

# **VDM GROUP LIMITED**

**and its Controlled Entities**

**ABN 95 109 829 334**

**APPENDIX 4E**

**PRELIMINARY FINAL REPORT**

**For the year ended 30 June 2013**

# VDM GROUP LIMITED

## APPENDIX 4E – PRELIMINARY FINAL REPORT

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**VDM GROUP LIMITED**  
**APPENDIX 4E – PRELIMINARY FINAL REPORT**  
**RESULTS FOR ANNOUNCEMENT TO THE MARKET**  
**For the year ended 30 June 2013**

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## Appendix 4E

**Preliminary final report**  
**Period ending on 30 June 2013**  
**VDM Group Limited**

ABN 95 109 829 334

ASX Code: VMG

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

Current year ended – 30 June 2013

Previous year ended – 30 June 2012

<b>Results for announcement to the market</b>	<b>\$'000</b>	<b>Up/Down</b>	<b>% Movement</b>
Revenue from ordinary activities	205,206	Down	11.1%
Loss from ordinary activities after tax attributable to members	(84,408)	Up	54.0%
Net loss for the period attributable to members	(84,408)	Up	54.0%

### **Dividend payments**

VDM Group does not propose to pay a dividend for the year ended 30 June 2013.

### **Net tangible assets**

	<b>Current year</b>	<b>Previous year</b>
Net tangible assets per ordinary security (cents per share)	0.2	6.9

### **Results commentary for announcement to the market**

Refer to the separate ASX release on 27 and 29 August 2013 for further commentary.

**VDM GROUP LIMITED**  
**PRELIMINARY STATEMENT OF COMPREHENSIVE INCOME**  
**For the year ended 30 June 2013**

	Notes	Consolidated	
		2013 \$'000	2012 \$'000
<b>Continuing operations</b>			
Rendering of services		204,563	229,713
Other revenue	2	643	1,022
<b>Revenue</b>		<b>205,206</b>	<b>230,735</b>
Cost of services		(239,457)	(241,430)
<b>Gross loss</b>		<b>(34,251)</b>	<b>(10,695)</b>
Administration expenses		(12,874)	(15,176)
Finance costs	4(b)	(233)	(786)
Impairment charge	4(d)	(19,486)	(3,161)
Equity based payment write-back / (expense)	-	90	(329)
<b>Loss from continuing operations before income tax</b>		<b>(66,754)</b>	<b>(30,147)</b>
Income tax (expense) / benefit	5(a)	(14,905)	3,127
<b>Loss from continuing operations after income tax</b>		<b>(81,659)</b>	<b>(27,020)</b>
<b>Discontinued operations</b>			
Loss from discontinued operations after income tax	6	(2,749)	(27,792)
<b>Loss for the year</b>		<b>(84,408)</b>	<b>(54,812)</b>
Other comprehensive income		-	-
<b>Total comprehensive loss for the year</b>		<b>(84,408)</b>	<b>(54,812)</b>
Total comprehensive loss for the year is attributable to:			
Owners of the parent		(84,408)	(54,812)
		<b>(84,408)</b>	<b>(54,812)</b>
<b>Earnings per share (cents per share)</b>			
Basic, loss for the year attributable to ordinary equity holders of the parent	7	(9.04)	(7.81)
Diluted, loss for the year attributable to ordinary equity holders of the parent	7	(9.04)	(7.81)
<b>Earnings per share for continuing operations (cents per share)</b>			
Basic, loss from continuing operations attributable to ordinary equity holders of the parent	7	(8.74)	(3.85)
Diluted, loss from continuing operations attributable to ordinary equity holders of the parent	7	(8.74)	(3.85)

**VDM GROUP LIMITED**  
**PRELIMINARY STATEMENT OF FINANCIAL POSITION**  
**As at 30 June 2013**

	Notes	Consolidated	
		2013 \$'000	2012 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	11,857	10,029
Term deposit	10	5,238	13,568
Trade and other receivables	11	12,507	48,736
Contracts in progress	12	7,848	19,656
Inventory	14	308	952
Development properties	13	5,411	5,529
Other assets	15	728	2,342
		<b>43,897</b>	100,812
Non-current assets classified as held for sale	16	900	1,295
<b>Total current assets</b>		<b>44,797</b>	102,107
<b>Non-current assets</b>			
Trade and other receivables	11	258	-
Property, plant and equipment	17	6,359	12,847
Deferred tax assets	5	-	16,156
Intangible assets and goodwill	18	307	23,154
<b>Total non-current assets</b>		<b>6,924</b>	52,157
<b>TOTAL ASSETS</b>		<b>51,721</b>	154,264
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	19	39,588	54,460
Current tax liabilities		3,152	3,145
Deferred tax liability	5	-	918
Interest-bearing loans and borrowings	20	1,782	2,468
Provisions	21	4,324	5,501
<b>Total current liabilities</b>		<b>48,846</b>	66,492
<b>Non-current liabilities</b>			
Interest-bearing loans and other borrowings	20	299	128
Provisions	21	244	495
<b>Total non-current liabilities</b>		<b>543</b>	623
<b>TOTAL LIABILITIES</b>		<b>49,389</b>	67,115
<b>NET ASSETS</b>		<b>2,332</b>	87,149
<b>EQUITY</b>			
Equity attributable to equity holders of the parent			
Contributed equity	22	248,286	248,612
Reserves	23	884	967
Accumulated losses	23	(246,838)	(162,430)
<b>Parent interests</b>		<b>2,332</b>	87,149
<b>TOTAL EQUITY</b>		<b>2,332</b>	87,149

