained profits available for appropriation for the distribution of a dividend at the time of determination or declaration and payment'.

During the period, VDM Group obtained advice on the application of this view and sought confirmation from the ATO that this dividend was frankable. The ATO has confirmed that this dividend was frankable which means that VDM Group correctly paid this dividend in October 2010 as a fully franked dividend.

NATURE AND PRINCIPAL ACTIVITIES

Eastern and Western construction services

Building

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

Civil

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

Eastern and Western engineering services

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

DIRECTORS' REPORT

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of VDM Group during the half year ended 31 December 2012.

SIGNIFICANT EVENTS AFTER BALANCE DATE

VDM Group has entered into a non-binding sale agreement with Richard Ladyman and Associates to sell all the issued share capital of Como Engineers Pty Limited (Como) for $5,450,000. A binding sale agreement is currently being negotiated, with the key commercial terms agreed between the parties. A binding share sale agreement is expected to be signed during March 2013 and the transaction is expected to be completed by 30 April 2013.

On 17 January 2013, VDM Group accepted an offer of $3,000,000, for the sale of freehold land and buildings classified as a non-current asset held for sale at 31 December 2012.

AUDITOR INDEPENDENCE DECLARATION

The Auditor's independence declaration is set out on page 5 and forms part of the Directors' Report for the half-year ended 31 December 2012.

ROUNDING

The amounts contained 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.

M Perrott AM
Chairman
Perth, Western Australia
28 February 2013

AUDITOR'S INDEPENDENCE DECLARATION
Half Year ended 31 December 2012

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

In relation to our review of the financial report of VDM Group Limited for the half-year ended 31 December 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

TG Dachs
Partner
Perth
28 February 2013

TD:PB:VDM:055

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the half-year ended 31 December 2012

	Note	**Consolidated 31 December 2012 $'000**	Consolidated 31 December 2011 $'000
Continuing operations			
Rendering of services		**126,221**	106,706
Other revenue	3 (a)	**597**	264
Revenues		**126,818**	106,970
Cost of sales		**(144,112)**	(116,030)
Gross loss		**(17,294)**	(9,060)
Administration expenses		**(6,750)**	(9,213)
Finance costs	3 (d)	**(77)**	(671)
Impairment charge	3 (f)	**(18,507)**	(3,598)
Equity based payments		**(10)**	-
Loss from continuing operations before income tax		**(42,638)**	(22,542)
Income tax (expense) / benefit	5	**(14,210)**	2,561
Loss from continuing operations after income tax		**(56,848)**	(19,981)
Discontinued operations			
Loss from discontinued operations after income tax	10 (a)	**(3,216)**	(26,914)
Loss for the period		**(60,064)**	(46,895)
Other comprehensive income		**-**	-
Total comprehensive loss for the period		**(60,064)**	(46,895)
Total comprehensive loss for the period is attributable to:			
Owners of the parent		**(60,064)**	(46,895)
		(60,064)	(46,895)
Loss per share from continuing operations attributable to the ordinary equity holders of the parent:			
Basic loss per ordinary share (cents per share)		(6.1)	(4.2)
Diluted loss per ordinary share (cents per share)		(6.1)	(4.2)
Loss per share attributable to the ordinary equity holders of the parent:			
Basic loss per ordinary share (cents per share)		(6.4)	(9.9)
Diluted loss per ordinary share (cents per share)		(6.4)	(9.9)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2012

