2017 ANNUAL REPORT

VDM GROUP LIMITED

and its Controlled Entities
ABN 95 109 829 334

VDM GROUP LIMITED
CORPORATE INFORMATION

DIRECTORS

Mr Luk Hiuming	Non-executive Chairman
Dr Hua Dongyi	Executive Director of Mining
Mr Michael Fry	Non-executive Director

CHIEF EXECUTIVE OFFICER
Mr Sam Diep (until 28 August 2017)

COMPANY SECRETARY AND CHIEF FINANCIAL OFFICER
Mr Padraig O'Donoghue

REGISTERED AND PRINCIPAL OFFICE

Until 30 September 2017	From 1 October 2017
Level 1, 30 Terrace Road	Suite 2, Level 2, 123 Adelaide Terrace
East Perth WA 6004	East Perth WA 6004

Telephone (08) 9265 1100
Website http://www.vdmgroup.com.au

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PO Box 3347
East Perth WA 6892

AUDITORS
Ernst & Young
11 Mounts Bay Road
Perth WA 6000

SHARE REGISTER
Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne, VIC 3001
Telephone 1300 850 505
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VDM Group Limited shares are listed on the Australian Securities Exchange (ASX)

ASX Code	VMG
ACN	109 829 334
ABN	95 109 829 334

In this report, the following definitions apply:

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

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

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

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Dear Shareholders

Over the course of the past year we have continued our strategy to allocate VDM's resources on the business sectors that will provide the best investment returns for shareholders and position your Company for long term success.

Business overview

VDM Mining: During the year, VDM and its Cachoeiras do Binga (CdB) partners arranged for exploration contractor Shandong Geo-mineral International to mobilise personnel and equipment to the work site in Angola. Unfortunately the exploration program has experienced delays related to safety hazards at site and only a small amount of preliminary work has been completed. The CdB partners are receiving assistance and cooperation from the Government of Angola, the exploration contractor, and technical services contractor SRK Consulting in addressing the situation. All parties remain committed to the project and to completing the exploration program.

Our focus areas for VDM mining over the next 12 months are to:

1) substantially complete a mineral resource estimate for CdB, which I expect will be the first step towards a full copper mining feasibility study for the project; and
2) bring a second major African resource asset into the Company's mining portfolio.

The above two goals will require VDM to raise additional capital funding. I am confident that the Company's investment in CdB will provide healthy returns for our investors and the addition of a second large mining project would be a very positive development for VDM.

VDM Construction: VDM Construction has scaled-down and is concentrating on supplying specialty steel and modular products for the Australian building and infrastructure sectors. Although the revenue generated by the division has been modest, the strategy provides a means for VDM to remain active in the construction sector with a low cost base.

VDM Trading: VDM Trading continues to have a very low cost base while we explore for partnership opportunities.

Safety and Environment

It is my pleasure to report that VDM has had another outstanding safety performance with no Lost Time Injuries in the year and a LTIFR of nil. Safety is a fundamental plank of VDM's business and we will continue to ensure that safety is a top priority.

Corporate

The board has decided that VDM's CEO position shall remain vacant for the time being while I focus on progressing the CdB exploration program and completing VDM's next capital raising.

I wish to thank my fellow directors, our employees, and all VDM stakeholders for their service and support to the Company. I am especially grateful to our largest shareholder, Australia Kengkong Investments Co Pty Ltd, who has continued to financially back VDM's business strategy for this past year.

Dr Hua Dongyi
Executive Director of Mining

Your directors submit their report of VDM Group Limited ("the Company") and of the Consolidated Entity, being the Company and its controlled entities ("VDM" or "the Group") for the year ended 30 June 2017.

1. DIRECTORS

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

Mr Luk Hiuming
Non-Executive Chairman
Appointed Non-Executive Director on 21 March 2014, appointed Non-Executive Chairman on 29 January 2015
Member of the Audit & Risk Committee

Mr Luk has abundant experience in an extensive range of business sectors, including textile & clothing, pharmaceutical, steel, real estates, manufacturing mining, natural resources, new energy and oil and gas. Apart from businesses in mainland China, he also has extensive international experience in various industries around the globe. Mr Luk is currently Chairman of Australia Kengkong Investments Co Pty Ltd.

Dr Hua Dongyi
Executive Director of Mining
Appointed Director on 28 August 2013, appointed Managing Director on 9 September 2013, appointed Executive Chairman and Interim CEO on 29 November 2013, appointed Managing Director and CEO on 29 January 2015, appointed Executive Director of Mining on 1 March 2016.
Member of the Audit & Risk Committee
Doctorate of Engineering

Dr Hua is the former Vice President, Executive Chairman and CEO of CITIC Pacific Mining, a position he held from October 2009 until April 2013. He was previously with Beijing-based CITIC Group, which he joined in 2002. Dr Hua has held executive management positions during the past 15 years for construction and resource development projects across Asia, Africa and Latin America in countries such as China, Angola, the Philippines, Pakistan, Brazil and Algeria. Dr Hua is the Vice President of the Australian China Business Council Western Australia. Dr Hua is also Executive Director and CEO of Frontier Services Group Limited, an aviation and logistics company listed on the Hong Kong Stock Exchange.

Mr Michael Fry
Non-Executive Director
Appointed 3 June 2011
Chairman of the Audit & Risk Committee
Bachelor of Commerce

Mr Fry is an experienced company manager across a broad range of industry sectors. Mr Fry has a background in accounting and corporate advice having worked with KPMG (Perth) where he qualified as a Chartered Accountant, Deloitte Touche Tohmatsu (Melbourne) and boutique corporate advisory practice Troika Securities Ltd (Perth). From 2006 to 2011, Mr Fry was the Chief Financial Officer and Finance Director at Swick Mining Services Limited, a publicly listed drilling services provider contracting to the mining industry in Australia and North America.

Mr Fry is Chief Financial Officer and Company Secretary of Force Commodities Limited an ASX-listed company (ASX:4CE) with exploration projects in Australia and Democratic Republic of Congo, and he is Company Secretary of Globe Metals & Mining Limited an ASX-listed company (ASX:GBE) with exploration projects in Africa. He was previously a director of ASX-listed Cougar Metals NL from 13 October 2014 to 14 June 2017.

Company Secretary

Mr Padraig O'Donoghue
Appointed 12 February 2014

Mr O'Donoghue is Chief Financial Officer and Company Secretary. He brings extensive experience to VDM, having previously been CFO/Company Secretary of mining companies Consolidated Rutile Limited (ASX:CRT), Jabiru Metals Limited (ASX:JML) and Navigator Resources Limited (ASX:NAV). He was also previously CFO and Company Secretary of mining contractor Barminco. His early career includes 4 years at PriceWaterhouseCoopers in Vancouver, Canada and 10-years with Barrick Gold in both head office and international Commercial Manager operational roles.

2. INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY AND RELATED BODIES CORPORATE

As at the date of this report, the interests of the directors in the shares of the Company were:

Directors	Number of Ordinary Shares
Luk Hiuming	2,070,000,000
Hua Dongyi	1,085,110,976
Michael Fry	1,000,000

3. DIVIDENDS

There were no dividends declared or paid during the year ended 30 June 2017 (2016: nil).

4. NATURE AND PRINCIPAL ACTIVITIES

VDM is comprised of 3 operating divisions:

VDM Mining: mining exploration, development and operation in Africa and Latin America.
VDM Trading: export Australian goods to Asian markets & imports Asian goods to Australia.
VDM Construction: engineering, procurement and construction.

Business activities during the period principally related to: 1) mobilising the initial exploration team members to the Cachoeiras do Binga copper project located in the Republic of Angola; 2) delivering imported structural steel to VDM's construction clients, and 3) closing VDM's former equipment hire and sales business, including winding up the Sany-VDM Joint Venture.

The business activities of the comparative period principally related to: 1) acquisition of the 65% participating interest in the Cachoeiras do Binga copper exploration project 2) equipment hire and sales by the equipment division and the Sany-VDM Joint Venture; 3) minor goods export and import by the trading division; and 4) pre-contract work by the construction division.

General
At 30 June 2017, VDM employed 9 people in Western Australia (2016: 20).

5. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 28 July 2016, VDM announced that it was exiting the equipment hire and sales business and withdrawing from the equipment joint venture that it operates with Sany. The Group took this decision to focus its resources on delivering positive returns from its African mining assets and its structural steel/modular construction import business. During the year the entire Equipment segment was discontinued and all of the segment's assets were sold.

6. OPERATING AND FINANCIAL REVIEW

The Mining division worked with its project partners to mobilise the initial exploration team members to the Cachoeiras do Binga project in Angola (**CdB**) and perform a small amount of preliminary exploration work. The CdB exploration program has experienced delays, mainly related to potential safety hazards identified at site. The CdB partners are receiving excellent assistance and cooperation from the Government of Angola, exploration contractor Shandong Geo Mineral International, and technical services contractor SRK Consulting in addressing the situation and all parties remain committed to the project and completing the exploration program.

The Construction division delivered imported structural steel to Western Australian construction clients.

The Trading division undertook minimal activity while the Company searches for a partner to scale the trading business to market-competitive levels.

VDM has exited the equipment business. Accordingly the results of the Equipment division are reported as discontinued operations.

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

Risk	Response
Funding for debt repayment, advancing the CdB exploration program, and other corporate activities.	VDM intends to undertake capital raisings.
Size and quality of CdB's contained mineralisation	This risk cannot be mitigated, however VDM will aim to avoid over-investment by undertaking a phased and well-planned exploration program.
Operating efficiently and safely in the Republic of Angola	VDM's current Executive Director of Mining has extensive experience and strong relationships in Angola. VDM will utilise Angolan-experienced and reputable exploration contractors and advisors.
Counterparty risks related CdB investment structure and CdB partners	VDM has maintained good relations with its CdB partners and uses written agreements and formal decision-making processes to avoid potential misunderstandings.

Revenue from continuing operations was $1,430,000 (2016: $529,000) an increase of 170.3% from the prior year reflecting higher structural steel supply revenue within the Construction division, partially offset by lower trading division revenue.

The loss from continuing operations after tax of $3,890,000 (2016: $4,516,000) is 13.9% lower than the prior year, mainly due to higher revenue.

Discontinued operations provided a profit after income tax in the current year of $659,000 versus a loss of $908,000 in the prior year, mainly due to a $1,256,000 gain from the sale of discontinued assets.

Shareholder Loan

During the year VDM borrowed an additional AUD $1,500,000 and USD $2,134,000 under the Framework Loan Agreement ("FLA") with its largest shareholder, Australia Kengkong Investments Co Pty Ltd ("Kengkong"). The FLA contemplates the parties entering into a secured one-year 6% loan facility that will incorporate the FLA liabilities. Until that occurs, the FLA advances plus interest accrued at 6% per annum are immediately repayable in the denominated currency when demanded by Kengkong.

7. SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Sam Diep resigned as Chief Executive Officer of VDM Group Limited effective from 29 August 2017.

8. LIKELY DEVELOPMENTS AND EXPECTED RESULTS

VDM intends to undertake future capital raisings in the 2018 financial year. Funds raised will be used for general corporate working capital, to progress the Cachoeiras do Binga exploration program, to advance other potential business growth opportunities, and to repay the shareholder loan.

