Appendix 4D

Half year report
Period ended on 31 December 2013
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 2013
Previous half year ended – 31 December 2012

Results for announcement to the market				**$'000**
Revenue from continuing operations	Down	77.0%	To	20,037
Loss from continuing operations after tax attributable to members		N/A		(6,876)
Net loss for the period attributable to members		N/A		(11,919)

Dividend Payments

VDM Group does not propose to pay an interim dividend for the half year ended 31 December 2013.

Net tangible assets

	Current half year	Previous half year
Net tangible (liability) / asset per ordinary security	(0.1) cents	2.8 cents

Additional Appendix 4D disclosure requirements can be found in the notes to the 2013 half-year financial statements and the Directors' Report.

This report is based on the consolidated 2013 half-year financial statements which have been reviewed by Ernst & Young with the Independent Auditor's Review Report included in the 2013 half-year financial statements.

VDM GROUP LIMITED

and its controlled entities

ABN 95 109 829 334

INTERIM FINANCIAL REPORT

HALF-YEAR ENDED 31 DECEMBER 2013

CONTENTS

CORPORATE INFORMATION

ABN 95 109 829 334

DIRECTORS

Dr D Hua	Executive Chairperson and Interim Chief Executive Officer
Mr M Perrott AM	Non-Executive Deputy Chairperson
Mr M Fry	Non-Executive Director
Mr V Jakovich	Non-Executive Director

COMPANY SECRETARY
Mr P O'Donoghue

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AUDITORS
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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 2013.

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	
Dongyi Hua Dr (Executive Chairperson and Interim Chief Executive Officer)	Appointed 28 August 2013
Michael Perrott AM (Non-Executive Deputy Chairperson)	
Michael Fry (Non-Executive Director)	
Velko Jakovich (Non-Executive Director)	Appointed 1 February 2014
Xiangyang Ru	Appointed 28 August 2013 and Resigned 1 February 2014
Barry Nazer (Non-Executive Director)	Resigned 29 November 2013
Richard Mickle (Non-Executive Director)	Resigned 29 November 2013
Andrew Broad (Managing Director)	Terminated 23 August 2013

REVIEW AND RESULTS OF OPERATIONS

During the half year VDM Group undertook further streamlining of its operations, divesting its Eastern Construction business and the majority of its Consulting business. The streamlining of the business is aimed at returning the Company to profitability and aligning its staffing and resource levels with the Company's business strategy focussed around a service offering to the Infrastructure, Services and Mining sectors.

The divestments resulted in significant additional costs being incurred and the necessity for significant provisions to be raised with respect to ongoing onerous leases and employee redundancies.

Half year revenue from continuing operations was $20,037,000, a decrease of 77.0% in comparison with the prior corresponding half year; reflecting reduced construction activity within the industry generally and a significant drop-off in work activity for VDM Group.

The half year loss after tax was $11,919,000 (2012: $60,064,000 loss). This loss includes losses from discontinued operations of $5,043,000 (2012: $8,768,000), a provision for onerous leases of $1,374,000 (2012: nil), and redundancy costs of $732,000 (2012: $97,000).

Re-capitalisation

Significant losses incurred by VDM Group during 2012 and 2013, necessitated a need for VDM Group to raise funds to strengthen its balance sheet and provide working capital. In August 2013, VDM Group completed a placement of 140,080,961 shares at a price of $0.01 per share to H&H Holdings Australia Pty Ltd (H&H). Concurrently, H&H provided a loan of $5,000,000 to VDM Group, which was subsequently converted into 500,000,000 shares at a price of $0.01 cent each, following approval by shareholders at the Company's Annual General Meeting held in November 2013.

In conjunction with the placement, Dr Hua, the owner of H&H, was appointed Managing Director of VDM Group.

The presence of Dr Hua and H&H allows VDM Group to pursue new opportunities, leveraging off the global experience of H&H in the mining and construction sectors. A new business strategy has been adopted focused around a service offering to the Infrastructure, Services and Mining sectors.

In order to pursue the new business strategy, it was identified that the Company needed to raise additional equity. Accordingly, on 10 December 2013, VDM Group lodged a prospectus in relation to a one for one pro-rata non-renounceable entitlement offer of 1,792,975,335 new fully paid shares at an issue price of $0.01 per share to raise up to $17,930,000.