	Note	**Consolidated 31 December 2012 $'000**	Consolidated 30 June 2012 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**11,940**	10,029
Term deposits	7	**6,653**	13,568
Trade and other receivables		**23,508**	48,736
Contracts in progress		**9,037**	19,656
Inventory		**850**	952
Development properties	8	**5,563**	5,529
Other assets		**1,189**	2,342
		58,740	100,812
Assets directly associated with the disposal group	10	**10,147**	-
Non-current assets classified as held for sale	9	**2,245**	1,295
Total current assets		**71,132**	102,107
Non-current assets			
Trade and other receivables		**256**	-
Property, plant and equipment	11	**11,118**	12,847
Deferred tax asset	5	**1,048**	16,156
Intangible assets and goodwill	12	**719**	23,154
Total non-current assets		**13,141**	52,157
TOTAL ASSETS		**84,273**	154,264
LIABILITIES			
Current liabilities			
Trade and other payables		**40,168**	54,460
Current tax liabilities		**3,147**	3,145
Deferred tax liability		**-**	918
Interest-bearing loans and other borrowings		**731**	2,468
Provisions		**6,361**	5,501
		50,407	66,492
Liabilities directly associated with the disposal group	10	**5,404**	
Total current liabilities		**55,811**	66,492
Non-current liabilities			
Interest-bearing loans and other borrowings		**526**	128
Lease liability		**540**	-
Provisions		**301**	495
Total non-current liabilities		**1,367**	623
TOTAL LIABILITIES		**57,178**	67,115
NET ASSETS		**27,095**	87,149
EQUITY			
Equity attributable to equity holders of the parent			
Contributed equity	13	**248,612**	248,612
Reserves		**977**	967
Accumulated losses		**(222,494)**	(162,430)
TOTAL EQUITY		**27,095**	87,149

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2012

	Issued capital $'000	Accumulated losses $'000	Equity reserve $'000	Other capital reserve $'000	Total $'000
Balance at 1 July 2012	**248,612**	**(162,430)**	**457**	**510**	**87,149**
Comprehensive loss for the period	-	(60,064)	-	-	(60,064)
Total comprehensive loss for the half-year	-	(60,064)	-	-	(60,064)
Transactions with owners in their capacity as owners					
Share-based payments	-	-	-	10	10
Balance at 31 December 2012	**248,612**	**(222,494)**	**457**	**520**	**27,095**
Balance at 1 July 2011	**214,112**	**(107,618)**	**1,074**	**192**	**107,760**
Comprehensive loss for the period	-	(46,895)	-	-	(46,895)
Total comprehensive loss for the half-year	-	(46,895)	-	-	(46,895)
Transactions with owners in their capacity as owners					
Issue of shares	36,238	-	-	-	36,238
Transaction costs on share issue	(2,480)	-	-	-	(2,480)
Tax benefit of transaction costs	744	-	-	-	744
Exercise of options	1	-	-	-	1
Balance at 31 December 2011	**248,615**	**(154,513)**	**1,074**	**192**	**95,368**

CONSOLIDATED STATEMENT OF CASH FLOWS
For the half-year ended 31 December 2012

	Note	**Consolidated 31 December 2012 $'000**	Consolidated 31 December 2011 $'000
Cash flows from operating activities			
Receipts from customers		**195,415**	189,524
Payments to suppliers and employees		**(191,392)**	(200,832)
Interest received		**360**	217
Interest paid		**(85)**	(1,588)
GST paid		**(3,837)**	(4,616)
Income tax paid		**-**	4,112
Net cash flows from/ (used in) operating activities		**461**	(13,183)
Cash flows from investing activities			
Release of term deposit		**6,915**	-
Purchase of property, plant and equipment		**(2,497)**	(6,478)
Proceeds from sale of property, plant and equipment		**2,381**	12,390
Purchase of intangibles		**(192)**	(93)
Repayment of external loans		**433**	-
Loans to / (repayment from) related entities		**-**	(78)
Net cash flows from investing activities		**7,040**	5,741
Cash flows from financing activities			
Repayment of borrowings		**(1,941)**	(13,324)
Transaction costs on issue of shares		**-**	(2,480)
Proceeds from share placement		**-**	36,239
Net cash flows (used in)/ from financing activities		**(1,941)**	20,435
Net (decrease) / increase in cash and cash equivalents		**5,560**	12,993
Cash and cash equivalents at beginning of period		**10,029**	(7,702)
Cash and cash equivalents at end of period	6	**15,589**	5,291

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

(a) Corporate information

The consolidated financial statements of VDM Group Limited for the half year ended 31 December 2012 were authorised for issue in accordance with a resolution of the directors on 28 February 2013. VDM Group Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

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

(b) Basis of preparation

VDM Group is a company incorporated and domiciled in Australia. The half-year financial report of the Company comprises the Company and its controlled entities.