**VDM GROUP LIMITED**  
**PRELIMINARY STATEMENT OF CASH FLOWS**  
**For the year ended 30 June 2013**

	Notes	Consolidated	
		2013 \$'000	2012 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		319,022	343,880
Payments to suppliers and employees		(324,548)	(353,435)
Interest received		455	481
Interest paid		(243)	(2,095)
GST paid		(6,837)	(9,121)
Income tax refunded		-	3,987
<b>Net cash flows used in operating activities</b>	24(a)	<b>(12,151)</b>	<b>(16,303)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(3,320)	(7,511)
Release from / (investment in) term deposit		8,330	(13,568)
Proceeds from sale of property, plant and equipment		9,674	15,909
Purchase of intangibles		(195)	(158)
Loans to related entities		-	(63)
Proceeds from external loans		1,634	-
Payment of contingent consideration	21(i)	(707)	(187)
Net proceeds from sale of subsidiary		1,130	43,107
<b>Net cash flows from investing activities</b>		<b>16,546</b>	<b>37,529</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		995	2,055
Repayment of borrowings		(3,513)	(39,281)
Transaction costs on issue of shares		(49)	(2,524)
Proceeds from share placements		-	36,255
<b>Net cash flows used in financing activities</b>		<b>(2,567)</b>	<b>(3,495)</b>
Net increase in cash and cash equivalents		1,828	17,731
Cash and cash equivalents at beginning of year		10,029	(7,702)
<b>Cash and cash equivalents at end of year</b>	9	<b>11,857</b>	<b>10,029</b>

**VDM GROUP LIMITED**  
**PRELIMINARY STATEMENT OF CHANGES IN EQUITY**  
**For the year ended 30 June 2013**

	<b>Issued capital \$'000</b>	<b>Accumulated losses \$'000</b>	<b>Equity reserve \$'000</b>	<b>Other capital reserve \$'000</b>	<b>Total \$'000</b>
<b>Balance at 1 July 2012</b>	<b>248,612</b>	<b>(162,430)</b>	<b>457</b>	<b>510</b>	<b>87,149</b>
Comprehensive loss for the year	-	(84,408)	-	-	(84,408)
Total comprehensive loss for the year	-	(84,408)	-	-	(84,408)
<b>Transactions with owners in their capacity as owners</b>					
Reversal of tax benefits on capital raising costs in prior years	(268)	-	-	-	(268)
Transactions costs on share and option issue	(51)	-	-	-	(51)
Share-based payments	(7)	-	-	(83)	(90)
<b>Balance at 30 June 2013</b>	<b>248,286</b>	<b>(246,838)</b>	<b>457</b>	<b>427</b>	<b>2,332</b>
<b>Balance at 1 July 2011</b>	<b>214,112</b>	<b>(107,618)</b>	<b>1,074</b>	<b>192</b>	<b>107,760</b>
Comprehensive loss for the year	-	(54,812)	-	-	(54,812)
Total comprehensive loss for the year	-	(54,812)	-	-	(54,812)
<b>Transactions with owners in their capacity as owners</b>					
Issue of shares	36,238	-	-	-	36,238
Exercise of bonus option issue	17	-	-	-	17
Transactions costs on share and option issue	(2,524)	-	-	-	(2,524)
Tax benefit of transaction costs	758	-	-	-	758
Contingent consideration paid on prior acquisitions	-	-	(149)	-	(149)
Stamp duty paid on prior acquisitions	-	-	(468)	-	(468)
Share-based payments	11	-	-	318	329
<b>Balance at 30 June 2012</b>	<b>248,612</b>	<b>(162,430)</b>	<b>457</b>	<b>510</b>	<b>87,149</b>

# VDM GROUP LIMITED

## PRELIMINARY NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 30 June 2013

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#### 1. SEGMENT INFORMATION

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

- Eastern construction;
- Western construction; and
- Consulting.

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% (2012: 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

During the year, management restructured its internal reporting and now present discrete information based on the location and the nature of the services provided. The comparatives have been restated as a result of changes in the internal reporting which is used and reviewed by the chief operating decision makers in assessing performance and allocating resources.



# VDM GROUP LIMITED

## PRELIMINARY NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 30 June 2013

The following table presents revenue and profit and selected balance sheet information for reportable segments for the years ended 30 June 2013 and 30 June 2012.

Year ended 30 June 2013	Western construction \$'000	Eastern construction \$'000	Consulting \$'000	Elimination and unallocated \$'000	Total \$'000
<b>Revenue</b>					
External sales	127,077	59,716	17,778	(8)	204,563
Other external revenue	242	2	21	378	643
Inter-segment sales	-	-	1,223	(1,223)	-
Total segment revenue	127,319	59,718	19,022	(853)	<u>205,206</u>
<b>Results</b>					
Segment result after tax	(37,897)	(3,615)	(1,796)	-	(43,308)
Interest income	36	2	21	378	437
Interest expense (note 4(b))	(69)	(37)	-	(127)	(233)
Depreciation and amortisation (note 4(c))	(2,572)	(622)	(273)	(475)	(3,942)
Impairment of goodwill, assets, non-current assets classified as held for sale and development properties (note 4(d))	(17,088)	(1,905)	-	(493)	(19,486)
Income tax benefit	8,918	733	769	-	10,420
<b>Reconciliation of segment net profit after tax to net loss before tax</b>					
Segment net profit after notional tax					(43,308)
Notional income tax expense at 30% excluding impairment charge (2012: 30%)					(10,420)
Corporate charges					<u>(13,026)</u>
Net loss before tax per the statement of comprehensive income					<u>(66,754)</u>
<b>Segment assets<sup>1</sup></b>					
Segment operating assets	17,215	13,079	7,792	13,635	51,721
Capital expenditure	507	224	585	2,144	3,460
Discontinued operation					<u>55</u>
					3,515
<b>Segment liabilities<sup>1</sup></b>					
Segment operating liabilities	31,321	9,671	2,085	6,312	49,389

Note:

- Intercompany transactions have been removed from the segment assets and liabilities.