On 28 January 2014, 1,214,685,617 shares were allotted pursuant to the offer, raising $12,147,000. There are 578,289,718 shares remaining under the offer that remain unsubscribed that the directors can place at their discretion until 17 April 2014. The directors are working with potential investors in relation to the placement of the shortfall shares.

The impact on the net assets and issued share capital of the entitlement offer is as follows:

		No. of shares	Net assets/ (liabilities) ($'000)
Balance at 31 December 2013		**1,792,975,335**	**(2,356)**
Shares issued at $0.01 per share	28 January 2014	1,214,685,617	12,147
Additional capital raising costs			(150)
Balance at 28 February 2014		**3,007,660,952**	**9,641**

Business strategy

The Company's main offices have relocated to East Perth and an experienced board and management team is being established to implement the new VDM Group business strategy focussed around a service offering under the main components of: Infrastructure, Services, and Mining.

Infrastructure
VDM Group intends to enhance its partnership and in-house engineering, procurement and construction ("EPC") capabilities to participate in major infrastructure projects in Australia and overseas including:

- roads,
- rail systems
- hydro dams, and
- port facilities.

Services
Within the Services component, VDM Group intends to participate in the equipment, modular buildings, structural steel and steel-components, and procurement markets under the following strategies:

- Equipment: partner with major Chinese heavy equipment manufacturers to offer equipment for hire and sale as well as offer parts and repair/maintenance services.
- Modular Buildings: partner with major Chinese modular building fabricators and leverage off the Group's EPC capability to design, manufacture and install custom modular buildings.
- Structural steel and steel-components: build relationship with major Chinese steel fabricators to supply and install custom structural and steel-components for the commercial building and resource industries.
- Procurement: build relationships with major Chinese distributors of electrical components, construction materials, cable, and pipe for supply into the Australian market.

Mining
The combination of the "Infrastructure" and "Services" capabilities is expected to allow VDM Group to participate in a large portion of the value chain related to major mining projects in Australia and overseas utilising Australian experience, technology and safety practices. This will increase the Company's exposure to the value generated through mine construction and development. Overseas opportunities in this area are expected to emerge from developing markets such as Africa and Latin America.

DIRECTORS' REPORT

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:

Director	Ordinary shares	Options
D Hua Dr	1,085,110,976	-
M Perrott AM	12,400,000	-
M Fry	1,000,000	-
V Jakovich	21,219,720	-

DIVIDENDS

There were no dividends declared or paid during the half year ended 31 December 2013.

NATURE AND PRINCIPAL ACTIVITIES

The principal activities during the half year within the Group were engineering, design and construction within the land development, road, and resource industries.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 27 August 2013 a capital raising was agreed with H&H Holdings Australia Pty Ltd (H&H) to provide capital of $6,401,000 via a placement of 140,080,961 shares at $0.01 per share to raise $1,401,000 and a convertible loan of $5,000,000 issued to H&H with a conversion price of $0.01 per share. The loan was subsequently approved to be converted into 500,000,000 ordinary shares at $0.01 per share at the Company's 29 November 2013 Annual General Meeting.

In conjunction with the 27 August 2013 share placement, Dr Hua, the owner of H&H, and Mr Ru were appointed as Directors of VDM Group effective 28 August 2013. Dr Hua was appointed Managing Director of VDM Group effective from 9 September 2013.

On 9 August 2013, VDM Group received sale proceeds of $1,350,000 for its shares in Quartz South Hedland Pty Ltd and paid $1,350,000 to discharge its property mortgage.

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

On 29 October 2013, VDM Group entered into a $4,000,000 unsecured loan facility with H&H and the loan was subsequently fully drawn by VDM Group**.** Upon shareholder approval at the 29 November 2013 Annual General Meeting, VDM Group granted a general security to H&H in respect of the loan facility.

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

Following shareholder approval at the 29 November 2013 AGM, 143,977,917 VDM Group shares were issued to certain creditors in payment of amounts due by VDM Group to those creditors.

On 10 December 2013, VDM Group announced a placement of 75,000,000 fully paid ordinary shares to a private investor at a price of $0.01 per share to raise $750,000.