9. ENVIRONMENTAL REGULATION AND PERFORMANCE

VDM operations are subject to environmental regulations under Commonwealth and State legislation. The Board believes that VDM has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to VDM.

10. SHARE OPTIONS

As at the date of this report, there were no unissued ordinary shares under option (2016: nil).

11. INDEMNIFICATION OF AUDITORS

To the extent permitted by law, VDM Group Limited has agreed to indemnify it auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

12. INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

VDM Group Limited has agreed to indemnify all the directors and executive officers for any costs or expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities of the consolidated entity for which they may be held personally liable.

The Company has paid a premium to insure the directors and officers of the Company and its controlled entities. Details of the premium are subject to a confidentiality clause under the contract of insurance.

13. DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year, and the number of meetings attended by each director, were as follows:

	Board meetings	Audit & Risk Committee meetings
Number of meetings held:	5	2
Number of meetings attended:		
Luk Hiuming	4	1
Hua Dongyi	4	2
Michael Fry	5	2

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

14. AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The directors received an Independence Declaration from the auditor of VDM Group Limited, attached on page 17. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. Refer to note 32 of the consolidated financial statements for disclosure relating to the cost of non-audit services conducted during the year.

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the Company under ASIC Instrument 2016/191. The Company is an entity to which the Instrument applies.

REMUNERATION REPORT

This remuneration report for the year ended 30 June 2017 outlines the remuneration arrangements of VDM in accordance with the requirements of the *Corporations Act 2001* (the Act) and its regulations. This information has been audited as required by section 308(3C) of the Act.

The remuneration report details the remuneration arrangements for key management personnel (KMP) of VDM. KMP are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the VDM, directly or indirectly, including any director (whether executive or otherwise) of the parent company.

For the purposes of this report, the term 'executive' includes the Chief Executive Officer (CEO), executive directors and other senior executives of VDM, and excludes non-executive directors.

The remuneration report is presented under the following sections:

1. Individual KMP disclosures
2. Board oversight of remuneration
3. Executive remuneration arrangements
4. Executive remuneration outcomes for 2016 (including link to performance)
5. Executive contracts
6. Non-Executive Director remuneration arrangements
7. Additional statutory disclosure relating to options and shares
8. Loans to key management personnel
9. Other transactions and balances with key management personnel and their related entities

1. INDIVIDUAL KMP DISCLOSURES

Details of KMP of VDM are set out below. KMP served for the full year unless noted.

Current directors	
Luk Hiuming	*Non–Executive Chairman*
Hua Dongyi	*Executive Director of Mining*
Michael Fry	*Non–Executive Director*
Current executives	
Sam Diep[(1)]	*Chief Executive Officer*
Padraig O’Donoghue	*Chief Financial Officer and Company Secretary*
Past executives	
Xiaojin Zhu	*Senior Vice President, Construction – employment finished on 23 March 2017*

Notes:
1. Sam Diep’s employment finished on 28 August 2017.

2. BOARD OVERSIGHT OF REMUNERATION

The Board is responsible for the remuneration arrangements of directors and executives. Based on the Board’s present composition and size, as well as the importance of remuneration decisions, the Board considers this will provide effective governance of these matters.

The board assesses the appropriateness of the nature and amount of remuneration of executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high performing directors and executives.

The Board approves the remuneration arrangements of the CEO and other executives and all awards made under the long-term incentive (LTI) and short-term incentive (STI) plans. The Board also sets the aggregate remuneration of NEDs which is then subject to shareholder approval.

In accordance with good corporate governance practice, the structure of NED and executive remuneration is separate and distinct.

Remuneration report approval at 2016 annual general meeting

The 2016 remuneration report received positive shareholder support at the Company's annual general meeting, with a vote of 95.3% in favour.

3. EXECUTIVE REMUNERATION ARRANGEMENTS

Remuneration strategy

VDM's executive remuneration strategy is designed to cost effectively attract, motivate and retain high performing individuals and align the interests of executives and shareholders.

To this end, key objectives of the Company's reward framework are to ensure that remuneration practices:

- Are aligned to the VDM's business strategy;
- Offer competitive remuneration benchmarked against the external market;
- Provide strong linkage between individual and group performance and rewards; and
- Align the interests of executives with shareholders.

Fixed remuneration

The employment contracts of executives do not include any guarantee of base pay increases. Fixed remuneration is reviewed annually by the Board. The process consists of a review of company, divisional and individual performance, relevant comparative remuneration internally and externally, and where appropriate external advice independent of management. No external advice was received in the current year.

Variable remuneration – short term incentive (STI)

VDM has Bonus Scheme STI based on the principal of rewarding operational employees from a bonus pool calculated as 30% of divisional earnings results above an annual earnings target and corporate division employees from a bonus pool calculated as the average of divisional bonuses.

The Bonus Scheme is based on the following structural components:

a) Bonus Pool: calculated as percentage of divisional earnings results above the earnings target for a calendar year;
b) Apportionment of the Bonus Pool: apportioned to employee divisional team members as proposed by the Division Head and approved by the Managing Director and the Board;
c) Payment of Bonus: to be paid after release of the Half Year Financial Report;
d) Eligibility: Persons who start employment during the year are eligible for a time-adjusted bonus payment.

The total potential STI available is set at a level so as to provide sufficient incentive to executives to achieve the operational targets and such that the cost to VDM is reasonable in the circumstances.

The financial performance measure driving the majority of the STI payment outcomes is divisional profit earnings before interest and tax (EBIT). The table below shows the Group's gross EBIT history for the past five financial years.

Financial Year	EBIT $'000	Closing share price $
2017	(2,777)	0.001
2016	(5,433)	0.003
2015	(12,713)	0.006
2014	(16,288)	0.01
2013	(58,769)	0.01

As a result of the negative EBIT performance in 2017, no STI awards were made in the 2017 financial year (2016: nil).

Variable remuneration — long term incentive (LTI)

VDM does not have a general equity-based incentive plan for employees, however the following two specific option arrangements were approved as a cost-effective and non-cash remuneration incentive to attract and retain the two key executives holding VDM's CEO and Mining Director positions:

- The Mr Diep's employment contract provided for the grant of stock options during his employment period. Mr Diep's employment terminated on 28 August 2017, before any of his options were granted and he is no longer entitled to any options.

- The Dr Hua's employment contract provides for the grant of the following stock options:
  - 10 million options with an exercise price of $0.015, exercisable on 11 March 2017 and expiring on 11 March 2020.
  - 10 million options with an exercise price of $0.020, exercisable on 11 March 2018 and expiring on 11 March 2021.
  - 10 million options with an exercise price of $0.025, exercisable on 11 March 2019 and expiring on 11 March 2022.

  As at the date of this report, none of Dr Hua's options had been granted. There are no performance or market conditions related to the options and they will not carry any voting or dividend rights.

4. EXECUTIVE REMUNERATION OUTCOMES (INCLUDING LINK TO PERFORMANCE)

Table 1: Executive remuneration for the year ended 30 June 2017

	Base Salary & Fees	Cash Bonus	Non-Monetary Benefits	Super Contri-butions	Value of Share-based Payments	Long Service Leave	Termination Benefits	Total	Performance Related
	$	$	$	$	$	$	$	$	%
Executive directors									
D Hua	198,000	-	-	18,810	-	2,875	-	219,685	0%
Current key management personnel									
S Diep[(1)]	350,000	-	-	19,616	-	672	-	370,288	0%
P O'Donoghue	180,000	-	-	17,100	-	2,372	-	199,472	0%
Past key management personnel									
X Zhu[2]	168,058	-	-	13,413	-	-	-	181,471	0%
Totals	896,058	-	-	68,939	-	5,919	-	970,916	0%

Notes:
1. S Diep's employment finished on 28 August 2017.
2. X Zhu's employment finished on 23 March 2017.

Table 2: Executive remuneration for the year ended 30 June 2016

	Base Salary & Fees	Cash Bonus	Non-Monetary Benefits	Super Contri-butions	Value of Share-based Payments	Long Service Leave	Termination Benefits	Total	Performance Related
	$	$	$	$	$	$	$	$	%
Executive directors									
D Hua	373,527	-	-	19,183	-	242	-	392,952	0%
Current key management personnel									
S Diep[1]	118,013	-	-	11,600	-	81	-	129,694	0%
P O'Donoghue	188,641	-	-	17,921	-	763	-	207,325	0%
X Zhu	238,146	-	-	20,192	-	282	-	258,620	0%
Totals	918,327	-	-	68,896	-	1,368	-	988,591	0%

Notes:
1. S Diep was appointed on 29 February 2016.

5. EXECUTIVE CONTRACTS

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

Chief Executive Officer

Chief Executive Officer Sam Diep's employment terminated on 28 August 2017. He was employed under a rolling contract with fixed remuneration of $369,616 per annum. The termination provisions of Mr Diep's employment contract were as follows:

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

Executive Director of Mining

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

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

Other KMP

The Company may terminate all other KMP by providing three months written notice or providing payment in lieu of the notice period. The Company may terminate a contract at any time without notice if serious misconduct has occurred.

6. NON-EXECUTIVE DIRECTOR REMUNERATION ARRANGEMENTS

Remuneration policy

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

The amount of aggregate remuneration sought to be approved by shareholders and the fee structure is reviewed annually against fees paid to NEDs of comparable companies.

The constitution and the ASX listing rules specify that the NED fee pool shall be determined from time to time by a general meeting. The latest determination was at the 2010 annual general meeting held on 19 November 2010 when shareholders approved an aggregate fee pool of $600,000 per year. This amount includes superannuation and fees paid to directors in their capacity as members of the Board and its committees.

The Board will not seek an increase of the NED fee pool at the 2017 Annual General Meeting.

Current Structure

The remuneration of NEDs consists of directors' fees only. There are no committee fees. NEDs do not receive retirement benefits, other than superannuation and they do not participate in any incentive programs.

The table below provides the NED fees for the year ended 30 June 2017.

	Annual NED fees including superannuation
Board Chairman	$65,000
Other Non-executive Directors	$63,750

Table 3: Non-executive remuneration for the year ended 30 June 2017

	Base Salary & Fees	Cash Bonus	Non-Monetary Benefits	Super Contri-butions	Value of Share-based Payments	Long Service Leave	Termination Benefits	Total	Performance Related
	$	$	$	$	$	$	$	$	%
Current non-executive directors									
M Fry	58,219	-	-	5,531	-	-	-	63,750	0%
H Luk	65,000	-	-	-	-	-	-	65,000	0%
Totals	123,219	-	-	5,531	-	-	-	128,750	0%

Table 4: Non-executive remuneration for the year ended 30 June 2016

	Base Salary & Fees	Cash Bonus	Non-Monetary Benefits	Super Contri-butions	Value of Share-based Payments	Long Service Leave	Termination Benefits	Total	Performance Related
	$	$	$	$	$	$	$	$	%
Current non-executive directors									
M Fry	58,219	-	-	5,531	-	-	-	63,750	0%
H Luk	65,000	-	-	-	-	-	-	65,000	0%
Past non-executive directors									
V Jakovich[1]	53,368	-	-	5,070	-	-	-	58,438	0%
Totals	176,587	-	-	10,601	-	-	-	187,188	0%

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

7. ADDITIONAL DISCLOSURES RELATING TO OPTIONS AND SHARES

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

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

	Balance 1 July 2016	Granted as remuneration	Options exercised	Net change Other[(1)]	Balance 30 June 2017
Current directors					
H Luk	2,070,000,000	-		-	2,070,000,000
D Hua	1,085,110,976	-		-	1,085,110,976
M Fry	1,000,000	-		-	1,000,000
Current Executives					
S Diep[(2)]	-	-		1,000,000	1,000,000
P O'Donoghue	-	-		250,000	250,000
Total shareholding	3,156,110,976	-		1,250,000	3,157,360,976

Notes:
1. Relates to on-market share transactions.
2. S Diep's employment terminated on 28 August 2017.