#### Major customers

VDM Group has a number of customers to which it provides services. During 2013, VDM Group had three customers that contributed greater than 10% of revenue. The two largest customers contributed both 20% of revenue and were reported under Western and Eastern Construction. The third largest customer contributed 11% of revenue and was reported under Western Construction.

**VDM GROUP LIMITED**  
**PRELIMINARY NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2013**

Year ended 30 June 2012	Western construction \$'000	Eastern construction \$'000	Consulting \$'000	Elimination and unallocated \$'000	Total \$'000
<b>Revenue</b>					
External sales	140,723	57,289	23,817	7,884	229,713
Other external revenue	103	149	22	748	1,022
Inter-segment sales	10,600	-	3,303	(13,903)	-
Total segment revenue	151,426	57,438	27,142	(5,271)	<u>230,735</u>
<b>Results</b>					
Segment result after tax	(6,501)	(1,370)	(230)	-	(8,101)
Interest income	45	14	23	315	397
Interest expense (note 4(b))	(75)	(37)	(7)	(667)	(786)
Depreciation and amortisation (note 4(c))	(4,281)	(610)	(667)	(729)	(6,287)
Impairment of assets and development costs and software (note 4(d))	(311)	-	-	(2,850)	(3,161)
Income tax benefit	2,653	587	99	-	3,339
<b>Reconciliation of segment net profit after tax to net loss before tax</b>					
Segment net profit after notional tax					(8,101)
Notional income tax expense at 30% excluding impairment charge (2011: 30%)					(3,339)
Corporate charges					<u>(18,707)</u>
Net loss before tax per the statement of comprehensive income					<u>(30,147)</u>
<b>Segment assets</b>					
Segment operating assets	80,013	15,748	10,480	35,236	141,477
Discontinued operations assets					<u>12,787</u>
Total assets					<u>154,264</u>
Capital expenditure	872	217	390	(97)	1,382
Discontinued operation capital expenditure					<u>6,287</u>
Total capital expenditure					<u>7,669</u>
<b>Segment liabilities</b>					
Segment operating liabilities	52,408	9,921	2,290	(2,697)	61,922
Discontinued operations liabilities					<u>5,193</u>
Total liabilities					<u>67,115</u>

**Major customers**

In 2012, VDM Group had two customers that contributed greater than 10% of revenue. The largest customer contributed 17% of revenue and the second largest contributed 11% of revenue. Both customers were reported under Western Construction.

**VDM GROUP LIMITED**  
**PRELIMINARY NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2013**

	2013	Consolidated 2012
	\$'000	\$'000
<b>2. OTHER REVENUE</b>		
Interest	437	397
Rental income	206	124
Other	-	501
<b>Total other revenue</b>	<b>643</b>	<b>1,022</b>
<b>3. OTHER INCOME</b>		
Gain on disposal of property, plant and equipment	3,766	2,224
<b>Total other income</b>	<b>3,766</b>	<b>2,224</b>
Other income included in cost of services	3,766	2,224
<b>4. EXPENSES</b>		
<b>(a) Other expenses</b>		
Loss on disposal of property, plant and equipment	383	308
Loss on foreign exchange	-	5
<b>Total other expenses</b>	<b>383</b>	<b>313</b>
Other expenses included in cost of services	10	27
Other expenses included in administration expenses	373	286
<b>(b) Finance costs</b>		
Finance charges payable under hire purchase contracts	87	179
Bank loans and overdrafts	146	607
<b>Total finance costs</b>	<b>233</b>	<b>786</b>
<b>(c) Depreciation and amortisation</b>		
Depreciation	3,601	5,513
Amortisation of development costs and software	342	774
<b>Total depreciation and amortisation</b>	<b>3,943</b>	<b>6,287</b>
Depreciation and amortisation included in cost of services	3,467	5,575
<b>(d) Impairment charges</b>		
Impairment of goodwill (note 18)	18,507	-
Impairment of assets	370	-
Impairment of development properties (note 13)	214	2,004
Impairment of non-current assets held for sale (note 16)	395	846
Impairment of property, plant and equipment (note 17)	-	311
<b>Total impairment charges</b>	<b>19,486</b>	<b>3,161</b>
<b>(e) Employee benefits expense</b>		
Wages and salaries	80,026	77,879
Restructuring/ redundancy costs	901	230
Superannuation expense	4,945	4,524
Share based payment expense	(90)	329
Other employee benefits expense	1,324	1,851
<b>Total employee benefits expense</b>	<b>87,106</b>	<b>84,813</b>
Employee benefit expenses included in cost of services	82,272	77,237
Employee benefit expenses included in administration expenses	4,834	7,576

**VDM GROUP LIMITED**  
**PRELIMINARY NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2013**

	2013	Consolidated
	\$'000	\$'000
<b>5. INCOME TAX</b>		
<b>(a) Income tax expense</b>		
<b>Income statement</b>		
<i>Current income tax:</i>		
Adjustments in respect of current income tax of previous years	-	3,544
<i>Deferred income tax:</i>		
Relating to origination & reversal of temporary differences	234	877
Losses recognised	14,685	(7,548)
Adjustments in respect of deferred income tax of previous years	(14)	-
<b>Income tax expense / (benefit) reported in the income statement</b>	<b>14,905</b>	<b>(3,127)</b>
<b>Statement of changes in equity</b>		
<i>Deferred income tax:</i>		
Paid up capital	268	(758)
<b>Income tax expense / (benefit) reported in equity</b>	<b>268</b>	<b>(758)</b>
<b>(b) Numerical reconciliation between aggregate tax expense recognised in the income statement and the tax expense calculated in the statutory income tax return</b>		
Accounting loss before tax from continuing operations	(66,754)	(30,147)
Accounting loss before tax from discontinued operations	(2,684)	(27,800)
Accounting loss before income tax	(69,438)	(57,947)
Prima facie income tax benefit @ 30%	(20,831)	(17,384)
Employee share based payments	(27)	99
Other non deductible items	200	3,532
Unrecognised temporary differences	4,470	9
Unrealised losses on revaluation of assets to fair value	6,753	6,735
Losses recognised	24,419	1,380
Other adjustments – discontinued operations	-	(1,050)
Prior year over provision	(14)	3,544
<b>Aggregate income tax expense / (benefit)</b>	<b>14,970</b>	<b>(3,135)</b>
Income tax expense / (benefit) reported in the consolidated income statement	14,905	(3,127)
Income tax expense / (benefit) attributed to discontinued operations	65	(8)
<b>Aggregate income tax expense / (benefit)</b>	<b>14,970</b>	<b>(3,135)</b>