DIRECTORS' REPORT

SIGNIFICANT EVENTS AFTER BALANCE DATE

On 10 December 2013, VDM Group lodged a prospectus in relation to a one for one pro-rata non-renounceable entitlement offer of 1,792,975,335 shares at an issue price of $0.01 per share to raise up to $17,930,000.

On 28 January 2014, 1,214,685,617 shares were allotted pursuant to the non-renounceable entitlement offer, raising $12,147,000. There are 578,289,718 shares remaining under the offer that remain unsubscribed that the directors can place at their discretion until 17 April 2014. The directors are working with potential investors and expect to place the majority of the shortfall shares.

Pursuant to the agreed terms, the $4,000,000 loan provided by H&H was repaid on 28 January 2014 with funds raised in the entitlement offer.

AUDITOR INDEPENDENCE DECLARATION

The Auditor's independence declaration is set out on page 6 and forms part of the Directors' Report for the half-year ended 31 December 2013.

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.

Dr D Hua
Chairman
Perth, Western Australia
28 February 2014

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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 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

TG Dachs
Partner
Perth
28 February 2014

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the half-year ended 31 December 2013

	Note	**Consolidated 31 December 2013 $'000**	Consolidated 31 December 2012 $'000
Continuing operations			
Rendering of services		**19,883**	86,768
Other revenue	3 (a)	**154**	538
Revenues		**20,037**	87,306
Cost of sales		**(19,741)**	(94,512)
Gross profit / (loss)		**296**	(7,206)
Administration expenses		**(8,124)**	(13,088)
Finance costs	3 (d)	**(143)**	(65)
Impairment charge	3 (f)	**(101)**	(16,717)
Share based payments		**-**	(10)
Loss from continuing operations before income tax		**(8,072)**	(37,086)
Income tax benefit / (expense)	5	**1,196**	(14,210)
Loss from continuing operations after income tax		**(6,876)**	(51,296)
Discontinued operations			
Loss from discontinued operations after income tax	10 (a)	**(5,043)**	(8,768)
Loss for the period		**(11,919)**	(60,064)
Other comprehensive income		**-**	-
Total comprehensive loss for the period		**(11,919)**	(60,064)
Total comprehensive loss for the period is attributable to:			
Owners of the parent		**(11,919)**	(60,064)
		(11,919)	(60,064)
Loss per share from continuing operations attributable to the ordinary equity holders of the parent:			
Basic loss per ordinary share (cents per share)		(0.6)	(5.5)
Diluted loss per ordinary share (cents per share)		(0.6)	(5.5)
Loss per share attributable to the ordinary equity holders of the parent:			
Basic loss per ordinary share (cents per share)		(1.0)	(6.4)
Diluted loss per ordinary share (cents per share)		(1.0)	(6.4)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at 31 December 2013

	Note	**Consolidated 31 December 2013 $'000**	Consolidated 30 June 2013 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**2,655**	11,857
Term deposits	7	**3,554**	5,238
Trade and other receivables		**2,634**	12,507
Contracts in progress		**1,604**	7,848
Inventory		**280**	308
Development properties	8	**3,401**	5,411
Other assets		**1,267**	728
		15,395	43,897
Non-current assets classified as held for sale	9	**900**	900
Total current assets		**16,295**	44,797
Non-current assets			
Trade and other receivables		**-**	258
Property, plant and equipment	11	**3,254**	6,359
Deferred tax asset		**-**	-
Intangible assets and goodwill	12	**284**	307
Total non-current assets		**3,538**	6,924
TOTAL ASSETS		**19,833**	51,721
LIABILITIES			
Current liabilities			
Trade and other payables		**10,237**	26,840
Amounts due to customers for contract work		**908**	7,200
Current tax liabilities		**1,956**	3,152
Deferred tax liability		**-**	-
Interest-bearing loans and other borrowings	13	**4,927**	1,782
Provisions	14	**3,823**	9,872
Total current liabilities		**21,851**	48,846
Non-current liabilities			
Interest-bearing loans and other borrowings	13	**146**	299
Lease liability		**178**	-
Provisions	14	**14**	244
Total non-current liabilities		**338**	543
TOTAL LIABILITIES		**22,189**	49,389
NET (LIABILITIES) / ASSETS		**(2,356)**	2,332
SHAREHOLDERS (DEFICIT) / EQUITY			
Equity attributable to equity holders of the parent			
Contributed equity	15	**255,517**	248,286
Reserves		**884**	884
Accumulated losses		**(258,757)**	(246,838)
TOTAL SHAREHOLDERS (DEFICIT) / EQUITY		**(2,356)**	2,332