Option holdings of KMP

There were no options granted to KMP during the year ended 30 June 2017 (2016: nil). There were no options held by KMP as at 30 June 2017 (2016: nil).

The employment contract of CEO Mr Diep provided for the grant of options during his employment period without any performance conditions. Mr Diep's employment terminated on 28 August 2017, before any of his options were granted and he is no longer entitled to any options.

The employment contract of Executive Director of Mining Dr Hua provides for the grant of options without any performance conditions. Refer to section 5 of the Remuneration Report for details of his options entitlement.

Performance rights holdings of KMP

There were no performance rights granted to KMP during the year ended 30 June 2017 (2016: nil). There were no performance rights held by KMP as at 30 June 2017 (2016: nil).

8. LOANS TO KEY MANAGEMENT PERSONNEL

There were no loans granted to KMP's during the year ended 30 June 2017 (2016: nil).

9. OTHER TRANSACTIONS AND BALANCES WITH KEY MANAGEMENT PERSONNEL AND THEIR RELATED ENTITIES

(a) Details and terms and conditions of other transactions with KMP and their related parties

Kengkong

On 27 January 2016, VDM entered into a Framework Loan Agreement ("FLA") with its largest shareholder, Australia Kengkong Investments Co Pty Ltd ("Kengkong"). During the period, Kengkong, advanced AUD $1,500,000 and USD $2,134,000 to VDM under the terms of a FLA (2016: Kengkong advanced AUD $3,000,000 and USD $1,000,000). The FLA contemplates the parties entering into a secured one-year 6% loan facility that will incorporate the FLA liabilities. Until that occurs, the FLA advances plus interest accrued at 6% per annum are immediately repayable in the denominated currency when demanded by Kengkong. VDM's Non-executive Chairman Mr Luk controls Kengkong.

H&H

As at 30 June 2017, VDM owes H&H Holdings Australia Pty Ltd ("H&H") $75,000 of underwriting commissions for the Company's December 2013 Rights Issue (2016: $75,000). No interest accrues and the outstanding amount is due when demanded by H&H. Dr Hua, VDM's Executive Director of Mining controls H&H.

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

	2017 **$'000**
Statement of Comprehensive Income	
Interest expense (i)	452
Total finance costs	452
Current Liabilities	
Trade and other payables (ii)	75
Interest-bearing loans and other borrowings (iii)	9,098
Total liabilities	9,173

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

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

Dr Hua Dongyi
Executive Director of Mining
Perth, Western Australia
4 September 2017

EY
Building a better working world

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

As lead auditor for the audit of VDM Group Limited for the financial year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Ernst & Young

Ernst & Young

T G Dachs
Partner
4 September 2017

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TD:KG:VDM:006

VDM GROUP LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 $000	2016 $000
Continuing operations			
Revenue	5	**1,430**	**529**
Expenses			
Materials and inventory		(1,201)	(405)
Employee benefits expense	6a	(1,970)	(2,913)
Occupancy related expenses		(613)	(620)
Depreciation and amortisation	6b	(176)	(190)
Impairment	6c	(412)	-
Onerous contracts expense		(29)	(207)
Legal expenses		(98)	(99)
Finance costs	6d	(474)	(83)
Other expenses	6e	(347)	(528)
Total expenses		**(5,320)**	**(5,045)**
Loss from continuing operations before income tax		**(3,890)**	**(4,516)**
Income tax expense	8	-	-
Loss from continuing operations after income tax		**(3,890)**	**(4,516)**
Discontinued operations			
Profit/(loss) from discontinued operations after income tax	7	659	(908)
Loss for the year		**(3,231)**	**(5,424)**
Other comprehensive income		-	-
Total comprehensive loss for the year		**(3,231)**	**(5,424)**
Total comprehensive loss for the period is attributed to:			
Owners of the parent		**(3,231)**	**(5,424)**
		(3,231)	**(5,424)**
Loss per share			
Basic loss per share (cents per share)		**(0.06)**	(0.11)
Diluted loss per share (cents per share)		**(0.06)**	(0.11)
Loss per share from continuing operations			
Basic loss per share (cents per share)		**(0.07)**	(0.09)
Diluted loss per share (cents per share)		**(0.07)**	(0.09)

VDM GROUP LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

	Notes	2017 $000	2016 $000
ASSETS			
Current assets			
Cash and cash equivalents	11	1,366	2,045
Security deposits	12	198	204
Trade and other receivables	13	538	194
Inventory	14	165	69
Other assets	15	-	1
Total current assets		**2,267**	**2,513**
Non-current assets			
Security deposits	12	819	872
Investment accounted for using the equity method	16	-	682
Exploration and evaluation assets	17	10,783	8,275
Development properties	18	1,600	2,012
Property, plant and equipment	19	978	1,723
Total non-current assets		**14,180**	**13,564**
Total assets		**16,447**	**16,077**
LIABILITIES			
Current liabilities			
Trade and other payables	21	5,465	5,847
Interest-bearing loans and borrowings	22	9,098	4,421
Provisions	23	2,021	2,073
Total current liabilities		**16,584**	**12,341**
Non-current liabilities			
Provisions	23	48	690
Total non-current liabilities		**48**	**690**
Total liabilities		**16,632**	**13,031**
Net (liabilities)/assets		**(185)**	**3,046**
Equity			
Contributed equity	24	288,722	288,722
Equity reserve	25	457	457
Retained losses	25	(289,364)	(286,133)
Total equity		**(185)**	**3,046**

VDM GROUP LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2017

	Notes	2017 $000	2016 $000
Cash flows from operating activities			
Receipts from customers		2,093	1,122
Payments to suppliers and employees		(6,440)	(8,307)
Interest received		20	93
GST (paid)/refunded		(53)	666
Net cash flows used in operating activities	26	**(4,380)**	**(6,426)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(1)	(27)
Release from security deposit		59	351
Proceeds from sale of property, plant and equipment		1,869	352
Proceeds from joint venture capital return		274	-
Net cash flows from investing activities		**2,201**	**676**
Cash flows from financing activities			
Proceeds from borrowings		1,500	4,346
Repayment of borrowings		-	(65)
Transaction costs on issue of shares		-	(10)
Net cash flows from financing activities		**1,500**	**4,271**
Net decrease in cash and cash equivalents		(679)	(1,479)
Cash and cash equivalents at beginning of period		2,045	3,524
Cash and cash equivalents at end of period	11	**1,366**	**2,045**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2017

	Issued Capital Ordinary $000	Accumulated Losses $000	Equity Reserve $000	Total $000
Balance at 1 July 2016	**288,722**	**(286,133)**	**457**	**3,046**
Comprehensive loss for the year	-	(3,231)	-	(3,231)
Total comprehensive loss for the year	-	(3,231)	-	(3,231)
Balance at 30 June 2017	**288,722**	**(289,364)**	**457**	**(185)**
Balance at 1 July 2015	**285,444**	**(280,709)**	**457**	**5,192**
Comprehensive loss for the year	-	(5,424)	-	(5,424)
Total comprehensive loss for the year	-	(5,424)	-	(5,424)
Transactions with owners in their capacity as owners				
Shares issued on 16 February 2016, as part consideration for interest in Cachoeiras do Binga	3,250	-	-	3,250
Capital raising costs	(10)	-	-	(10)
Capital raising costs reclassified to expenses	38	-	-	38
Balance at 30 June 2016	**288,722**	**(286,133)**	**457**	**3,046**

CONTENTS

1. CORPORATE INFORMATION

The consolidated financial statements of VDM Group Limited and its controlled entities ("VDM" or the "Group") for the year ended 30 June 2017 were authorised for issue in accordance with a resolution of the directors on 30 August 2017.

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

Business activities during the period principally related to: 1) mobilising the initial exploration team members to the Cachoeiras do Binga copper project located in the Republic of Angola; 2) delivering imported structural steel to VDM's construction clients, and 3) closing VDM's former equipment hire and sales business, including winding up the Sany-VDM Joint Venture.

The business activities of the comparative period principally related to: 1) acquisition of the 65% participating interest in the Cachoeiras do Binga copper exploration project 2) equipment hire and sales by the equipment division and the Sany-VDM Joint Venture; 3) minor goods export and import by the trading division; and 4) pre-contract work by the construction division.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on the historical cost basis.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

The consolidated financial statements provide comparative information in respect of the previous year.

b) Compliance with IFRS

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

c) New and amended accounting standards and interpretations

(i) Changes in accounting policies, new and amended standards and interpretations

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 30 June 2016, except for the adoption of the new standards and interpretations effective for the first time for entities with an annual reporting period ending on or after 30 June 2017 that are outlined in the following table. The adoption of these new standards and interpretations did not have any material impact on the financial position or performance of the Group.

Pronouncement & Title	Summary	Application date
AASB 2014-3 *Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations*	The amendments require an entity acquiring an interest in a joint operation, in which the activity of the joint operation constitutes a business, to apply, to the extent of its share, all of the principles in AASB 3 Business Combinations and other Australian Accounting Standards that do not conflict with the requirements of AASB 11 Joint Arrangements.	Of standard: 1 January 2016 For Group: 1 July 2016
AASB 2014-4 *Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation*	The amendments clarify the principle in AASB 116 Property, Plant and Equipment and AASB 138 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, the ratio of revenue generated to total revenue expected to be generated cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets.	Of standard: 1 January 2016 For Group: 1 July 2016
AASB 2014-9 *Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements*	The amendments to AASB 127 Separate Financial Statements allow an entity to use the equity method as described in AASB 128 to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements.	Of standard: 1 January 2016 For Group: 1 July 2016
AASB 2015-1 *Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012–2014 Cycle*	The amendments clarify certain requirements in: • AASB 5 Non-current Assets Held for Sale and Discontinued Operations – Changes in methods of disposal. • AASB 7 Financial Instruments: Disclosures - servicing contracts; applicability of the amendments to AASB 7 to condensed interim financial statements. • AASB 119 Employee Benefits - regional market issue regarding discount rate. • AASB 134 Interim Financial Reporting - disclosure of information 'elsewhere in the interim financial report'.	Of standard: 1 January 2016 For Group: 1 July 2016
AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101*	This Standard amends AASB 101 Presentation of Financial Statements to clarify existing presentation and disclosure requirements and to ensure entities are able to use judgement when applying the Standard in determining what information to disclose, where and in what order information is presented in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures.	Of standard: 1 January 2016 For Group: 1 July 2016
AASB 2015-5 *Amendments to Australian Accounting Standards – Investment Entities: Applying the Consolidation Exception*	This Standard amends AASB 10 Consolidated Financial Statements, AASB 12 Disclosure in Interests in Other Entities and AASB 128 Investments in Associates and Joint Ventures to clarify how investment entities and their subsidiaries apply the consolidation exception.	Of standard: 1 January 2016 For Group: 1 July 2016

(ii) Accounting Standards and Interpretations issued but not yet effective

The following standards and interpretations have been issued by the AASB but are not yet effective for the year ending 30 June 2017. The Group has not elected to early adopt these or any other new Standards and amendments that are issued but not yet effective.