**VDM GROUP LIMITED**  
**PRELIMINARY NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2013**

	Statement of financial position		Statement of comprehensive income	
	2013	2012	2013	2012
(c) Recognised deferred tax asset and liabilities	\$'000	\$'000	\$'000	\$'000
<b>Consolidated</b>				
<b>Deferred tax liabilities</b>				
Contracts in progress and inventory	(2,447)	(5,904)	(3,457)	(2,152)
Other	(306)		306	
Gross deferred tax liabilities	(2,753)	(5,904)	(3,151)	(2,152)
<b>Deferred tax assets</b>				
Provision for employee entitlements	1,294	1,649	355	460
Provisions – other	73	149	76	13
Recognised income tax revenue losses	-	14,685	14,685	(7,548)
Trade and other receivable	872	911	40	(1,486)
Trade and other payables	3,481	1,173	(2,308)	4,048
Other assets	-	-	-	870
Property, plant and equipment	483	483	-	318
Contributed equity	571	839	268	(489)
Discontinued operations	-	-	(65)	8
Other	437	1,253	815	(1,470)
Deferred tax assets not recognised	(4,470)		4,470	
Gross deferred tax assets	2,741	21,142	18,336	(5,276)
Under/ over statement of opening deferred tax asset / liabilities	12	-	(12)	-
Deferred tax expense			15,173	(7,428)
Net deferred tax asset recognised in the balance sheet	-	15,238		
Net deferred tax current liability	(2,753)	(918)		
Net deferred tax non-current asset	2,753	16,156		
Net deferred tax asset recognised in the balance sheet	-	15,238		

**(d) Tax losses**

VDM Group has recognised a deferred tax asset of \$nil (2012: \$14,685,000) for Australian income tax revenue losses of \$nil (2012: \$48,951,000) on the basis that it is not 'probable' that the carried forward revenue loss will be utilised against future assessable taxable profits.

VDM Group has estimated tax losses of \$98,226,000 (2012: \$48,951,000)

**(e) Unrecognised temporary differences**

At 30 June 2013, there are no unrecognised temporary differences associated with VDM Group's investments in subsidiaries, or joint ventures, as VDM Group has no liability for additional taxation should unremitted earnings be remitted (2012: nil).

**(f) Tax consolidation**

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

VDM Group and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2004. VDM Group Ltd is the head entity of the tax-consolidated group. Members of VDM Group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

# VDM GROUP LIMITED

## PRELIMINARY NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 30 June 2013

#### *Tax effect accounting by members of the tax consolidated group*

Tax expense/ income benefit, deferred tax liabilities and deferred tax assets arising from temporary differences are recognised in the separate financial statements of the members of the tax consolidated group using the group allocation method. Current tax liabilities and assets and deferred tax assets and liabilities arising from unused tax losses and tax credits of the members of the tax consolidated group are recognised by the Company (as head entity in the tax consolidated group).

Members of the tax-consolidated group have entered into a tax funding agreement. Amounts are recognised as payable to or receivable by the Company and each member of the tax consolidated group in relation to the current tax liability paid or payable by the subsidiaries. Current tax liabilities in the subsidiaries are reflected back to the parent entity by way of specific tax loan accounts calculated and based on taxable income.

#### 6. DISCONTINUED OPERATION

On 28 February 2013, VDM Group announced that it had entered into a non-binding sale agreement to sell one of its wholly owned business units, Como by way of a buy-out by the existing Como management team. The sale to CE Acquisitions Pty Ltd, a company related to the existing Como management team, was completed on 10 April 2013 at a consideration of \$5,450,000 (pre transaction costs). Como was previously reported in the mechanical and mineral process engineering segment. The business has been recognised as a discontinued operation and is no longer disclosed in the segment note.

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

	2013	2012
	\$'000	\$'000
<b>Financial performance of discontinued operation</b>		
Revenue	23,666	96,133
Expenses	(22,336)	(90,339)
Finance costs	(10)	(1,310)
Loss on re-measurement to fair value less costs to sell		
Plant and equipment	-	(10,146)
Goodwill (note 18)	(4,004)	(22,138)
Loss on sale of discontinued operations	(2,684)	(27,800)
Tax (expense) / benefit	(65)	8
Loss from discontinued operations	(2,749)	(27,792)
<b>Earnings per share from discontinued operations</b>		
Basic, loss for the year, from discontinued operations (cents per share)	(0.29)	(3.96)
Diluted, loss for the year from discontinued operations (cents per share)	(0.29)	(3.96)
<b>Assets and liabilities and cash flow information of the disposed entity</b>		
<i>Assets</i>		
Cash and cash equivalents	3,869	
Plant and equipment	1,063	
Intangible assets	126	
Contracts in progress	427	
Trade receivables	2,205	
Other assets	142	
	7,832	
<i>Liabilities</i>		
Trade and other liabilities	2,353	
Provision for employee entitlements	480	
	2,833	
Net assets attributable to discontinued operations	4,999	
Sale proceeds	5,450	
Transactions costs	(451)	
Net proceeds	4,999	