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the half-year ended 31 December 2013

	Issued capital $'000	Accumulated losses $'000	Equity reserve $'000	Other capital reserve $'000	Total $'000
Balance at 1 July 2013	**248,286**	**(246,838)**	**457**	**427**	**2,332**
Loss for the period	-	(11,919)	-	-	(11,919)
Total comprehensive loss for the half-year	-	(11,919)	-	-	(11,919)
Transactions with owners in their capacity as owners					
Shares issued to H&H at $0.01 per share	1,401	-	-		1,401
Issue of conversion shares at $0.01 per share	5,000	-	-		5,000
Exercise of bonus issue option at $0.05 per share	2	-	-		2
Issue of shares to Jimblebar creditors at $0.01 per share	1,440	-	-		1,440
Private placement shares issued at $0.01 per share	750	-	-		750
Capital raising costs	(1,362)	-	-		(1,362)
Balance at 31 December 2013	**255,517**	**(258,757)**	**457**	**427**	**(2,356)**
Balance at 1 July 2012	**248,612**	**(162,430)**	**457**	**510**	**87,149**
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**

CONSOLIDATED STATEMENT OF CASH FLOWS
For the half-year ended 31 December 2013

	Note	**Consolidated 31 December 2013 $'000**	Consolidated 31 December 2012 $'000
Cash flows from operating activities			
Receipts from customers		**44,538**	195,415
Payments to suppliers and employees		**(64,840)**	(191,392)
Interest received		**82**	360
Interest paid		**-**	(85)
GST paid		**(61)**	(3,837)
Net cash flows (used in) / from operating activities		**(20,281)**	461
Cash flows from investing activities			
Release of term deposit		**1,684**	6,915
Purchase of property, plant and equipment		**(1,042)**	(2,497)
Proceeds from sale of property, plant and equipment		**1,624**	2,381
Purchase of intangibles		**(12)**	(192)
Repayment of external loans		**947**	433
Net outflow from sale of subsidiary	10	**(916)**	-
Net cash flows from investing activities		**2,285**	7,040
Cash flows from financing activities			
Proceeds from borrowings		**4,000**	-
Repayment of borrowings		**(997)**	(1,941)
Transaction costs on issue of shares		**(1,362)**	-
Proceeds from share placement		**7,153**	-
Net cash flows from / (used in) financing activities		**8,794**	(1,941)
Net (decrease) / increase in cash and cash equivalents		**(9,202)**	5,560
Cash and cash equivalents at beginning of period		**11,857**	10,029
Cash and cash equivalents at end of period	6	**2,655**	15,589

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2013

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 2013 were authorised for issue in accordance with a resolution of the directors on 28 February 2014. 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 2013 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 2013 and considered together with any public announcements made by VDM Group during the half-year ended 31 December 2013 in accordance with the continuous disclosure obligations of the ASX listing rules.

Except as discussed below, 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 the following new and amended Australian Accounting Standards and AASB Interpretations from 1 July 2013 mandatory for annual reporting periods beginning on or after 1 July 2013:

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

  The new control model broadens the situation when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give you control, the impact of potential voting rights and when holding less than a majority voting rights may give control. The adoption of AASB 10 has no effect on the financial position or performance of VDM Group.

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

  The adoption of AASB 11 had no effect on the financial position or performance of the VDM Group.

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

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

  None of these disclosure requirements are applicable for interim condensed consolidated financial statements unless significant events and transactions in the interim period requires that they are provided. Accordingly, the VDM Group has not made such disclosures.

- AASB 13 Fair Value Measurement.
  AASB 1 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets.

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

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

  Consequential amendments were also made to other standards via AASB 2011-8 which has resulted in additional disclosures around the fair values of financial instruments. Refer to note 9 for the additional disclosures.

- AASB 119 Employee Benefits (Revised 2011).

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

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

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

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

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

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

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

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

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

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

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

- AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements (AASB 124).
  This amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies. It also removes the individual KMP disclosure requirements for all disclosing entities in relation to equity holdings, loans and other related party transactions.