Pronouncement & Title	Summary	Application date
AASB 2016-1 *Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses*	This Standard makes amendments to AASB 112 Income Taxes to clarify the accounting for deferred tax assets for unrealised losses on debt instruments measured at fair value.	Of standard: 1 January 2017 For Group: 1 July 2017
AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107*	The amendments to AASB 107 Statement of Cash Flows are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).	Of standard: 1 January 2017 For Group: 1 July 2017
AASB 2017-2 *Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle*	This Standard clarifies the scope of AASB 12 Disclosure of Interests in Other Entities by specifying that the disclosure requirements apply to an entity's interests in other entities that are classified as held for sale or discontinued operations in accordance with AASB 5 Non-current Assets Held for Sale and Discontinued Operations.	Of standard: 1 January 2017 For Group: 1 July 2017
AASB 9, and relevant amending standards *Financial Instruments*	AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement. Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Debt instruments are subsequently measured at fair value through profit or loss (FVTPL), amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held. There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch. Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss. For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss. All other AASB 139 classification and measurement requirements for financial liabilities have been carried forward into AASB 9, including the embedded derivative separation rules and the criteria for using the FVO.	Of standard: 1 January 2018 For Group: 1 July 2018

Pronouncement & Title	Summary	Application date
	The incurred credit loss model in AASB 139 has been replaced with an expected credit loss model in AASB 9. The requirements for hedge accounting have been amended to more closely align hedge accounting with risk management, establish a more principle-based approach to hedge accounting and address inconsistencies in the hedge accounting model in AASB 139.	
AASB 15, and relevant amending standards *Revenue from Contracts with Customers*	AASB 15 replaces all existing revenue requirements in Australian Accounting Standards (AASB 111 Construction Contracts, AASB 118 Revenue, AASB Interpretation 13 Customer Loyalty Programmes, AASB Interpretation 15 Agreements for the Construction of Real Estate, AASB Interpretation 18 Transfers of Assets from Customers and AASB Interpretation 131 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as AASB 117 (or AASB 16 Leases, once applied). The core principle of AASB 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with the core principle by applying the following steps: • Step 1: Identify the contract(s) with a customer • Step 2: Identify the performance obligations in the contract • Step 3: Determine the transaction price • Step 4: Allocate the transaction price to the performance obligations in the contract • Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.	Of standard: 1 January 2018 For Group: 1 July 2018
AASB 2014-10 *Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	The amendments clarify that a full gain or loss is recognised when a transfer to an associate or joint venture involves a business as defined in AASB 3 Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. AASB 2015-10 defers the mandatory effective date (application date) of AASB 2014-10 so that the amendments are required to be applied for annual reporting periods beginning on or after 1 January 2018.	Of standard: 1 January 2018 For Group: 1 July 2018
AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*	This Standard amends AASB 2 Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: • The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments • Share-based payment transactions with a net settlement feature for withholding tax obligations • A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.	Of standard: 1 January 2018 For Group: 1 July 2018
AASB 16 *Leases*	AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117 Leases. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term,	Of standard: 1 January 2019 For Group: 1 July 2019

Pronouncement & Title	Summary	Application date
	a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting is substantially unchanged from today's accounting under AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.	

AASB-15 (Revenue from Contracts with Customers)
In relation to the above-noted implementation of AASB 15, the Group plans to adopt the standard using the "modified retrospective method." Under that method, the Group will apply the rules to all contracts existing as of January 1, 2018, recognizing in beginning retained earnings an adjustment for the cumulative effect of the change and providing additional disclosures comparing results to previous accounting standards. The Group currently has one contract that will be effected by the implementation. The performance obligations under the aforementioned contract relate to the physical delivery of goods to the customer and as such VDM expects that contract revenue recognised under the new standard will be substantially the same as under the Group's current accounting policy which recognises revenue on delivery of the goods, which is when the risks and rewards of ownership of the goods have passed to the buyer.

The Group has not yet determined the impact of the other standards and amendment that are issued but not yet effective.

d) Going concern

VDM incurred a net loss after tax from continuing operations for the year ended 30 June 2017 of $3,890,000 (2016: $4,516,000). Net cash flows used in operating activities were $4,380,000 (2016: $6,426,000). At 30 June 2017, VDM had net current liabilities of $14,317,000 (30 June 2016: $9,828,000). The cash position of VDM at 30 June 2017 was $1,366,000 (30 June 2016: $2,045,000) with a further $1,017,000 of security deposits (30 June 2016: $1,076,000).

VDM will require further capital funding:
- for general corporate working capital including trade and other payables, and provisions that become due (refer to notes 21 and 23);
- to progress its business strategy including the Cachoeiras do Binga exploration program;
- to pursue other business growth opportunities; and
- to settle shareholder loans that become due (refer to note 22).

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

In forming this view, the directors have taken into consideration that the Group expects:
- to undertake future capital raisings sufficient to meet the above noted funding requirements and the Group is consulting with potential sophisticated investors in this regard; and
- VDM's largest shareholder, Australia Kengkong Investments Co Pty Ltd will not demand repayment of amounts due under the FLA until sufficient capital raisings are completed.

Should VDM not achieve the matters set out above, there is material uncertainty as to whether VDM will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustment relating to the recoverability or classification of recorded asset amounts or to the amounts or classifications of liabilities that may be necessary should VDM not be able to continue as a going concern.

e) Basis of consolidation

The consolidated financial statements comprise the financial statements of VDM Limited and its subsidiaries as at 30 June 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through it power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption, and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

f) Business Combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, any previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of AASB 139 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised either in profit or loss or as a change to OCI. If the contingent consideration is not within the scope of AASB 139, it is measured in accordance with the appropriate Australian Accounting Standard. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Prior to 1 July 2009
Prior to 1 July 2009 business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisitions formed part of the acquisition costs.

g) Joint arrangements

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

i. joint operations; or
ii. joint ventures.

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

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

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

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

h) Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates and joint ventures are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of associates and joint ventures is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture.

The financial statements of the associates and joint ventures are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investments in associates or joint ventures. At each reporting date, the Group determines whether there is objective evidence that the investment in the associates or joint ventures is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, then recognizes the loss as 'Share of profit of associates and joint ventures' in the statement of profit or loss.

Upon loss of significant influence over the associates or joint control over the joint ventures, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

i) Current versus non-current classification

The Group presents assets and liabilities in statement of financial position based on current/non-current classification.

An asset is current when it is:
- expected to be realised or intended to be sold or consumed in normal operating cycle;
- held primarily for the purposes of trading;
- expected to be realised within twelve months after the reporting period; or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.
A liability is current when:
- it is expected to be settled in normal operating cycle;
- it is held primarily for the purpose of trading;
- it is due to be settled within twelve months after he reporting period; or

- there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax asset and liabilities are classified as non-current assets and liabilities.

j) Foreign currency translation

The Group's consolidated financial statements are presented in Australian dollars, which is also the Parent's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

Transactions and balances in foreign currencies
Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in other comprehensive income or profit or loss are also recognised in other comprehensive income or profit or loss, respectively).

Group companies
On consolidation, the assets and liabilities of foreign operations are translated into Australian dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation purposes are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

k) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of Goods
Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the cost incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customers.

Sale of development properties
Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the cost incurred or to be incurred in respect of the transaction can be measured reliably. Transfer of the risks and rewards of ownership coincides with the transfer of the legal title.

Construction and infrastructure development projects
Revenue from construction and infrastructure development projects is recognised in the financial year in which the activities are performed on a percentage of completion method or, where an independent third party provides an estimate of the stage of works completed, based on the independent third party assessment. Where the percentage to complete method is used, it is based on the cost incurred to date over anticipated total contract costs.

Where it is probable that total contract costs will exceed total contract revenue for a contract, the excess of costs over revenue is recognised as an expense immediately. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent expenses recognised are recoverable.

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

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

Interest
Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Dividends
Dividend revenue is recognised when the shareholders' right to receive the payment is established.

Rental income
Rental income from investment properties is accounted for on a straight-line basis over the lease term. Contingent rental income is recognised as income in the periods in which it is earned. Lease incentives granted are recognised as an integral part of the total rental income.

l) Income tax and other taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is recognised only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

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

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

VDM Group Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. VDM Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, VDM Group Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets and liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in VDM Group. Details of the tax funding agreement are disclosed in note 8.

Other taxes
Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as part of operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

m) Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. For an asset or disposal group to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable. Once classified as held for sale, they are not depreciated or amortised.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

n) Property, plant and equipment

Property, plant and equipment is stated at historic cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

Depreciation is calculated on a straight-line and diminishing balance method over the estimated useful life of the specific assets as follows:

Land – not depreciated
Buildings – over 40 years
Leasehold improvements – over 3 to 10 years
Plant and equipment – over 3 to 15 years

The assets’ residual values, useful lives and amortisation methods are reviewed and adjusted if appropriate, at each financial year end.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

o) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Group as a lessee
A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. An operating lease is a lease other than a finance lease. Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

Group as a lessor
Leases in which the Group does not transfer substantially all the risks and benefits of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

p) Contracts in progress

Contracts in progress are valued at cost plus profit recognised to date based on the value of work completed, less provision for foreseeable losses.

Costs include both variable and fixed costs directly related to specific contracts. Those costs that are expected to be incurred under penalty clauses and warranty provisions are also included.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract is recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the end of the reporting period. An expected loss on the construction contract is recognised as an expense immediately as soon as the loss is foreseeable.

In the case of a fixed price contract, the outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:

- total contract revenue can be measured reliably;
- it is probable that the economic benefits associated with the contract will flow to the entity;
- both the contract costs to complete the contract and the stage of contract completion at the end of the reporting period can be measured reliably; and
- the contract costs attributable to the contract can be clearly identified and measured reliably so that actual contract costs incurred can be compared with prior estimates.

In the case of a cost plus contract, the outcome of a construction contract can be estimated reliably when all the following conditions are satisfied:
- it is probable that the economic benefits associated with the contract will flow to the entity; and
- the contract costs attributable to the contract, whether or not specifically reimbursable, can be clearly identified and measured reliably.

q) Intangible assets

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is taken to the statement of comprehensive income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Research and development costs
Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in cost of sales. During the period of development, the asset is tested for impairment annually.

Amortisation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Software – 2.5 years
Development costs – 5 years

r) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement
Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, AFS financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial assets are recognised initially at fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

Subsequent measurement
For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- Available for sale (AFS) financial assets

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. The Group does not have any such investments.