**VDM GROUP LIMITED**  
**PRELIMINARY NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2013**

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<i>Net cash flows</i>	
Operating	(168)
Investing	2,315
Financing	(20)
Net cash (outflow) / inflow	<u>2,127</u>

	<b>2013</b>	<b>Consolidated</b>
		2012
<b>7. EARNINGS PER SHARE</b>	<b>\$'000</b>	<b>\$'000</b>

The following reflects the information used in the basic earnings per share computations:

**(a) Loss used in calculating loss per share**

Net loss from continuing operations attributable to ordinary equity holders of the parent	(81,659)	(27,020)
Net loss from discontinued operations attributable to ordinary equity holders of the parent	(2,749)	(27,792)
Net loss attributable to ordinary equity holders of the parent for basic earnings	<u>(84,408)</u>	<u>(54,812)</u>

	<b>2013</b>	<b>Consolidated</b>
		2012
<b>(b) Weighted average number of shares</b>		
Weighted average number of ordinary shares for basic and diluted earnings per share	<u>933,884,774</u>	<u>701,956,091</u>

In addition, there are 482,818,773 share options outstanding at 30 June 2013 (2012: 499,474,615), which have been excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future because they are antidilutive for 30 June 2013.

**VDM GROUP LIMITED**  
**PRELIMINARY NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2013**

	2013	Consolidated
	\$'000	2012 \$'000
<b>8. DIVIDENDS PROPOSED AND PAID</b>		
<b>(a) Declared and paid during the year:</b>		
Dividends on ordinary shares:		
Final fully franked dividend for 2012: nil cents per share (2011: nil cents per share)	-	-
Interim fully franked dividend for 2013: nil cents per share (2012: nil cents per share)	-	-
	-	-
<b>(b) Dividend proposed, not recognised as a liability:</b>		
Final fully franked dividend for 2013: nil cents per share (2012: nil cents per share)	-	-
<b>(c) Franking credits:</b>		
Franking credits available for the subsequent financial year:		
- franking account balance as at the end of the financial year at 30% (2012: 30%)	3,459	3,459
- franking debits that will arise from the refunds of income tax receivable as at the end of the financial year	-	-
Franking credits available for future periods	3,459	3,459

**(d) Tax rates:**

The tax rate at which paid dividends have been franked is 0%.

**9. CASH AND CASH EQUIVALENTS**

Cash at bank and in hand	11,857	10,029
Total cash and cash equivalents	11,857	10,029

Cash at bank earns interest at floating rates based on daily or term bank deposit rates.

*Reconciliation to cash flow statement*

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:

Cash at bank and in hand	11,857	10,029
Total cash for reconciliation of cash flow statement	11,857	10,029

**10. TERM DEPOSIT**

Term deposits	5,238	13,568
Total term deposits	5,238	13,568

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. The 30 June 2012 comparative balances have been restated to correctly reclassify the term deposits.



**VDM GROUP LIMITED**  
**PRELIMINARY NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2013**

	2013	Consolidated 2012
	\$'000	\$'000
<b>11. TRADE AND OTHER RECEIVABLES</b>		
<b>Current</b>		
Trade receivables	12,684	42,169
Allowance for impairment loss	(2,907)	(2,674)
	<b>9,777</b>	<b>39,495</b>
Other debtors	1,428	3,604
Retentions	1,143	4,889
Loans to related entities	1,616	1,536
Impairment of related loans	(1,457)	(788)
Total current receivables	<b>12,507</b>	<b>48,736</b>
<b>Non-Current</b>		
Loan receivable	258	-
	<b>258</b>	<b>-</b>
<b>(a) Ageing of trade receivables</b>		
0-30 days	5,639	29,057
31- 60 days	2,741	5,904
> 60 days PDNI	1,397	4,534
> 60 days CI	2,907	2,674
	<b>12,684</b>	<b>42,169</b>
<i>PDNI – Past due but not impaired</i>		
<i>CI – Considered impaired</i>		
<b>(b) Allowance for impairment loss</b>		
Balance at 1 July	3,462	4,168
Charge for the year	2,714	956
Utilised	(1,812)	(1,662)
At 30 June	<b>4,364</b>	<b>3,462</b>

Trade receivables are non-interest bearing and are generally on 30-60 day terms. An allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment loss of \$2,714,000 (2012: \$956,000 impairment loss) has been recognised by VDM Group.

Other debtors and retentions do not contain impaired assets and are not past due. It is expected that these other receivables will be received when due.

**VDM GROUP LIMITED**  
**PRELIMINARY NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2013**

	<b>2013</b>	<b>Consolidated</b>
	<b>\$'000</b>	<b>2012</b>
		<b>\$'000</b>
<b>12. CONTRACTS IN PROGRESS</b>		
Contract costs incurred to date	<b>218,217</b>	260,460
Profit recognised to date (less recognised losses)	<b>(228)</b>	6,019
Less progress billings	<b>(217,801)</b>	(251,554)
<b>Total construction contracts in progress</b>	<b>188</b>	<b>14,925</b>

Represented by:

Amounts due from customers for contract work	<b>7,388</b>	18,413
Amounts due to customers for contract work	<b>(7,200)</b>	(3,488)
<b>Total construction contracts in progress</b>	<b>188</b>	<b>14,925</b>

Amounts due from customers for contract work	<b>7,388</b>	18,413
Other work in progress	<b>460</b>	1,243
<b>Total contracts in progress</b>	<b>7,848</b>	<b>19,656</b>

**13. DEVELOPMENT PROPERTIES**

Development properties	<b>5,411</b>	5,529
<b>Total development properties</b>	<b>5,411</b>	<b>5,529</b>

**(a) Reconciliation of carrying amounts**

At 1 July	<b>5,529</b>	6,517
Transfer from inventory	<b>-</b>	790
Additions	<b>95</b>	226
Impairment of development properties (note 13(b))	<b>(214)</b>	(2,004)
<b>At 30 June</b>	<b>5,411</b>	<b>5,529</b>

**(b) Impairment of development properties**

An impairment loss of \$214,000 (2012: \$2,004,000) was recognised in the statement of comprehensive income in the 2013 financial year. The recoverable amount was based on an independent valuations obtained during the period on the properties.