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

VDM Group incurred a net loss after tax from continuing operations for the half year ended 31 December 2013 of $6,876,000 (2012: $51,296,000). Net cash flows used in operating activities was $20,281,000 (2012: $461,000 inflow). At 31 December 2013, VDM Group had net current liabilities of $5,556,000 (30 June 2013: $4,049,000 net current liabilities), including non-current assets held for sale of $900,000 (30 June 2013: $900,000). The cash position of VDM Group at 31 December 2013 was $2,655,000 (30 June 2013: $11,857,000) with a further $3,554,000 (30 June 2013: $5,238,000) in short term deposits which were not available for immediate use.

On 28 January 2014, $12,147,000 was raised from the allotment of 1,214,685,617 shares in relation to the 10 December 2013 non-renounceable entitlement offer.

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:

- there are 578,289,718 shares remaining under the 10 December 2013 non-renounceable entitlement offer that remain unsubscribed that the directors can place at their discretion until 17 April 2014. The directors are working with potential investors and expect to place the majority of the remaining unsubscribed shares.
- the successful implementation of the new VDM Group business strategy as outlined in the Directors' Report;
- raising working capital and growth financing for the new VDM Group business strategy; and
- VDM Group will have sufficient insurance cover and counterclaims to largely offset significant legal claims.

Should VDM Group not achieve the matters set out above, there is material uncertainty as to whether VDM 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 annual financial report. The half year report does not include any adjustments to assets and liabilities that may be necessary if VDM Group is unable to continue as a going concern.

2. OPERATING SEGMENTS

At 30 June 2013, VDM Group was organised into three reportable segments for management purposes namely Eastern Construction, Western Construction and Consulting. Since 30 June 2013, VDM Group has sold Eastern Construction, which comprised of VDM Construction (Eastern Operations) and divested the majority of its Consulting Businesses. Both reportable segments have been recognised as a discontinued operation for the half year ended 31 December 2013. The Chief Operating Decision Makers of the Group are the Board of Directors. Based on internal reports provided to the Chief Operating Decision Makers, which are used to assess performance and allocate resources, there is only one remaining operating segment being the provision of construction services in Western Australia. Accordingly, the financial results from this segment will be equivalent to the financial statements of the Group as a whole.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2013

	Consolidated 31 December 2013 $'000	Consolidated 31 December 2012 $'000
3. REVENUE AND EXPENSES		
(a) Other revenue		
Interest	**80**	332
Other	**74**	206
Total other revenue	**154**	538
(b) Other expenses		
Provision for onerous leases	**1,374**	-
Redundancy costs	**732**	97
Foreign exchange loss	**-**	27
Total other expenses included in administration expenses	**2,106**	124
(c) Other income		
Net gain on disposal of property, plant and equipment	**874**	1,026
Total other income included in administration expenses	**874**	1,026
(d) Finance costs		
Finance charges payable under hire purchase contracts	**26**	18
Bank loans, overdraft and premium funding	**117**	47
Total finance costs	**143**	65
(e) Depreciation and amortisation		
Depreciation of property, plant and equipment	**641**	1,714
Amortisation of software	**56**	127
Total depreciation and amortisation	**697**	1,841
Depreciation included in cost of sales	**522**	1,546
Depreciation included administration expenses	**175**	295
(f) Impairment charge		
Impairment of goodwill	**-**	16,717
Impairment of leasehold improvements	**101**	-
Total impairment charge	**101**	16,717

	Consolidated 31 December 2013 $'000	Consolidated 31 December 2012 $'000

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 2013: nil (2012: 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:

Loss before income tax from continuing operations	**(8,072)**	(37,086)
Loss before income tax from disposal group	**(5,043)**	(8,787)
	(13,115)	(45,873)
At VDM Group's statutory income tax rate of 30% (2012: 30%)	**(3,935)**	(13,762)
Adjustments in respect of previous years	**(1,196)**	-
Tax adjustment for non deductible expenses	**97**	6,860
Non-recognition of tax asset for carry forward losses	**3,838**	21,093
Income tax (benefit) / expense	**(1,196)**	14,191
Attributable to:		
Continuing operations	**(1,196)**	14,210
Discontinued operations	**-**	(19)

(a) Tax losses

VDM Group has estimated tax losses of $111,848,000 (30 June 2013:($98,226,0000). Utilisation of the carried forward tax losses by the company is subject to satisfaction of the Continuity of Ownership Test ("COT") or, failing that, the Same Business Test ("SBT"). It is likely that VDM Group has failed COT during the 2014 financial year, therefore in order to be able to utilise the losses in the future, VDM Group will be required to satisfy the SBT. Where VDM Group 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.