This general purpose condensed financial report for the half-year ended 31 December 2012 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001.*

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2012 and considered together with any public announcements made by VDM Group during the half-year ended 31 December 2012 in accordance with the continuous disclosure obligations of the ASX listing rules.

The accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.

(c) New and amended accounting standards and interpretations

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

VDM Group has not elected to early adopt any other new Standards or amendments that are issued but not yet effective.

(d) Going Concern

The group incurred a net loss after tax for the half year ended 31 December 2012 of $60,064,000 (2011: $46,895,000). Notwithstanding the loss after tax, the group generated net cash inflows from operating activities of $461,000 (2011: net cash outflows of $13,183,000). At 31 December 2012, the Group had net current assets of $15,321,000 (30 June 2012: $35,615,000), including net assets associated with the disposal group of $4,743,000 and non-current assets held for sale of $2,245,000. The cash position of the Group at 31 December 2012 was $11,940,000 excluding Como ($15,589,000 including Como). The aggregate of the cash and term deposit including Como was $22,242,000 at 31 December 2012.

This report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business. In forming this view, the directors have taken into consideration the current business strategy and the expected forecast cash flow from existing projects and anticipated new contract works.

The directors have also formed the view that existing strategies to divest non-core property and business assets, and recovery from contingent assets (by way of amounts claimed from clients on construction contracts that the group expects to be realised over the course of the next 12 months) will fund additional working capital (if any) that may be required by the business.

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

2. OPERATING SEGMENTS

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

- Eastern Operations; and
- Western Operations.

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

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

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties. Inter entity sales and cost of sales are recognised on an arm's length basis and eliminated on consolidation. Income tax expense is calculated based on the segment operating net profit using a notional charge of 30% (2011: 30%). No effect is given for taxable or deductible temporary differences.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2012

2. OPERATING SEGMENTS (continued)

The following table presents revenue and profit information for reportable segments for the half-years ended 31 December 2012 and 31 December 2011.

	Eastern Operations	Western Operations	Unallocated	Total
	$'000	$'000	$'000	$'000
Half-year ended 31 December 2012				
Revenue				
External sales	34,731	88,967	2,523	126,221
Other external revenue	58	157	382	597
Inter-segment sales	285	1,201	-	1,486
Total segment revenue	35,074	90,325	2,905	128,304
Inter-segment elimination				(1,486)
Total revenue from continuing operations per consolidated statement of comprehensive income				126,818
Results				
Segment result after tax	(3,476)	(27,159)	-	(30,635)
Interest income	12	33	300	345
Interest expense	(13)	(17)	(47)	(77)
Depreciation and amortisation	(425)	(1,611)	(250)	(2,286)
Income tax expense	723	4,473	-	5,196
Impairment charge	(1,790)	(16,717)	-	(18,507)
Reconciliation of segment net loss after tax to net loss before tax				
Segment net loss after notional tax				(30,635)
Notional income tax benefit at 30% excluding impairment charge (2011: 30%)				(5,196)
Corporate charges				(6,807)
Net loss from continuing operations before tax per the statement of comprehensive income				(42,638)
Segment assets at 31 December 2012	20,574	37,009	16,543	74,126
Disposal group assets				10,147
Total Assets				84,273