**14. INVENTORY**

Consumables at cost	<b>308</b>	952
<b>Total inventories</b>	<b>308</b>	<b>952</b>

**15. OTHER CURRENT ASSETS**

Prepayments	<b>728</b>	2,342
<b>Total other current assets</b>	<b>728</b>	<b>2,342</b>

**VDM GROUP LIMITED**  
**PRELIMINARY NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2013**

	<b>2013</b>	<b>Consolidated</b>
	<b>\$'000</b>	<b>2012</b>
		<b>\$'000</b>
<b>16. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE</b>		
Other property, plant and equipment	<b>900</b>	1,295
Total non-current assets classified as held for sale	<b>900</b>	1,295

**(a) Reconciliation of carrying amounts**

At 1 July	<b>1,295</b>	13,011
Transferred in	-	2,465
Sale	<b>(950)</b>	(12,142)
Transfer from / (to) property, plant and equipment (note 17(a))	<b>950</b>	(1,193)
Impairment	<b>(395)</b>	(846)
At 30 June	<b>900</b>	1,295

The non-current assets classified as held for sale at 30 June 2013 relate to property acquired on settlement of a legacy contract. It is the intention to divest the property. Recoverable amount was estimated for the property and an impairment loss of \$395,000 (2012: \$846,000) was recognised and included in the impairment charge in the statement of comprehensive income. The asset has not been allocated to a reportable segment in note 1.

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. The sale was completed on 15 March 2013.

**17. PROPERTY, PLANT AND EQUIPMENT**

Leasehold improvements at cost	<b>1,043</b>	723
Accumulated depreciation	<b>(135)</b>	(108)
	<b>908</b>	615
Freehold land and buildings at cost	-	950
Accumulated depreciation	-	-
	-	950
Plant and equipment under lease at cost	<b>2,381</b>	1,944
Accumulated depreciation and impairment	<b>(1,267)</b>	(1,075)
	<b>1,114</b>	869
Plant and equipment at cost	<b>16,035</b>	28,891
Accumulated depreciation and impairment	<b>(11,698)</b>	(18,478)
	<b>4,337</b>	10,413
Total property, plant and equipment	<b>6,359</b>	12,847

**VDM GROUP LIMITED**  
**PRELIMINARY NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2013**

	2013	Consolidated 2012
	\$'000	\$'000
<b>(a) Reconciliation of carrying amount</b>		
<i>Leasehold improvements</i>		
At 1 July net of accumulated depreciation	615	502
Additions	2,511	405
Disposals	(2,061)	(124)
Depreciation	(172)	(99)
Discontinued operations (note 6)	(13)	(452)
Transferred from plant & equipment and plant & equipment under lease	28	383
At 30 June net of accumulated depreciation	908	615
<i>Freehold land and buildings</i>		
At 1 July net of accumulated depreciation	950	950
Transferred to non-current assets held for sale (note 16)	(950)	-
At 30 June net of accumulated depreciation	-	950
<i>Plant and equipment under lease</i>		
At 1 July net of accumulated depreciation	869	37,689
Additions	734	3,143
Disposals	(130)	(430)
Depreciation	(368)	(2,434)
Transferred from / (to) plant & equipment and leasehold improvements	77	(3,305)
Discontinued operations (note 6)	(68)	(33,794)
At 30 June net of accumulated depreciation	1,114	869
<i>Plant and equipment</i>		
At 1 July net of accumulated depreciation	10,413	23,777
Additions	771	6,964
Disposals	(3,130)	(1,297)
Depreciation	(3,165)	(6,453)
Transferred (to) / from plant & equipment under lease and leasehold improvements	(105)	2,922
Transfer from non-current assets classified as held for sale (note 16(a))	-	1,193
Discontinued operations at cost (note 6)	(447)	(16,382)
Impairment (note 17(c))	-	(311)
At 30 June net of accumulated depreciation	4,337	10,413
Total property, plant and equipment	6,359	12,847

**(b) Plant and equipment pledged as security for liabilities**

Included in the balances above are assets of VDM Group to the value of \$1,114,000 (2012: \$869,000) granted as security for hire purchase debts. There are floating charges over the remaining property, plant and equipment, refer to Note 20 (a) for details of plant and equipment pledged as security for borrowings.

**(c) Impairment of property, plant and equipment**

Within VDM Group, recoverable amount was estimated for property, plant and equipment based on current market value. There was no impairment loss (2012: \$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.

**(d) Transfers**

During the year ended 30 June 2013, freehold land and building to the value of \$950,000 was transferred from property, plant and equipment to non-current assets classified as held for sale.