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	**2,655**	15,589
Total cash and cash equivalents	**2,655**	15,589
Continuing operations	**2,655**	11,940
Disposal group	**-**	3,649
Total cash and cash equivalents	**2,655**	15,589

	Consolidated 31 December 2013 $'000	Consolidated 30 June 2013 $'000
7. TERM DEPOSITS		
Term deposits	**3,554**	5,238
Total term deposits	**3,554**	5,238

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

8. DEVELOPMENT PROPERTIES

Development properties	**3,401**	5,411
Total development properties	**3,401**	5,411

(a) Reconciliation of carrying amount

At 1 July	**5,411**	5,529
Sale	**(1,350)**	-
Discontinued operation	**(675)**	-
Impairment of development properties (note 8(b))	**-**	(214)
Additions	**15**	96
Total non-current assets classified as held for sale	**3,401**	5,411

On 9 August 2013, VDM Group received $1,350,000 on the sale of its shares in Quartz South Hedland Pty Ltd.

(b) Impairment of development properties

There was no impairment loss (30 June 2013: $214,000) recognised in the statement of comprehensive income in relation to development properties for the half year ended 31 December 2013.

9. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

Other property, plant and equipment	**900**	900
Non-current assets classified as held for sale	**900**	900

(a) Reconciliation of carrying amount

At 1 July	**900**	1,295
Sale	**-**	(950)
Transferred from property, plant and equipment	**-**	950
Impairment	**-**	(395)
Total non-current assets classified as held for sale	**900**	900

The non-current assets classified as held for sale at 31 December 2013 relate to property acquired on settlement of a legacy contract. It is the intention to divest the property. There was no impairment loss (30 June 2013: $395,000) recognised in the statement of comprehensive income in relation to non-current assets classified as held for sale.

10. DISCONTINUED OPERATION

VDM Group announced on 20 September 2013 that it had entered into a non-binding sale agreement with an outside party to sell all the issued share capital of VDM Construction (Eastern Operations) Pty Ltd for $2,750,000. A binding share sale agreement was executed on 7 October 2013. The business has been recognised as a discontinued operation.

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

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

(a) Financial performance of discontinued operation

	Consolidated 31 December 2013 $'000	Consolidated 31 December 2012 $'000
Revenue	**20,178**	58,825
Expenses	**(23,506)**	(61,798)
Finance costs	**(4)**	(20)
Loss recognised on re-measurement to fair value less cost to sell-Plant and equipment	**(1,711)**	-
Goodwill	**-**	(5,794)
Loss before tax from discontinued operation	**(5,043)**	(8,787)
Tax expense		19
Loss after tax for the period from a discontinued operation attributable to the owners of the parent	**(5,043)**	(8,768)
Loss per share		
Basic, from discontinued operations (cents per share)	**(0.4)**	(0.9)
Diluted, from discontinued operations (cents per share)	**(0.4)**	(0.9)

(b) Assets and liabilities and cashflow information of the disposed entity/businesses

Assets	
Cash and cash equivalent	**3,666**
Development properties	**675**
Plant and equipment	**765**
Intangible assets	**79**
Contracts in progress	**6,181**
Trade receivables	**1,472**
Other assets	**388**
	13,226
Liabilities	
Trade and other liabilities	**8,714**
Interest bearing debt	**159**
Provision for employee entitlements	**1,274**
	10,147
Net assets attributable to discontinued operations	**3,079**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2013

	Consolidated 31 December 2013 $'000
Sale proceeds	**3,079**
Less cash and cash equivalents included in sale	**(3,666)**
	(587)
Less consideration receivable at 31 December 2013	**(329)**
Net outflow from sale of discontinued operations	**(916)**
The net cash flows of the discontinued operation	
Operating	**(1,708)**
Investing	**731**
Financing	**(1,080)**
Net cash outflow	**(2,057)**