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2012

	Eastern Operations $'000	Western Operations $'000	Unallocated $'000	Total $'000
Half-year ended 31 December 2011				
Revenue				
External sales	47,033	57,584	2,089	106,706
Other external revenue	64	70	130	264
Inter-segment sales	643	960	-	1,603
Total segment revenue	47,740	58,614	2,219	108,573
Inter-segment elimination				(1,603)
Total revenue from continuing operations per consolidated statement of comprehensive income				106,970
Results				
Segment result after tax	(1,101)	(6,485)	-	(7,586)
Interest income	17	857	(709)	165
Interest expense	(696)	(638)	663	(671)
Depreciation and amortisation	(560)	(2,560)	(343)	(3,463)
Income tax expense	472	2,646	-	3,118
Impairment charge	-	(311)	(3,287)	(3,598)
Reconciliation of segment net loss after tax to net loss before tax				
Segment net loss after notional tax				(7,586)
Notional income tax benefit at 30% excluding impairment charge (2010: 30%)				(3,118)
Corporate charges				(11,838)
Net loss from continuing operations before tax per the statement of comprehensive income				(22,542)
Segment assets (1) at 30 June 2012	21,800	84,435	34,643	140,878
Disposal group assets				13,386
Total Assets				154,264

(1) Comparative segment assets do not agree to segment assets in the financial report for the period ended 30 June 2012. The segment assets at 30 June 2012 did not take into account the reallocation of goodwill following the restructuring of the group effective 1 July 2011.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2012

	Consolidated 31 December 2012 $'000	Consolidated 31 December 2011 $'000
3. REVENUE AND EXPENSES		
(a) Other revenue		
Interest	**345**	165
Other	**252**	99
Total other revenue	**597**	264
(b) Other expenses		
Net loss on disposal of property, plant and equipment	**-**	282
Foreign exchange loss	**27**	-
Total other expenses	**27**	282
(c) Other income		
Net gain on disposal of property, plant and equipment	**1,084**	321
Total other income	**1,084**	321
(d) Finance costs		
Finance charges payable under hire purchase contracts	**30**	76
Bank loans, overdraft and premium funding	**47**	595
Total finance costs	**77**	671
(e) Depreciation and amortisation		
Depreciation of property, plant and equipment	**2,066**	3,080
Amortisation of software	**223**	383
Total depreciation and amortisation	**2,289**	3,463
Depreciation and amortisation included in cost of sales	**2,036**	3,121
(f) Impairment charge		
Impairment of plant and equipment	**-**	311
Impairment of goodwill	**18,507**	-
Impairment of development properties	**-**	2,441
Impairment of non-current assets held for sale	**-**	846
Total impairment charge	**18,507**	3,598
4. DIVIDENDS PAID		
(a) Dividends declared and paid during the half-year on ordinary shares:		
Final franked dividend for the financial year ended 30 June 2012: nil (2011: nil)	**-**	-

5. INCOME TAX

Numerical reconciliation between tax expense and the product of accounting profit before income tax multiplied by VDM Group's applicable income tax rate is as follows:

	Consolidated 31 December 2012 $'000	Consolidated 31 December 2011 $'000
Loss before income tax from continuing operations	**(42,638)**	(22,542)
Loss before income tax from disposal group	**(3,235)**	(26,914)
	(45,873)	(49,456)
At VDM Group's statutory income tax rate of 30% (2011: 30%)	**(13,762)**	(14,837)
Adjustments in respect of previous years	**-**	1,640
Tax adjustment for non deductible expenses	**6,860**	10,636
Non-recognition of tax asset for carry forward losses	**21,093**	-
Income tax (benefit) / expense	**14,191**	(2,561)
Attributable to:		
Continuing operations	**14,210**	(2,561)
Discontinued operations	**(19)**	-

(a) Tax losses

VDM Group has recognised a deferred tax asset of $1,048,000 (30 June 2012: $14,685,000) for Australian income tax revenue losses of $3,494,000 (30 June 2012: $48,951,000) on the basis that it is "probable" that the carried forward revenue loss will be utilised against future assessable revenue profits. The carry forward losses available to VDM Group that were not recognised at 31 December 2012 is $56,364,000. Tax assets for carry forward losses remain available to VDM Group in the future to the extent that future probable profits warrant, up to an amount of $16,909,000 of potential tax relief.