Loans and receivables
This category is the most relevant to the Group. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables. This category generally applies to trade and other receivables.

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. The Group does not have any such investments.

AFS financial assets
AFS financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions. The Group does not have any such investments.

Impairment of financial assets
The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

ii) Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables, and loans and borrowings.

Subsequent measurement
The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. The Group does not have any such liabilities.

Loans and borrowings
This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings.

Financial guarantee contracts
Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation. The Group does not have any such contracts

Trade and other payables
Trade and other payables are carried at amortised cost due to their short term nature and are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are typically paid within 30 days of recognition.

iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously. The Group does not have any such instruments.

s) Inventories and development properties

Inventories and development properties are measured at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Where held at cost, cost comprises all costs of purchase, cost of conversion and costs incurred bringing the inventories or development properties to their present location or condition. Inventory is measured on a first in, first out basis.

t) Exploration and evaluation expenditure:

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

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

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

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

Exploration and evaluation assets are disclosed in note 17.

u) Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s (CGU’s) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset’s or CGU’s recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset’s recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually as at 30 June and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised in the statement of profit or loss. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually as at 30 June at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

v) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and security deposits with an original maturity of three months or less that are readily convertible to cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest bearing loans and borrowings in current liabilities on the balance sheet.

w) Earnings per share

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

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

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

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

x) Provisions and employee benefits

Provisions are recognised when the has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

a) Impairment of non-financial assets

Management assesses impairment of all non-financial assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment.

b) Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment) and lease terms (for lease equipment). In addition, the condition of the assets is assessed at least once per year and considered against remaining useful life. Adjustments to useful lives are made when considered necessary. Depreciation charges are included in note 19.

c) Accounting for outstanding litigations

Where the Group is involved with outstanding litigation, provisions are raised where claims against the Group are probable and are able to be measured, at the best estimate of the expenditure required to settle the obligation at the reporting date. Where claims are not able to be reliably measured or are subject to future events not wholly within control of the Group, disclosure is made by way of a contingent liability note (note 30).

d) Construction warranties

In determining the level of warranty obligations required for construction contracts, VDM has made judgments in respect of the expected performance of the product and the costs of fulfilling the performance of the construction obligations. Historical experience and current knowledge of the performance of products has been used in determining this provision. The related carrying amounts are disclosed in note 23.

e) Other construction contract obligations

In determining the level of other construction contract obligations VDM has made judgments in respect of the expected amount of costs, other than warranty costs, that may be incurred in relation to completed construction contracts. Historical experience and current knowledge of the construction contracts and subcontracts has been used in determining this provision. The related carrying amounts are disclosed in note 23.

f) Onerous contracts

In determining the provision for onerous contracts, VDM has made judgments in respect of the expected benefits to be derived from the contracts and the unavoidable cost of meeting the obligations of the contract. The related carrying amounts are disclosed in note 23.

g) Inventory net realisable value

In determining inventories net realisable value, management has made judgments in respect of the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale and the expected timing in which the sale will take place.

h) Joint arrangements

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

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

Specifically, it considers:

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

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

i) Exploration and evaluation expenditures

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

4. SEGMENT INFORMATION

VDM is arranged under three operating divisions: i) construction, ii) trading, and iii) mining. Refer to the "Operating and Financial Review" in the Directors' Report for an overview of the three operating divisions. Each division was a reportable segment in the current reporting period. The accounting policies adopted for the reportable segment are consistent with those followed in the preparation of the Group's financial statements for the year ended 30 June 2016.

The following table presents the revenue, profit and selected balance sheet information for the Group's reportable segments for the year ended 30 June 2017.

The previously reported equipment segment was discontinued in its entirety during the year ended 30 June 2017 and has therefore been removed as a reportable segment. Refer to note 7 for the results, assets, and liabilities of the discontinued Equipment segment.

	Construction $000	Trading $000	Mining $000	Unallocated $000	Total $000
Revenue					
External revenue	1,266	8	-	156	1,430
Total segment revenue	**1,266**	**8**	**-**	**156**	**1,430**
Results					
Segment results before tax	**(217)**	**(81)**	**(324)**	**(3,268)**	**(3,890)**
Finance costs	2	-	-	472	474
Depreciation & amortisation	-	-	-	176	176
Impairment	-	-	-	412	412
Reconciliation of segment results before tax to net loss after tax					
Segment results before tax					(3,890)
Net loss after tax from continuing operations per the statement of comprehensive income					**(3,890)**
Total assets	**492**	**-**	**10,783**	**5,172**	**16,447**
Total liabilities	**1,630**	**1**	**4,875**	**10,126**	**16,632**
Other disclosures					
Exploration and evaluation asset additions	-	-	2,508	-	2,508
Property plant and equipment additions	-	-	-	1	1

Major Customers

VDM Group has a number of customers to which it provides goods and services. During 2017, VDM had one customer that contributed greater than 10% of revenue. This customer contributed a total of 87% of VDM revenue which was from the Construction segment (2016: two customers contributed greater than 10% of revenue. These two customers contributed a combined total of 53% of VDM revenue, with individual contributions of 42% and 11% from two trading segment customers).

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

	Construction $000	Trading $000	Mining $000	Unallocated $000	Total $000
Revenue					
External revenue	53	402	4	70	529
Total segment revenue	**53**	**402**	**4**	**70**	**529**
Results					
Segment results before tax	**(521)**	**(196)**	**(133)**	**(3,666)**	**(4,516)**
Finance Costs	-	-	-	83	83
Depreciation & amortisation	5	-	-	185	190
Reconciliation of segment results before tax to net loss after tax					
Segment results before tax					(4,516)
Net loss after tax from continuing operations per the statement of comprehensive income					**(4,516)**
Total assets	**77**	**503**	**8,284**	**7,213**	**16,077**
Total liabilities	**2,516**	**22**	**5,025**	**5,468**	**13,031**
Other disclosures					
Exploration and evaluation asset additions	-	-	8,275	-	8,275
Property plant and equipment additions	-	-	-	13	13

5. REVENUE

	2017 $000	2016 $000
Sales revenue		
Revenue from operating activities	1,274	415
Total sales revenue	**1,274**	**415**
Other revenue		
Interest	20	91
Net rental income	10	21
Other	126	2
Total other revenue	**156**	**114**
Total revenue	**1,430**	**529**

6. EXPENSES	**2017 $000**	**2016 $000**
a) Employee benefits expense		
Wages and salaries	1,785	2,466
Restructuring/redundancy costs	32	223
Superannuation expense	129	202
Other employee benefits expense	24	22
Total employee benefits expense	**1,970**	**2,913**
b) Depreciation and amortisation		
Depreciation	176	181
Amortisation of development costs and software	-	9
Total depreciation and amortisation	**176**	**190**
c) Impairment charges		
Impairment of development properties (note 18)	412	-
Total impairment charges	**412**	**-**
d) Finance costs		
Bank fees and other finance charges	22	8
Interest	452	75
Total finance costs	**474**	**83**
e) Other expenses		
Insurances	223	245
Telecommunications	34	38
Computer costs	67	157
Other	23	88
Total other expenses	**347**	**528**

7. DISCONTINUED OPERATIONS

On 28 July 2016, VDM announced the closure of its Equipment division. A strategic review of the equipment hire and sales business concluded it needed to be significantly scaled up in size in order to reach a sustainable positive cash flow. Foreseeable overcapacity in most areas of the Australian equipment market meant that expansion of the division would be a high risk investment and the prudent decision for VDM shareholders was to close the equipment business.

The discontinued Equipment division constituted the entire equipment segment as reported in the Annual Report for the year ended 30 June 2016. As at 30 June 2017 all of the segment's assets were sold and liabilities settled.

	2017 $000	2016 $000
Financial performance of discontinued operations		
Revenue	21	196
Expenses	(209)	(1,132)
Operating loss	**(188)**	**(936)**
Finance costs	-	(1)
Profit on sale of assets	1,256	264
Share of loss from joint venture (note 16)	(409)	(235)
Profit/(Loss) from discontinued operations before income tax	**659**	**(908)**
Income tax expense	-	-
Profit/(Loss) from discontinued operations after income tax	**659**	**(908)**
Assets and liabilities of the discontinued operations		
Total Assets	-	1,397
Total Liabilities	-	77
Net assets attributable to discontinued operations	**-**	**1,320**
Net cash flows attributable to discontinued operations		
Operating	168	(187)
Investing	1,869	199
Financing	-	(65)
Net cash (outflow) / inflow	**2,037**	**(53)**

8. INCOME TAX

	2017 $000	2016 $000
a) The components of tax expense comprise:		
Current income tax:		
Income tax benefit on adjustments in respect of current income tax of previous years	-	-
Deferred income tax:		
Relating to origination & reversal of temporary differences	-	-
Prior year tax losses no longer recognised	-	-
Adjustments in respect of deferred income tax of previous years	-	-
Income tax benefit reported in the statement of comprehensive income	**-**	**-**
b) Numerical reconciliation between aggregate tax expense recognised in the income statement and the tax expense calculated in the statutory income tax return		
Accounting loss before tax	(3,231)	(5,424)
Total accounting loss before income tax	**(3,231)**	**(5,424)**
Prima facie income tax benefit @ 27.5% (2016: @ 30.0%)	(889)	(1,627)
Tax adjustment for non-deductible expenses	202	5
Temporary differences and unrecognised tax losses	687	1,622
Aggregate income tax benefit	**-**	**-**

Current period income tax amounts were calculated based on a reduced corporate income tax rate of 27.5% (2016: 30%).

c) Recognised deferred tax asset and liabilities	**Statement of financial position**		**Statement of comprehensive income**	
	2017 $000	**2016 $000**	**2017 $000**	**2016 $000**
Deferred tax liabilities				
Contracts in progress and inventory	-	-	-	-
Other	(21)	-	21	-
Gross deferred tax liabilities	**(21)**	**-**	**21**	**-**
Deferred tax assets				
Provision for employee entitlements	41	61	21	35
Provisions – other	505	718	215	25
Trade and other receivable	351	484	133	(8)
Trade and other payables	135	143	7	184
Contributed equity	158	304	129	290
Deferred tax assets not recognised	(1,169)	(1,710)	(526)	(526)
Gross deferred tax assets	**21**	**-**	**(21)**	**-**
Deferred tax expense			**-**	**-**
Net deferred tax asset recognised in the balance sheet	**-**	**-**		

d) Tax losses

VDM Group has recognised a deferred tax asset of $nil (2016: $nil) for Australian income tax purposes on the basis that it is not 'probable' that the carried forward revenue loss will be utilised against future assessable taxable profits.