	Consolidated 31 December 2013 $'000	Consolidated 30 June 2013 $'000
11. PROPERTY, PLANT AND EQUIPMENT		
Leasehold improvements at cost	**722**	1,043
Accumulated depreciation	**(49)**	(135)
	673	908
Plant and equipment under lease at cost	**611**	2,381
Accumulated depreciation	**(88)**	(1,267)
	523	1,114
Plant and equipment at cost	**10,022**	16,035
Accumulated depreciation	**(7,964)**	(11,698)
	2,058	4,337
Total property, plant and equipment	**3,254**	6,359

	Consolidated 31 December 2013 $'000	Consolidated 30 June 2013 $'000
(b) Reconciliation of carrying amount		
Leasehold improvements		
At 1 July net of accumulated depreciation	**908**	615
Additions	**761**	2,511
Disposals	**(10)**	(2,061)
Depreciation	**(52)**	(172)
Impairment	**(101)**	-
Transferred from plant and equipment under lease and plant and equipment	**7**	28
Discontinued operation	**(840)**	(13)
At 31 December net of accumulated depreciation	**673**	908
Freehold land and buildings		
At 1 July net of accumulated depreciation	**-**	950
Transferred to non-current assets held for sale	**-**	(950)
At 31 December net of accumulated depreciation	**-**	-
Plant and equipment under lease		
At 1 July net of accumulated depreciation	**1,114**	869
Additions	**-**	734
Disposals	**(19)**	(130)
Depreciation	**(97)**	(368)
Transferred from plant and equipment	**-**	77
Transferred to leasehold improvements	**(7)**	-
Discontinued operation	**(468)**	(68)
At 31 December net of accumulated depreciation	**523**	1,114
Plant and equipment		
At 1 July net of accumulated depreciation	**4,337**	10,413
Additions	**281**	771
Disposals	**(718)**	(3,130)
Depreciation	**(674)**	(3,165)
Transferred to plant and equipment under lease	**-**	(77)
Transferred to leasehold improvements	**-**	(28)
Discontinued operation	**(1,168)**	(447)
At 31 December net of accumulated depreciation	**2,058**	4,337
Total property, plant and equipment	**3,254**	6,359

(c) Impairment losses recognised

There was an impairment loss of $101,000 (30 June 2013: $nil) recognised in the statement of comprehensive income to reduce the carrying amount of plant and equipment to its recoverable amount.

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

	Consolidated 31 December 2013 $'000	Consolidated 30 June 2013 $'000
12. INTANGIBLE ASSETS AND GOODWILL		
Goodwill	**-**	-
Lease asset	**129**	-
Software	**3,661**	4,090
Accumulated depreciation and impairment	**(3,506)**	(3,783)
	155	307
Total intangible assets and goodwill	**284**	307

(a) Reconciliation of carrying amount

Goodwill		
At 1 July	**-**	22,511
Impairment	**-**	(16,717)
Discontinued operation	**-**	(5,794)
Total goodwill	**-**	-

(b) Impairment losses recognised

There was no impairment loss recognised in the statement of comprehensive income in the half year ended 31 December 2013 in relation to intangible assets. An impairment loss of $16,717,000 was recognised for continuing operations during the year ended 30 June 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the half-year ended 31 December 2013

	Consolidated 31 December 2013 $'000	Consolidated 30 June 2013 $'000
13. INTEREST-BEARING LOANS AND OTHER BORROWINGS		
Current		
Interest bearing loan (9% fixed secured loan)	**595**	1,018
H&H Interest bearing loan (8% fixed secured loan)	**4,148**	-
Insurance premium funding	**-**	442
ire purchase liabilities	**184**	322
Total current interest-bearing loans and borrowings	**4,927**	1,782
Non-Current		
Hire purchase liabilities	**146**	299
Total non-current interest-bearing loans and borrowings	**146**	299

On 29 October 2013, VDM Group entered into a $4,000,000 unsecured loan facility with H&H and the loan was subsequently fully drawn by VDM Group**.** Upon shareholder approval at the 29 November 2013 Annual General Meeting, VDM Group granted a general security to H&H in respect of the loan facility. The interest is payable quarterly in arrears at a rate of 8% per annum, calculated daily. The loan was subsequently repaid on 28 January 2014.