6. CASH AND CASH EQUIVALENTS

For the purposes of the half-year statement of cash flows, cash and cash equivalents are comprised of the following:

Cash at bank and in hand	**15,589**	5,291
Total cash and cash equivalents	**15,589**	5,291
Continuing operations	**11,940**	5,291
Disposal group	**3,649**	-
Total cash and cash equivalents	**15,589**	5,291

7. TERM DEPOSITS

	Consolidated 31 December 2012 $'000	Consolidated 30 June 2012 $'000
Term deposits	**6,653**	13,568
Total term deposits (1)	**6,653**	13,568

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2012

	Consolidated 31 December 2012 $'000	Consolidated 30 June 2012 $'000
8. DEVELOPMENT PROPERTIES		
Development properties	**5,563**	5,529
Total development properties	**5,563**	5,529
(a) Reconciliation of carrying amount		
At 1 July	**5,529**	6,517
Transfer from inventory	**-**	790
Impairment of development properties	**-**	(2,004)
Additions	**34**	226
Total non-current assets classified as held for sale	**5,563**	5,529

There was no impairment loss (2011: $2,004,000) recognised in the statement of comprehensive income in the half year ended 31 December 2012.

9. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

Freehold land and buildings	**950**	-
Other property, plant and equipment	**1,295**	1,295
Non-current assets classified as held for sale	**2,245**	1,295
(a) Reconciliation of carrying amount		
At 1 July	**1,295**	13,011
Transferred in	**-**	2,465
Sale	**-**	(12,142)
Transferred to inventory	**-**	(1,193)
Transferred from property, plant and equipment	**950**	-
Impairment	**-**	(846)
Total non-current assets classified as held for sale	**2,245**	1,295

On 17 January 2013, VDM Group accepted an offer of $3,000,000 (subject to conditions typical of transactions of this nature), for the sale of freehold land and buildings classified as a non-current asset held for sale at 31 December 2012.

10. DISCONTINUED OPERATION

VDM Group has entered into a non-binding sale agreement with Richard Ladyman and Associates to sell all the issued share capital of Como for $5,450,000. A binding sale agreement is currently being negotiated, with the key commercial terms agreed between the parties. A binding share sale agreement is expected to be signed during March 2013 and the transaction is expected to be completed by 30 April 2013. Como was previously reported in the mechanical and mineral process engineering segment. For the purposes of the half year report, VDM Group recognised Como as a discontinued operation with effect from 31 December 2012 due to the stage of the sale negotiations.

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

(a) Financial performance of discontinued operation

	Consolidated 31 December 2012 $'000	Consolidated 31 December 2011 $'000
Revenue	**19,313**	64,243
Expenses	**(18,536)**	(58,508)
Finance costs	**(8)**	(917)
Loss recognised on re-measurement to fair value less cost to sell- Plant and equipment	**-**	(9,594)
Goodwill	**(4,004)**	(22,138)
Loss before tax from discontinued operation	**(3,235)**	(26,914)
Tax expense	**19**	-
Loss after tax for the period from a discontinued operation attributable to the owners of the parent	**(3,216)**	(26,914)

The net cash flows of the discontinued operation		
Operating activities (1)	**1,994**	-
Net cash inflow	**1,994**	-

(1) Cash flow information for the prior period was not readily available

Loss per share		
Basic, from discontinued operations (cents per share)	**(3.4)**	(5.7)
Diluted, from discontinued operations (cents per share)	**(3.4)**	(5.7)

	31 December 2012 $'000
(b) Assets and liabilities of disposal group	
Assets	
Cash	**3,649**
Non current assets, net of re-measurement adjustment	**695**
Trade and other receivables	**5,445**
Inventory	**72**
Contracts in progress	**157**
Other assets	**129**
Assets directly associated with the discontinued operation	**10,147**
Liabilities	
Trade and other payables	**4,975**
Hire purchase liabilities	**21**
Employee provisions	**408**
Liabilities directly associated with the discontinued operation	**5,404**
Net assets	**4,743**
Estimated sale proceeds	**5,450**
Estimated transaction costs	**(450)**
Estimated completion adjustments	**(257)**
Estimated net proceeds	**4,743**