VDM has estimated tax losses of $125,467,000 (2016: $121,334,000). Utilisation of the carried forward tax losses by the company is subject to satisfaction of the Continuity of Ownership Test ("COT") or, failing that, the Same Business Test ("SBT"). It is likely that VDM has failed COT during the 2015 financial year, therefore in order to be able to utilise the pre-2016 losses in the future, VDM may be required to satisfy the SBT. Where VDM derives assessable income in a future income year, an assessment of whether the same business has been carried on between just before the COT failure and the intervening period will determine whether the losses are available for utilisation.

e) Unrecognised temporary differences

At 30 June 2017, there were no unrecognised temporary differences associated with VDM's investments in subsidiaries, or joint ventures, as VDM has no liability for additional taxation should unremitted earnings be remitted (2016: nil).

f) Tax consolidation

Members of the tax consolidation group and the tax sharing arrangement
VDM Group Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2004. VDM Group Limited is the head entity of the tax-consolidated group. Members of Group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

9. LOSS PER SHARE	2017 $000	2016 $000
a) Loss used in calculating loss per share		
Net loss from continuing operations attributable to ordinary equity holders of the parent	(3,890)	(4,516)
Net loss attributable to ordinary equity holders of the parent for basic earnings	**(3,890)**	**(4,516)**
b) Weighted average number of shares	**No.**	**No.**
Weighted average number of ordinary shares for basic and diluted earnings per share	**5,477,660,952**	**5,068,071,911**

10. DIVIDENDS PROPOSED AND PAID

a) Declared and paid during the year		
Dividends on ordinary shares:		
Final dividend for 2017: nil cents per share (2016: nil cents per share)	-	-
Interim dividend for 2017: nil cents per share (2016: nil cents per share)	-	-
Dividends paid during the year	**-**	**-**
b) Dividend proposed, not recognised as a liability		
Final dividend for 2017: nil cents per share (2016: nil cents per share)	-	-
c) Franking credits:		
Franking credits available for the subsequent financial year:		
Franking account balance as at the end of the financial year at 30% (2016: 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**

11. CASH AND CASH EQUIVALENTS

	2017 $000	2016 $000
Cash at bank and in hand	1,366	2,045
Cash and cash equivalents	**1,366**	**2,045**
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	1,366	2,045
Cash for reconciliation of cash flow statement	**1,366**	**2,045**

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

12. SECURITY DEPOSITS

	2017 $000	2016 $000
Security Deposits	**1,017**	**1,076**
Current	198	204
Non-current	819	872
Total security deposits	**1,017**	**1,076**

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

13. TRADE AND OTHER RECEIVABLES	2017 $000	2016 $000
Trade receivables	1,395	1,783
Other debtors	345	26
Retentions	76	-
Impairment of trade and other receivables	(1,278)	(1,615)
Total trade and other receivables	**538**	**194**
a) Ageing of trade receivables		
0 - 30 days	86	47
31 - 60 days	-	29
> 60 days PDNI*	31	92
> 60 days IM**	1,278	1,615
Total trade receivables	**1,395**	**1,783**
b) Allowance for impairment loss		
Balance at 1 July 2016	1,615	1,587
Charge for the year	(10)	44
Utilised	(327)	(16)
Balance at 30 June 2017	**1,278**	**1,615**

** PDNI – past due not impaired*
*** IM - impaired*

Trade receivables are non-interest bearing and are generally on 30-60 day terms. An allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired.

c) Fair value and credit risk

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair values.

The maximum exposure to credit risk is the fair value of receivables.

d) Foreign exchange and interest rate risk

Details regarding foreign exchange and interest rate risk exposure are disclosed in note 28.

	2017 $000	2016 $000
14. INVENTORY		
Consumables at cost	165	69
Total inventory	**165**	**69**

15. OTHER CURRENT ASSETS		
Prepayments	-	1
Other current assets	**-**	**1**

16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD		
Current assets	285	1,747
Non-current assets	-	38
Current liabilities	285	392
Equity	-	1,393
Group's carrying amount of the investment	**-**	**682**
a) Reconciliation of carrying amounts		
Balance at 1 July	682	917
Capital returned	(273)	-
Share of equity accounted loss for the year	(409)	(235)
Balance at 30 June	**-**	**682**
b) Share of equity accounted loss		
Revenue	37	1,167
Cost of sales	(23)	(878)
Administrative expenses	(854)	(772)
Finance costs	6	3
Loss before tax	(834)	(480)
Income tax expense	-	-
Loss for the year	(834)	(480)
Total comprehensive loss for the year	(834)	(480)
Group's share of loss for the year (note 7)	**(409)**	**(235)**

At 30 June 2017, VDM holds a nil interest in Sany VDM Pty Ltd an Australian company previously jointly-owned by VDM and Sany (2016: 49% interest). During the period $273,000 of capital in Sany VDM Pty Ltd was returned to the Group (2016: nil returned).

	2017 $000	2016 $000

17. EXPLORATION AND EVALUATION ASSETS

	2017 $000	2016 $000
Balance as at 1 July	8,275	-
Additions	2,508	8,275
Balance as at 30 June	**10,783**	**8,275**

Additions in the period include $2,265,000 of advances under an exploration services contract (30 June 2016: nil) and $168,000 under a technical services contract (30 June 2016: nil).

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

18. DEVELOPMENT PROPERTIES

	2017 $000	2016 $000
Development properties	1,600	2,012
Total development properties	**1,600**	**2,012**
Reconciliation of carrying amounts		
Balance at 1 July	2,012	2,012
Additions	-	-
Disposals	-	-
Impairment of development properties	(412)	-
Balance at 30 June	**1,600**	**2,012**

Impairment Assessment

Management performed a net realisable value assessment which resulted in recognition of a $412,000 impairment to development properties (2016: nil).

19. PROPERTY, PLANT AND EQUIPMENT	2017 $000	2016 $000
Leasehold improvements at cost	660	673
Accumulated depreciation	(568)	(408)
Total leasehold improvements	**92**	**265**
Freehold land and buildings at cost	887	887
Accumulated depreciation	(25)	(16)
Total freehold land and buildings	**862**	**871**
Plant & equipment at cost	983	6,366
Accumulated depreciation	(959)	(5,779)
Total plant & equipment	**24**	**587**
Total property, plant and equipment	**978**	**1,723**

Impairment of plant and equipment
An impairment charge of $ nil was recognised for plant and equipment in the current period (2016: $5,000).

19. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	2017 $000	2016 $000
Reconciliation of carrying amounts		
Leasehold Improvements		
Balance at 1 July net of accumulated depreciation	265	417
Additions	1	14
Disposals	(9)	-
Depreciation	(165)	(166)
Balance at 30 June	**92**	**265**
Freehold land and buildings		
Balance at 1 July net of accumulated depreciation	870	879
Depreciation	(8)	(8)
Balance at 30 June	**862**	**871**
Plant and equipment under lease		
Balance at 1 July net of accumulated depreciation	-	160
Disposals	-	-
Depreciation	-	(28)
Transfer to plant and equipment	-	(132)
Balance at 30 June	**-**	**-**
Plant and equipment		
Balance at 1 July net of accumulated depreciation	587	745
Additions	-	13
Disposals	(547)	(88)
Impairment	-	(5)
Depreciation	(16)	(210)
Transfer from plant and equipment under lease	-	132
Balance at 30 June	**24**	**587**
Total property, plant and equipment	**978**	**1,723**

20. INTANGIBLE ASSETS

	2017 $000	2016 $000
Software	3,025	3,025
Accumulated amortisation and impairment	(3,025)	(3,025)
Total intangible assets	**-**	**-**
Reconciliation of carrying amounts		
Intangible assets		
Balance at 1 July	-	9
Amortisation	-	(9)
Balance at 30 June	**-**	**-**

21. TRADE AND OTHER PAYABLES

	2017 $000	2016 $000
Trade payables and accruals	732	747
Employee related payables	20	38
GST payable	18	37
Other payables	4,695	5,025
Total trade and other payables	**5,465**	**5,847**

Other payables includes $4,695,000 of purchase consideration due to a Cachoeiras do Binga joint venture partner (30 June 2016: $4,875,000).

a) Fair values

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

b) Interest rate, foreign exchange and liquidity risk

Information regarding interest rate, foreign exchange and liquidity risk exposure is disclosed in note 28.

c) Entities subject to class order relief

VDM Group Limited provides financial guarantees to its subsidiaries by way of a Deed of Cross Guarantee (refer to note 29(b)).

22. INTEREST BEARING LOANS AND OTHER BORROWINGS	2017 $000	2016 $000
Shareholder loan (AUD denominated)	4,826	3,061
Shareholder loan (USD denominated)	4,272	1,360
Total interest bearing loans and other borrowings	**9,098**	**4,421**

a) Fair values

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

b) Interest rate, foreign exchange and liquidity risk

Information regarding interest rate, foreign exchange and liquidity risk exposure is disclosed in note 28.

c) Assets pledged as security		
Finance arrangements:		
Plant and equipment under lease	-	-
Floating charge:		
All the remaining wholly owned assets	-	-

d) Financing facilities		
Credit cards	40	40
Bank guarantees	977	1,036
Balance at 30 June 2017	**1,017**	**1,076**

The bank guarantee facility limit is equal the amount of bank guarantees issued and outstanding in favour of VDM. The credit card facility is available subject to annual review.

e) Shareholder loans

During the period VDM's largest shareholder, Australia Kengkong Investments Co Pty Ltd ("Kengkong"), advanced AUD $1,500,000 and USD $2,134,000 to VDM under the terms of a Framework Loan Agreement ("FLA") (2016: AUD $3,000,000 and USD $1,000,000). The FLA contemplates the parties entering into a secured one-year 6% per annum loan facility that will incorporate the FLA liabilities. Until that occurs, the FLA advances, plus accrued interest of 6% per annum are immediately repayable in the denominated currency when demanded by Kengkong. An interest rate of 20% per annum applies if VDM defaults on the loan.

The 30 June 2017 shareholder loan balances include $452,000 of interest accrued in the year (2016: $75,000 of accrued interest) and $71,000 of unrealised foreign exchange gains recorded in the year (2016: $40,000 of unrealised foreign exchange losses).

23. PROVISIONS

	2017 $000	2016 $000
Current		
Employee entitlements	125	181
Construction warranties	605	567
Onerous contracts	885	850
Other construction contract obligations	222	297
Other provisions	184	178
Total current provisions	**2,021**	**2,073**
Non-Current		
Employee entitlements	24	24
Onerous contracts	-	576
Other provisions	24	90
Total non-current provisions	**48**	**690**
Total provisions	**2,069**	**2,763**

a) Movement in provisions

	Balance 1 Jul 2016 $000	Arising during the year $000	Utilised during the year $000	Unused amounts reversed $000	Balance 30 Jun 2017 $000
Employee entitlements	205	114	(170)	-	149
Construction warranties	567	122	(61)	(23)	605
Onerous contracts	1,426	487	(902)	(126)	885
Other construction contract obligations	297	47	(37)	(85)	222
Other provisions	268	-	(60)	-	208
Total provisions	**2,763**	**770**	**(1,230)**	**(234)**	**2,069**

b) Nature and timing of provisions

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

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

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

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

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

	2017	2016
	$000	$000
24. CONTRIBUTED EQUITY		
a) Ordinary shares		
Issued and fully paid	288,722	288,722

	Number of Shares	$000
Balance at 1 July	**5,477,660,952**	**288,722**
Balance at 30 June	**5,477,660,952**	**288,722**

b) Terms and conditions of contributed equity

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

c) Capital Management

When managing capital, the Board's objective is to ensure the Company continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders.