**VDM GROUP LIMITED**  
**PRELIMINARY NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2013**

	<b>2013</b>	<b>Consolidated</b>
<b>18. INTANGIBLE ASSETS AND GOODWILL</b>	<b>\$'000</b>	<b>2012</b>
		<b>\$'000</b>
Goodwill	-	22,511
Software	<b>4,090</b>	4,258
Accumulated amortisation and impairment	<b>(3,783)</b>	(3,615)
	<b>307</b>	643
<b>Total intangibles assets and goodwill</b>	<b>307</b>	<b>23,154</b>

**(a) Reconciliation of carrying amounts**

<i>Goodwill</i>		
At 1 July	<b>22,511</b>	44,649
Impairment of goodwill	<b>(18,507)</b>	-
Discontinued operations (note 6)	<b>(4,004)</b>	(22,138)
At 30 June	-	22,511
<i>Software</i>		
At 1 July net of accumulated amortisation	<b>643</b>	1,268
Additions	<b>195</b>	183
Disposals	<b>(35)</b>	-
Amortisation	<b>(370)</b>	(808)
Discontinued operations (note 6)	<b>(126)</b>	-
At 30 June net of accumulated amortisation	<b>307</b>	643

**(b) Description of VDM Group's intangible assets and goodwill**

*Goodwill*

After initial recognition, goodwill acquired in a business combination was measured at cost less any accumulated impairment losses. Goodwill was not amortised but was subject to impairment testing on an annual basis or whenever there was an indication of impairment.

**(c) Impairment losses recognised for goodwill**

Goodwill was assessed at the half year ended 31 December 2012 which resulted in an impairment loss of \$18,507,000 recognised for continuing operations. There was no impairment loss recognised during the year ended 30 June 2012. 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 operated that 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.

**(d) Impairment tests for goodwill**

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

Goodwill acquired through business combinations was allocated to and was tested at the half year ended 31 December 2012 at the level of its respective cash generating units, each of which was 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 was determined based on a value in use calculation using cash flow projections based on financial budgets approved by management covering a five year period.

# VDM GROUP LIMITED

## PRELIMINARY NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 30 June 2013

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The discount rate applied to the cash flow projections was 13.5% (30 June 2012: 13.6%) and cash flows beyond the five-year period was 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 approximated the expected long term average growth rate for the engineering and construction industries in general in the current economic climate.

	<b>2013</b>	<b>Consolidated</b>
	<b>\$'000</b>	<b>2012</b>
<b>(ii) Carrying amount of goodwill allocated to each of the cash generating units</b>		<b>\$'000</b>
Eastern operations	-	1,790
Western operations	-	16,717
Mechanical and mineral process engineering	-	4,004
<b>Total goodwill</b>	<b>-</b>	<b>22,511</b>

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

The calculation of value in use for all cash generating units was 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 reflected management's estimate of the time value of money and the risks specific to each unit that were not already reflected in the cash flows. This was the benchmark used by management to assess operating performance and to evaluate investment proposals. In determining appropriate rates for each unit, regard was 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 were based on published industry research.

#### **19. TRADE AND OTHER PAYABLES**

##### **Current**

Trade payables and accruals	<b>19,783</b>	40,143
Employee related payables	<b>1,140</b>	1,946
Sundry creditors	<b>5,060</b>	5,506
GST payable	<b>857</b>	1,301
Provision for loss making contracts	<b>5,548</b>	2,018
Amounts due to customers for contract work	<b>7,200</b>	3,546
<b>Total current payables</b>	<b>39,588</b>	<b>54,460</b>

**VDM GROUP LIMITED**  
**PRELIMINARY NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2013**

	2013	Consolidated
	\$'000	2012 \$'000
<b>20. INTEREST-BEARING LOANS AND OTHER BORROWINGS</b>		
<b>Current</b>		
Interest bearing loan (9% fixed secured loan)	1,018	-
Non-interest bearing loans	-	72
Insurance premium funding	442	2,055
Hire purchase liabilities	322	341
<b>Total current interest-bearing loans and borrowings</b>	<b>1,782</b>	<b>2,468</b>
<b>Non-Current</b>		
Hire purchase liabilities	299	128
<b>Total non-current interest-bearing loans and borrowings</b>	<b>299</b>	<b>128</b>
<b>(a) Assets pledged as security</b>		
<i>Finance arrangements</i>		
Plant and equipment	1,114	869
<i>Floating charge</i>		
All the remaining wholly owned assets	56,739	153,395
<b>(b) Total financing facilities</b>		
Bank overdrafts	450	450
Bank guarantees	7,000	22,000
Contract performance bond	25,000	25,000
<b>Total financing facilities available</b>	<b>32,450</b>	<b>47,450</b>

The contract performance bond facility expires on 31 May 2014, subject to a 12 month annual renewal. The bank guarantee and credit card facilities expire on 30 November 2013, subject to review. At 30 June 2013, \$4,798,000 (2012: \$12,944,000) was drawn on the bank guarantee facility and \$18,087,000 (2012: \$15,585,000) was drawn on the contract performance bond facility.

**VDM GROUP LIMITED**  
**PRELIMINARY NOTES TO THE FINANCIAL STATEMENTS**  
**For the year ended 30 June 2013**

	<b>2013</b>	<b>Consolidated</b>
	<b>\$'000</b>	<b>2012</b>
		<b>\$'000</b>
<b>21. PROVISIONS</b>		
<b>Current</b>		
Provision for employee entitlements	4,324	4,901
Provision for loss on sale of subsidiary (note 21(b)(i))	-	600
<b>Total current provision</b>	<b>4,324</b>	<b>5,501</b>
<b>Non-Current</b>		
Provision for employee entitlements	244	495
<b>Total non-current provision</b>	<b>244</b>	<b>495</b>

**(a) Movements in provisions**

*Provision for loss on sale of subsidiary*

At 1 July	600	-
(Utilised) / provided during the year	(600)	600
At 30 June	-	600

**(b) Nature and timing of provisions**

*(i) Provision for loss on sale of subsidiary*

As part of the sale agreement of Cape Crushing in 2012, the final consideration for the sale of shares was subject to change pending a review / audit of the completion accounts. An adjustment amount was estimated at \$600,000 payable to CFC Group Limited at 30 June 2012. As settlement of the final adjustment, an amount of \$707,000 was paid to CFC Group in 2013.