14. PROVISIONS

	Consolidated 31 December 2013 $'000	Consolidated 30 June 2013 $'000
Current		
Provision for employee entitlements	**1,513**	4,324
Provision for loss making contracts	**388**	5,548
Provision for onerous contracts	**1,922**	-
Total current interest-bearing loans and borrowings	**3,823**	9,872
Non-Current		
Provision for employee entitlements	**14**	244
Total non-current interest-bearing loans and borrowings	**14**	244

	Consolidated 31 December 2013 $'000	Consolidated 30 June 2013 $'000

15. CONTRIBUTED EQUITY

	Consolidated 31 December 2013 $'000	Consolidated 30 June 2013 $'000
Ordinary shares issued and fully paid	**255,517**	248,286

(a) Movement in ordinary shares on issue

		No. of shares	Value ($'000)
Balance at 30 June 2013		**933,873,071**	**248,286**
Shares issued to H&H at $0.01 per share	27 August 2013	140,080,961	1,401
Issue of conversion shares at $0.01 per share	29 November 2013	500,000,000	5,000
Exercise of bonus issue option at $0.05 per share	29 November 2013	43,386	2
Issue of shares to Jimblebar creditors at $0.01 per share	29 November 2013	143,977,917	1,440
Private placement shares issued at $0.01 per share	10 December 2013	75,000,000	750
Capital raising costs			(1,362)
Balance at 31 December 2013		**1,792,975,335**	**255,517**

16. 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 2013 VDM Group had bank guarantees with Bankwest of $3,134,000 (30 June 2013: $4,798,000) given to various clients for satisfactory contract performance.

As at 31 December 2013 VDM Group had insurance bonds with Assetinsure Pty Ltd of $7,818,000 (30 June 2013: $18,087,000) given to various clients for satisfactory contract performance.

(b) Legal claims

Jimblebar
Since the termination of VDM Group's engagement under the Jimblebar Amonium Nitrate Storage Facility Contract ("Jimblebar Contract") on 21 August 2013, VDM Group has received various claims from BHP for the costs of rectification of defective works, liquidated damages, costs to complete and monies otherwise due under the Jimblebar contract. The total amount claimed is approximately $9,000,000. All claims are disputed by VDM Group.

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

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

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

Revenue for the half year has been reduced by $2,422,000 to reflect the payment to BHP on 19 December 2013 under the bond facility. No assets or liabilities relating to the above claims have been recognised in the accounts.

17. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

On 10 December 2013, VDM Group lodged a prospectus in relation to a one for one pro-rata non-renounceable entitlement offer of 1,792,975,335 shares at an issue price of $0.01 per share to raise up to $17,930,000.

On 28 January 2014, 1,214,685,617 shares were allotted pursuant to the non-renounceable entitlement offer, raising $12,147,000. The directors are working with potential investors and expect to place the shortfall of 578,289,718 shares at their discretion.

Pursuant to the agreed terms, the $4,000,000 loan provided by H&H was repaid on 28 January 2014 with funds raised in the entitlement offer.

18. RELATED PARTY TRANSACTIONS

On 29 October 2013, VDM Group entered into a $4,000,000 unsecured loan facility with H&H and the loan was subsequently fully drawn by VDM Group. Upon shareholder approval at the 29 November 2013 Annual General Meeting, VDM Group granted a general security to H&H in respect of the loan facility. The balance outstanding at 31 December 2013 is reflected in note 13.

The $5,000,000 convertible loan issued to H&H loan on 27 August 2013 was approved and converted into 500,000,000 ordinary shares at $0.01 per share at the Company's 29 November 2013 Annual General Meeting.

At 31 December 2013, H&H held 685,110,976 (38.2%) of the issued share capital of VDM Group.

19. FINANCIAL INSTRUMENTS

As at 31 December 2013 there are no financial assets or financial liabilities which are accounted for at fair value. There is no difference between the carrying amounts and fair value of financial assets and financial liabilities presented in the Consolidated Statement of Financial Position.

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 2013 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

Dr D Hua
Chairman
Perth, Western Australia
28 February 2014

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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 2013, 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 2013 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.

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 2013 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 in the financial report which describes the principal conditions that raise doubt about the entity's ability to continue as a going concern. These conditions include the successful implementation of the new business model, the positive resolution of outstanding disputes over contracts and the raising of additional funding to meet working capital requirements, along with other matters as set forth in Note 1. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business.

Ernst & Young

Ernst & Young

T G Dachs
Partner
Perth
28 February 2014