In the short to medium term the Company is focussed on maintaining an appropriate level of working capital. Until achievement of profitable operations and positive cash flow, the Directors do not anticipate paying dividends.

The level of dividends paid by the Company in the future will depend upon the availability of distributable earnings, the Company's franking credit position, operating results, available cash flow, financial condition, taxation position, future capital requirements, as well as general business and financial conditions and any other factors the Directors may consider relevant.

VDM is not subject to any externally imposed capital requirements.

25. ACCUMULATED LOSSES AND RESERVES

	2017 $000	2016 $000
a) Movement in accumulated losses		
Balance at 1 July	(286,133)	(280,709)
Net loss attributable to members of VDM Group Limited	(3,231)	(5,424)
Balance at 30 June	**(289,364)**	**(286,133)**

	2017 $000	2016 $000
b) Movement in equity reserve		
Balance at 1 July	457	457
Balance at 30 June	**457**	**457**

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

26. CASHFLOW STATEMENT INFORMATION

Reconciliation of net profit after tax to the net cash flows from operations

	2017 $000	2016 $000
Net loss after tax	(3,231)	(5,424)
Non-cash items:		
Depreciation and amortisation	189	421
Impairment of assets	412	5
Profit on disposal of property, plant and equipment	(1,256)	(264)
Share of equity accounted loss	409	235
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	(324)	170
(Increase)/decrease in inventory	(109)	18
Increase/(decrease) in trade and other creditors	90	(1,430)
Decrease in provisions	(560)	(157)
Net cash flows used in operating activities	**(4,380)**	**(6,426)**

27. RELATED PARTY DISCLOSURE

Note 33 provides the information about VDM's structure including details of the subsidiaries and the parent company.

a) Ultimate parent

VDM Group Limited is the ultimate Australian parent entity.

b) Due from associates

At 30 June 2017, the amount due from associates is $ nil (2016: $83,000)

c) Transactions with key management personnel

Luk Hiuming
As at 30 June 2017, VDM owed $65,000 to Mr Luk related to directors fees that have not been paid on his instruction. No interest accrues and the outstanding amount is due when demanded by Mr Luk.

Kengkong
On 27 January 2016, VDM entered into a Framework Loan Agreement ("FLA") with its largest shareholder, Australia Kengkong Investments Co Pty Ltd ("Kengkong"). During the period, Kengkong, advanced AUD $1,500,000 and USD $2,134,000 to VDM under the terms of a FLA (2016: Kengkong advanced AUD $3,000,000 and USD $1,000,000). The FLA contemplates the parties entering into a secured one-year 6% loan facility that will incorporate the FLA liabilities. Until that occurs, the FLA advances plus interest accrued at 6% per annum are immediately repayable in the denominated currency when demanded by Kengkong. VDM's Non-executive Chairman Mr Luk controls Kengkong.

H&H
As at 30 June 2017, VDM owed H&H Holdings Australia Pty Ltd ("H&H") $75,000 of underwriting commissions for the Company's December 2013 Rights Issue (2016: $75,000). No interest accrues and the outstanding amount is due when demanded by H&H. Dr Hua, VDM's Executive Director of Mining controls H&H.

27. RELATED PARTY DISCLOSURE (CONTINUED)

d) Transactions with related parties other than key management personnel

There were no transactions entered into with related parties other than key management personnel during the years ended 30 June 2017, and 30 June 2016, except for those noted above.

	2017 $000	2016 $000
e) Compensation for key management personnel		
Short term	1,019	1,095
Long term	6	1
Post employment	74	79
Total compensation	**1,099**	**1,175**

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Credit, liquidity and market risk (including interest rate and foreign exchange risk) arise in the normal course of VDM's business. VDM manages its exposure to these key financial risks in accordance with VDM's financial risk management policy. The objective of the policy is to support the delivery of VDM's financial targets whilst protecting future financial security. VDM's principal financial instruments comprise receivables, payables, loans, hire purchase liabilities, cash and security deposits.

VDM uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate and foreign exchange. Ageing analysis and monitoring of specific credit allowances are undertaken to manage credit risk, liquidity risk is monitored through the development of future rolling cash flow forecasts.

Primary responsibility for identification and control of financial risks rests with the Audit and Risk Committee under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below.

Risk exposures and responses

a) Market risk

Interest rate risk
Interest rate risk is the risk that the Group's financial position will be adversely affected by movements in interest rates that will increase the cost of floating rate debt or opportunity losses that may arise on fixed rate borrowings in a falling interest rate environment. Interest rate risk on cash and security deposits is not a material risk due to the short term nature of these financial instruments.

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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

	2017 $000	2016 $000
Financial assets		
Cash and cash equivalents (note 11)	1,366	2,045
Security deposits (note 12)	1,017	1,076
Balance at the end of the year	**2,383**	**3,121**
Financial liabilities		
Interest bearing loans and other borrowings (note 22)	**9,098**	**4,421**

The following table summarises the sensitivity on the interest rate exposures (excluding opportunity cost of fixed rate borrowings) in existence at the balance sheet date. The sensitivity is based on foreseeable changes over a financial year.

	2017 $000	2016 $000
Post-tax gain / (loss)		
+ 1% (100 basis points)	17	22
- 1% (100 basis points)	(17)	(22)

The movement in profit is due to lower / higher interest income from variable rate cash balances. Other than retained earnings, there is no impact on equity in the consolidated entity.

Foreign currency risk
Foreign currency risk arises from transactions, assets and liabilities that are denominated in a currency that is not the functional currency of the transacting entity. Measuring the exposure to foreign currency risk is achieved by regularly monitoring and performing sensitivity analysis on VDM's financial position. Currently there is no foreign exchange hedge programme in place.

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

	2017 $000	2016 $000
Financial assets		
Cash and cash equivalents	131	1,844
Balance at the end of the year	**131**	**1,844**
Financial liabilities		
Interest bearing borrowings and loans (note 22)	**4,272**	**1,360**

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

	2017 $000	2016 $000
Post-tax gain / (loss)		
+ 10% (100 basis points)	(290)	34
- 10% (100 basis points)	290	(34)

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

b) Credit risk

Credit risk arises from the financial assets of VDM, which comprises cash and cash equivalents and trade and other receivables. VDM's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

VDM manages its credit risk by trading only with recognised, creditworthy third parties, and as such collateral is not requested nor is it VDM's policy to securitise its trade and other receivables. Customers are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Receivables balances are monitored on an ongoing basis. VDM has a concentration trade receivables credit risk with its major customer (refer to "major customers" in note 4). Financial instruments are held amongst reputable financial institutions thus minimising the risk of default of these counterparties.

	2017 $000	2016 $000
The maximum exposure to credit risk at the reporting date was as follows:		
Cash and cash equivalents (note 11)	1,366	2,045
Security deposits (note 12)	1,017	1,076
Trade and other receivables (note 13)	538	194
	2,921	**3,315**

c) Liquidity risk

Liquidity risk is the risk that the entity will encounter difficulty in meeting its commitments concerning its financial liabilities. As a result, the liquidity position of VDM Group is managed to ensure sufficient liquid funds are available to meet our financial commitments in a timely and cost-effective manner.

VDM continually monitors its liquidity position including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels. The objective of VDM is to have sufficient cash and finance facilities to meet short term commitments, and to fund capital and exploration expenditures through operating cash flow and equity capital raisings.

The table below reflects all contractually fixed payments for settlement, repayments and interest resulting from recognised financial assets and liabilities and does not recognise any cash for unresolved claims against projects which have not been recognised as income. The table also excludes contractual commitments classified as operating leases (refer to note 30). The obligations presented are the undiscounted cash flows for the respective upcoming fiscal years. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2017. Repayment obligations in respect of loans, hire purchase facilities and trade and other payables are as follows:

Not later than one year	14,563	10,268
Later than one year but not later than two years	-	-
Later than two years but not later than three years	-	-
Later than three years	-	-
	14,563	**10,268**

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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

	Total	0-60 Days	61 Days - 1 Year	1- 5 Years	>5 Years
	$000	$000	$000	$000	$000
Year ended 30 June 2017					
Financial Assets					
Cash & cash equivalents (note 11)	1,366	1,366	-	-	-
Security deposits (note 12)	1,017	-	198	819	-
Trade receivables and other receivables (note 13)	538	117	421	-	-
Total financial assets	**2,921**	**1,483**	**619**	**819**	**-**
Financial liabilities					
Trade and other payables (note 21)	5,465	770	4,695	-	-
Interest bearing loans and borrowings (note 22)	9,098	-	9,098	-	-
Total financial liabilities	**14,563**	**770**	**13,793**	**-**	**-**
Net maturity	**(11,642)**	**713**	**(13,174)**	**819**	**-**
Year ended 30 June 2016					
Financial Assets					
Cash & cash equivalents (note 11)	2,045	2,045	-	-	-
Security deposits (note 12)	1,076	-	204	872	-
Trade receivables and other receivables (note 13)	194	194	-	-	-
Total financial assets	**3,315**	**2,239**	**204**	**872**	**-**
Financial liabilities					
Trade and other payables (note 21)	5,847	822	5,025	-	-
Interest bearing loans and borrowings (note 22)	4,421	-	4,421	-	-
Total financial liabilities	**10,268**	**822**	**9,446**	**-**	**-**
Net maturity	**(6,953)**	**1,417**	**(9,242)**	**872**	**-**

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

d) Fair value

At 30 June 2017 there are no financial assets or financial liabilities which are accounted for at fair value. Carrying amounts approximate the fair value of financial assets and financial liabilities presented in the Consolidated Statement of Financial Position.

29. PARENT ENTITY INFORMATION

	2017 $000	2016 $000
Current assets	1,772	2,130
Total assets	14,352	13,113
Current liabilities	14,488	9,948
Total liabilities	14,536	10,067
Issued capital	288,722	288,722
Accumulated loss	(289,364)	(286,133)
Option reserve	457	457
Total equity	**(185)**	**3,046**
Loss of parent entity	(3,231)	(5,424)
Total comprehensive loss of the parent entity	**(3,231)**	**(5,424)**

a) Bank guarantees

As at 30 June 2017, VDM Group Limited had $403,000 of bank guarantees on issue as security for leased properties (2016: $403,000).

As at 30 June 2017, VDM Group Limited was exposed contingent liabilities of AOA 53,313,000 related to bank guarantees provided to the Angolan government for contractual obligations under the Cachoeiras do Binga Mining Investment Contract. AOA is the currency of the Republic of Angola and the 30 June 2017 contingent amount translates to AUD $418,000 (2016: AUD $430,000).

b) Guarantees in relation to debts of subsidiaries

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785 VDM Group Limited and the Closed Group entered into a Deed of Cross Guarantee on 1 February 2010. The effect of the deed is that VDM Group Limited has guaranteed to pay any deficiency in the event of winding up of controlled entities or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee.

c) Property, plant and equipment commitments

VDM Group Limited had no capital commitments at 30 June 2017 (2016: nil).