	Consolidated 31 December 2012 $'000	Consolidated 30 June 2012 $'000
11. PROPERTY, PLANT AND EQUIPMENT		
Leasehold improvements at cost	**2,877**	723
Accumulated depreciation	**(128)**	(108)
	2,749	615
Freehold land and buildings at cost	**-**	950
Plant and equipment under lease at cost	**2,704**	1,944
Accumulated depreciation	**(1,272)**	(1,075)
	1,432	869
Plant and equipment at cost	**20,758**	28,891
Accumulated depreciation	**(13,821)**	(18,478)
	6,937	10,413
Total property, plant and equipment	**11,118**	12,847

	Consolidated 31 December 2012 $'000	Consolidated 30 June 2012 $'000
(b) Reconciliation of carrying amount		
Leasehold improvements		
At 1 July net of accumulated depreciation	**615**	502
Additions	**2,159**	405
Disposals	**-**	(124)
Depreciation	**(40)**	(99)
Transferred from plant and equipment under lease	**-**	383
Transferred from plant and equipment	**28**	-
Reclassified to disposal group / discontinued operation	**(13)**	(452)
At 31 December net of accumulated depreciation	**2,749**	615
Freehold land and buildings		
At 1 July net of accumulated depreciation	**950**	950
Transferred to non-current assets held for sale	**(950)**	-
At 31 December net of accumulated depreciation	**-**	950
Plant and equipment under lease		
At 1 July net of accumulated depreciation	**869**	37,689
Additions	**733**	3,143
Disposals	**(104)**	(430)
Depreciation	**(164)**	(2,434)
Transferred to plant and equipment and leasehold improvements	**-**	(3,305)
Transferred from plant and equipment	**170**	-
Reclassified to disposal group / discontinued operation	**(72)**	(33,794)
At 31 December net of accumulated depreciation	**1,432**	869
Plant and equipment		
At 1 July net of accumulated depreciation	**10,413**	23,777
Additions	**300**	6,964
Disposals	**(1,172)**	(1,297)
Depreciation	**(1,931)**	(6,453)
Transferred to / (from) plant and equipment under lease	**(170)**	2,922
Transferred to leasehold improvements	**(28)**	-
Transferred from non-current assets classified as held for sale	**-**	1,193
Impairment	**-**	(311)
Reclassified to disposal group / discontinued operation	**(475)**	(16,382)
At 31 December net of accumulated depreciation	**6,937**	10,413
Total property, plant and equipment	**11,118**	12,847

(c) Impairment losses recognised

Within VDM Group, recoverable amount was estimated for plant and equipment based on estimated current market value. As a result, there was no impairment loss (2011: $311,000) recognised in the statement of comprehensive income to reduce the carrying amount of plant and equipment to its recoverable amount.

There was no reversal of impairment charges recognised in prior periods.

	Consolidated 31 December 2012 $'000	Consolidated 30 June 2012 $'000
12. INTANGIBLE ASSETS AND GOODWILL		
Goodwill	**-**	22,511
Lease asset	**295**	-
Software	**4,109**	4,258
Accumulated depreciation and impairment	**(3,685)**	(3,615)
	424	643
Total intangible assets and goodwill	**719**	23,154

(a) Reconciliation of carrying amount

Goodwill		
At 1 July	**22,511**	44,649
Impairment	**(18,507)**	-
Reclassified to disposal group / discontinued operation	**(4,004)**	(22,138)
Total goodwill	**-**	22,511

(b) Impairment losses recognised

An impairment loss of $18,507,000 was recognised for continuing operations in the half year ended 31 December 2012 (2011: nil). The impaired goodwill related to Eastern Operations ($1,790,000) and Western Operations ($16,717,000). When assessing the carrying value of goodwill, a range of possible revenue and earnings outcomes were reviewed. The half year ended 31 December 2012 saw significant volatility in resources markets in which VDM Group predominantly operates that has caused clients to defer, cancel or reduce their capital expenditure budgets. To account for the volatility in its markets and the reductions in expected capital expenditure budgets of its client base, VDM Group used forecast revenue and earnings toward the lower end of the range of possible outcomes.