**22. CONTRIBUTED EQUITY**

**(a) Ordinary shares**

Issued and fully paid	248,554	248,612
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*Movement in ordinary shares on issue*

	<b>Shares</b>	<b>Value (\$'000)</b>
<b>Balance at 30 June 2012</b>	<b>933,873,071</b>	<b>248,612</b>
Transaction costs on share and option issue		(51)
Reversal of tax benefits on capital raising costs in prior years		(268)
Equity based payments		(7)
<b>Balance at 30 June 2013</b>	<b>933,873,071</b>	<b>248,286</b>

**(b) Terms and conditions of contributed equity**

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

**23. RETAINED EARNINGS AND RESERVES**

**(a) Movement in retained earnings**

Balance at the beginning of the year	(162,430)	(107,618)
Net loss attributable to members of VDM Group Ltd	(84,408)	(54,812)
<b>Balance at the end of the year</b>	<b>(246,838)</b>	<b>(162,430)</b>



**VDM GROUP LIMITED**  
**PRELIMINARY NOTES TO THE FINANCIAL STATEMENTS**  
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	2013	Consolidated 2012
<b>(b) Movement in other capital reserve</b>		
Balance at the beginning of the year	510	192
Share based payment	(83)	318
Balance at the end of the year	427	510

The other capital reserve is used to record the value of share based payment provided to employees, including KMP, as part of their remuneration.

<b>(c) Movement in equity reserve</b>		
Balance at the beginning of the year	457	1,074
Contingent consideration paid on prior acquisitions	-	(149)
Stamp duty paid on prior acquisitions	-	(468)
Balance at the end of the year	457	457

The equity reserve is used to record differences between the carrying value of non-controlling interests and the consideration paid/received, where there has been a transaction involving non-controlling interests that do not result in a loss of control. The reserve is attributable to the equity of the parent.

In 2012, VDM Group incurred retrospective stamp duties of \$468,000 in respect of its acquisition of the remaining 25% interest in Cape Crushing on 1 January 2010.

**24. CASHFLOW STATEMENT INFORMATION**

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

<i>Net loss after tax</i>	<b>(84,408)</b>	(54,812)
<i>Non-Cash Items:</i>		
Depreciation	3,705	8,986
Amortisation	370	808
Impairment of goodwill, assets, development costs and software	19,486	3,161
Bad debts provided	2,714	956
Net profit on disposal of property, plant and equipment	(3,383)	(1,916)
Assets written off	26	-
Share based payment (reversal) / expense	(90)	329
Settlement transaction costs from sale of subsidiary	451	2,227
Profit on sale of subsidiary	(879)	-
Loss recognised on remeasurement to fair value less costs to sell	4,004	32,284
Net profit on foreign exchange	-	(58)
<i>Change in assets and liabilities:</i>		
Decrease / (increase) in trade and other receivables	29,249	(14,078)
Decrease in contracts in progress	11,381	5,376
Decrease in other assets	1,508	186
Increase in development properties	(95)	(226)
Increase in non-current assets held for sale	-	(2,465)
Decrease / (increase) in inventory	555	(96)
Decrease / (increase) in deferred tax assets	14,968	(6,679)
Decrease / (increase) in term deposits	-	-
Decrease / (increase) in trade and other creditors	(11,368)	3,324
Decrease in provisions	(352)	(1,580)
Increase in current tax receivable	7	7,970
Net cash flows used in operating activities	<b>(12,151)</b>	(16,303)

**(b) Non-cash financing and investing activities**

Purchase of property, plant and equipment on hire purchase	(734)	(3,143)
Purchase of software on hire purchase	-	(25)

# VDM GROUP LIMITED

## PRELIMINARY NOTES TO THE FINANCIAL STATEMENTS

### For the year ended 30 June 2013

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#### 25. SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 29 May 2013, VDM Group announced that it had entered into a binding share subscription agreement under which H&H Holdings Australia Pty Ltd (H&H) agreed to subscribe for 600,000,000 new fully paid ordinary shares at 2.5 cents per share to raise \$15,000,000.

On 27 August 2013, VDM Group announced that the company was in dispute with a major customer on a material contract regarding the status of the contract. VDM Group received a notice from the customer purporting to exercise its right to take the whole of the remaining works under a contract out of the hands of VDM Group (Customer Notice). The effect of this notice may materially impact the operating performance and short term cash flows of VDM Group.

Following receipt of the Customer Notice, VDM Group was notified by H&H that it considered the matter to be a Material Adverse Change within the definition of the existing Share Subscription Agreement. As a result, an alternative capital raising was agreed with H&H on 27 August 2013 to provide funding as follows:

- capital of \$6,401,000 immediately, via a Placement of 140,080,961 shares at 1.0 cent per share to raise \$1,401,000 and a Convertible Loan of \$5,000,000 issued to H&H with a conversion price of 1.0 cent per share (conversion subject to shareholder approval); and
- an additional further \$5 million loan facility over the next 12 months, subject to VDM and H&H agreeing the requirement for and precise terms of such funding.

In conjunction with the placement, Dr Dongyi Hua, the owner of H&H, and Mr Xiangyang Ru have been appointed Directors of VDM Group effective 28 August 2013. Dr Dongyi Hua will also be appointed Managing Director of VDM Group from 9 September 2013.

As announced on 23 August 2013, Mr Andrew Broad was terminated as Managing Director and Chief Executive Officer. Mr Michael Perrott AM will remain as Acting Chief Executive Officer until Dr Hua commences his appointment.

VDM Group is actively pursuing options to divest parts of the consulting business via management buy-outs. As at the date of the preliminary final report for the year ended 30 June 2013, no agreement had been signed.

On 9 August 2013, VDM Group received \$1,350,000 to enable the discharge of its mortgage and sale of its shares in Quartz South Hedland Pty Ltd.

#### 26. AUDIT

This preliminary financial report is based on financial statements that are in the process of being audited.