30. COMMITMENTS	2017 $000	2016 $000
a) Operating leases		
Within one year	810	1,117
One year or later but no later than 5 years	277	1,365
After more than 5 years	-	-
Total minimum lease payments	**1,087**	**2,482**

b) Property, plant and equipment commitments

VDM has no capital expenditure commitments at 30 June 2017 (2016: nil).

c) Legal claims

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

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

Mechanical services consulting claim
During the period, VDM received notification of a claim related to consulting work on the installation of mechanical services for two commercial buildings located in Western Australia during 2008 and 2009. No amount has been provided for this claim at 30 June 2017 due to insufficient information at this early stage of the legal process, however VDM has a maximum exposure of $250,000 relating to this matter under its insurance policy.

d) Bank guarantees

As at 30 June 2017, VDM had $977,000 of bank guarantees on issue as security for leased commercial property and to guarantee performance of contracts (2016: $1,036,000).

31. EVENTS AFTER THE YEAR END

a) Events after the year end

Sam Diep resigned as Chief Executive Officer of VDM Group Limited effective from 29 August 2017.

32. AUDITOR'S REMUNERATION

	2017 $	2016 $
Amount received or receivable by Ernst & Young for:		
Auditing financial statements	62,744	74,458
Non audit fees (tax compliance & other advisory)	-	-
Total auditor's remuneration	**62,744**	**74,458**

33. CLOSED GROUP CLASS ORDER DISCLOSURES

The consolidated financial statements include the financial statements of VDM Group Limited and the subsidiaries listed in the following table.

	Subsidiary Name	Country of Incorporation	% equity interest 2017	2016
*	VDM Trading Pty Ltd	Australia	**100%**	100%
*	VDM Mining Pty Ltd	Australia	**100%**	100%
*	VDM Equipment Pty Ltd	Australia	**100%**	100%
*	VDM Construction Pty Ltd	Australia	**100%**	100%
*	Keytown Constructions Pty Ltd	Australia	**100%**	100%
*	VDM Developments Pty Ltd	Australia	**100%**	100%
*	VDM Engineering (Eastern Operations) Pty Ltd	Australia	**100%**	100%
*	Burchill VDM Pty Ltd	Australia	**100%**	100%
*	VDM Group Limited International (Dubai Branch) Pty Ltd	Australia	**100%**	100%
*	BCA Consultants Pty Ltd	Australia	**100%**	100%
	VDM Africa Holidings Ltd	British Virgin Islands	**100%**	100%
	The EB Trust	Australia	**100%**	100%

a) Joint ventures in which VDM is a Joint Venturer

VDM has a nil ownership interest in Sany VDM Pty Ltd (2016: 49%). For more details refer to note 16.

b) Entities subject to class order relief

* The annotated companies and VDM Group Limited entered into a Deed of Cross Guarantee on 1 February 2010 (the “Closed Group”). The effect of the deed is that VDM Group Limited has guaranteed to pay any deficiency in the event of winding up of controlled entities or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that VDM Group Limited is wound up or if it does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee.

33. CLOSED GROUP CLASS ORDER DISCLOSURES (CONTINUED)

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

c) Statement of comprehensive income

	Closed Group	
	2017	**2016**
	$000	**$000**
Loss from continuing operations before income tax	(3,477)	(4,510)
Income tax expense	-	-
Loss from continuing operations after income tax	**(3,477)**	**(4,510)**
Profit/(loss) from discontinued operations after income tax	659	(908)
Loss for the year	**(2,818)**	**(5,418)**
Non-controlling interest	-	-
Dividends paid	-	-
Accumulated losses at the beginning of the year	(283,027)	(277,609)
Accumulated losses at the end of the year	**(285,845)**	**(283,027)**

33. CLOSED GROUP CLASS ORDER DISCLOSURES (CONTINUED)

d) Statement of comprehensive income

	2017 $000	2016 $000
ASSETS		
Current Assets		
Cash and cash equivalents	1,363	2,043
Security deposits	198	204
Trade and other receivables	5,659	5,315
Inventory	165	69
Other assets	-	1
Total Current Assets	**7,385**	**7,632**
Non-Current Assets		
Security deposits	819	872
Investment accounted for using the equity method	-	682
Exploration and evaluation assets	10,783	8,275
Property, plant and equipment	978	1,723
Total Non-Current Assets	**12,580**	**11,552**
Total Assets	**19,965**	**19,184**
Liabilities		
Current Liabilities		
Trade and other payables	5,464	5,848
Interest-bearing loans and borrowings	9,098	4,421
Provisions	2,021	2,073
Total Current Liabilities	**16,583**	**12,342**
Non-Current Liabilities		
Provisions	48	690
Total Non-Current Liabilities	**48**	**690**
Total Liabilities	**16,631**	**13,032**
Net Assets	**3,334**	**6,152**
Equity		
Contributed equity	288,722	288,722
Equity reserve	457	457
Retained losses	(285,845)	(283,027)
Total Equity	**3,334**	**6,152**

VDM GROUP LIMITED
DIRECTORS' DECLARATION
FOR THE YEAR ENDED 30 JUNE 2017

In accordance with a resolution of the directors of VDM Group Limited, I state that:

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2;

(c) subject to the satisfactory achievement of the matters described in note 2(d), there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable;

(d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2017; and

(e) subject to the satisfactory achievement of the matters described in note 2(d), as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 33 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board

Dr Hua Dongyi
Executive Director of Mining
Perth, Western Australia
4 September 2017

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Independent auditor's report to the members of VDM Group Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of VDM Group Limited ("the Company") and its subsidiaries (collectively "the Group"), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

Without qualifying our conclusion, we draw attention to Note 2(d) in the financial report which describes the principal conditions that raise doubt about the consolidated entity's ability to continue as a going concern. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

Recoverability of capitalised exploration and evaluation assets

Why significant	How our audit addressed the key audit matter
At 30 June 2017, the Group carried capitalised exploration and evaluation assets of $10.783 million as disclosed in Note 17 to the financial report. The carrying amount of exploration and evaluation assets is dependent on the ability, and intention, of the Group to continue to explore the asset, as disclosed in Note 3(i) to the financial report. The carrying amount of exploration and evaluation assets may also be negatively impacted by the results of exploration work indicating that the mineral reserves and resources may not be commercially viable for extraction. This creates a risk that the amounts stated in the financial report may not be recoverable.	We evaluated the assessment of the carrying amount of capitalised exploration and evaluation assets. In obtaining sufficient audit evidence, we: ‣ Considered the right of the Group to explore in the related exploration area, which included obtaining and assessing correspondence with government agencies. ‣ Considered evidence of the Group's intention to perform exploration and evaluation activities in the related exploration areas, which included an assessment of the cash-flow forecast models and enquiries of management and the Board of Directors as to the strategy of the Group.

Recoverability of developmental properties

Why significant	How our audit addressed the key audit matter
At 30 June 2017, the Group carried a development property of $1.600 million on the consolidated statement of financial position. The assessment of the recoverable amount of the development property requires significant estimates which incorporates the factors disclosed in Note 3(g) to the financial report.	We evaluated the Group's assessment of the recoverable amount of development property. In obtaining sufficient audit evidence, we: ‣ Involved our real estate advisory specialists to assess the valuation reports obtained from a qualified valuer in relation to the valuation of the development property ‣ Assessed the professional competence and independence and the scope and appropriateness of the work performed by the qualified valuer ‣ Assessed the adequacy of the disclosures related to the recoverability of development property as disclosed in Note 18 to the financial report.

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Provision for construction warranties

Why significant	How our audit addressed the key audit matter
At 30 June 2017, the Group carried a provision for construction warranties of $0.605 million in the consolidated statement of financial position. As a result of its operations, the Group incurs obligations to rectify defects on completed construction projects. We focused on this area because the provision for construction is an area that requires significant estimate and judgment requiring estimates of the potential cost of settling any claims.	We evaluated the assessment of the valuation of the provision for construction warranties. In obtaining sufficient audit evidence, we: ‣ Inspected the cost estimates and reports prepared by the Group and enquired of internal and external experts engaged by the Group. We reconciled the provisions recorded to the cost estimates included in those reports ‣ Assessed the consistency of the cost estimates year on year and the level of costs incurred compared to the prior year estimates ‣ Assessed the competence and objectivity of experts involved ‣ Assessed the level of historical accuracy of the cost estimates against actual costs ‣ Assessed the adequacy of the disclosures in Note 23 to the financial report.

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's 2017 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Group are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the audit of the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in pages 8 to 16 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of VDM Group Limited for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

T G Dachs
Partner
Perth
4 September 2017

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Additional information required by ASX Listing Rules and not shown elsewhere in the report is set out below. The information is current as of 7 September 2017.

TWENTY LARGEST SHAREHOLDERS

Shareholder	Number of ordinary fully paid shares held	% held of shares
Australia Kengkong Investments Co Pty Ltd	2,070,000,000	37.79
H & H Holdings Australia Pty Ltd	1,085,110,976	19.81
Thriving Treasure Limited	520,000,000	9.49
Sino Plant Holding Limited	250,000,000	4.56
Citicorp Nominees Pty Limited	157,665,118	2.88
Seawire Limited	130,000,000	2.37
Golden Bloom Investments Pty Ltd	125,000,000	2.28
J P Morgan Nominees Australia Limited	50,780,209	0.93
Miss Xiaoli Jia	40,892,000	0.75
Miss Shan He	33,502,126	0.61
Jako Industries Pty Ltd	30,738,229	0.56
Mr Yuejin Li & Mr David Shuo Li	30,000,000	0.55
BNP Paribas Nominees Pty Ltd	20,610,493	0.38
HSBC Custody Nominees	20,581,794	0.38
Mr Aaron Francis Quirk	18,478,250	0.34
Mr Brian Hon Leung Lee	18,000,000	0.33
Miss Fang Ning Du	17,020,353	0.31
Mr Charles Barry Hopkins	15,071,654	0.28
Mr Van Tuan Vo	12,948,358	0.24
Mr John Finlay Mckenzie Rowley	12,000,000	0.22
Total	**4,658,399,560**	**85.04**

SHARES IN VOLUNTARY ESCROW

There are no shares in voluntary escrow

SUBSTANTIAL SHAREHOLDINGS

The following shareholders have declared a relevant interest in the number of voting shares at the date of giving notice under Part 6C.1 of the Corporations Act.

Shareholder	Number of ordinary fully paid shares held	% held of shares
Australia Kengkong Investments Co Pty Ltd	2,070,000,000	37.79
H & H Holdings Australia Pty Ltd	1,085,110,976	19.81
Thriving Treasure Limited	520,000,000	9.49

DISTRIBUTION OF SHAREHOLDINGS

Range of holding	Number of shareholders	Number of ordinary shares	% of shares
1 - 1,000	169	18,037	-
1,001 - 5,000	110	348,485	0.01
5,001 - 10,000	85	679,925	0.01
10,001 - 100,000	599	35,211,526	0.62
100,001 - 9,999,999,999	811	5,441,402,979	99.36
Total	**1,774**	**5,477,660,952**	**100.00**

The number of shareholders with less than a marketable parcel is 1,397 holding in total 134,144,351 shares.

VOTING RIGHTS

All ordinary shares issued by VDM Group Limited carry one vote per share without restriction.