(c) Impairment tests for goodwill

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

Goodwill acquired through business combinations has been allocated to and is tested at the level of its respective cash generating units, each of which is both an operating segment and a reportable segment for impairment testing as follows:

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

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

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

	Consolidated 31 December 2012 $'000	Consolidated 30 June 2012 $'000
(ii) Carrying amount of goodwill allocated to each cash generating units/groups of cash generating units		
Eastern Operations	**-**	1,790
Western Operations	**-**	16,717
Mechanical and mineral process engineering	**-**	4,004
Total goodwill	**-**	22,511

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

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

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

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

Growth rate estimates are based on published industry research.

	Consolidated 31 December 2012 $'000	Consolidated 30 June 2012 $'000
13. CONTRIBUTED EQUITY		
Ordinary shares issued and fully paid	**248,612**	248,612

(a) Movement in ordinary shares on issue

	No. of shares	Value ($'000)
Total ordinary shares issued and fully paid	**933,873,071**	248,612

14. COMMITMENTS AND CONTINGENCIES

The only changes to the commitments and contingencies disclosed in the most recent annual financial report are specified below:

(a) Bank guarantees and insurance bonds

As at 31 December 2012 VDM Group had bank guarantees with Bankwest of $7,408,000 (30 June 2012: $12,944,000) given to various clients for satisfactory contract performance. Under terms of its agreement with Bankwest, VDM Group had $6,653,000 (30 June 2012: $13,568,000) placed on deposit in a locked account with Bankwest as at 31 December 2012. The facility currently has an expiry date of 31 May 2013.

As at 31 December 2012 VDM Group had insurance bonds with Assetinsure Pty Ltd of $19,002,000 (30 June 2012: $15,585,000) given to various clients for satisfactory contract performance.

(b) Contingent revenue

Excluded from revenue during the period is any revenue from claims and variations that is subject to ongoing negotiations with clients, and such negotiations are not yet sufficiently progressed so as to meet the revenue recognition criteria in Australian Accounting Standard AASB111 Construction Contracts.

Whilst negotiations with clients regarding the outstanding claims and variations remain in progress, the Directors have not recognised this revenue pending completion of client negotiations. The value of contingent revenue not recognised as revenue during the period exceeds $10,000,000. All costs associated with the contingent revenue have been fully expensed during the period.

15. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

VDM Group has entered into a non-binding sale agreement with Richard Ladyman and Associates to sell all the issued share capital of Como for $5,450,000. A binding sale agreement is currently being negotiated, with the key commercial terms agreed between the parties. A binding share sale agreement is expected to be signed during March 2013 and the transaction is expected to be completed by 30 April 2013.

On 17 January 2013, VDM Group accepted an offer of $3,000,000, for the sale of freehold land and buildings classified as a non-current asset held for sale at 31 December 2012.

16. RELATED PARTY TRANSACTIONS

There has been no change to related parties or material related party transactions during the period.

DIRECTORS' DECLARATION

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 financial position as at 31 December 2012 and the performance for the half-year ended on that date of the consolidated entity; and

 (ii) complying with Accounting Standard AASB 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 company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

M Perrott AM
Chairman
Perth, Western Australia
28 February 2013

INDEPENDENT AUDITOR'S REVIEW REPORT

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Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of VDM Group Limited, which comprises the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity. The consolidated entity comprises 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*. The directors are also responsible for such internal controls that 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 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 2012 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.

TD-PB-VDM - 054

INDEPENDENT AUDITOR'S REVIEW REPORT

ERNST & YOUNG

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 2012 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 opinion, we draw attention to Note 1 of the financial report. As a result of these matters, there is material uncertainty whether the company and the consolidated entity will be able to continue as going concern, and therefore whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

Ernst & Young

Ernst & Young

T G Dachs
Partner
Perth
28 February 2013

TD-PB-VDM - 054