

VDM GROUP LIMITED

and its Controlled Entities

ABN 95 109 829 334

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2010

VDM GROUP LIMITED

CORPORATE INFORMATION

Directors	Mr J Saleeba Mr M Perrott Mr J van der Meer Mr R Kestel Mr B Nazer	Non-Executive Chairman Non-Executive Deputy Chairman Executive Director Non-Executive Director Non-Executive Director
Chief Executive Officer	Mr K Perry	
Company Secretary	Ms N Jackson	
Registered and Principal Office	310 Selby Street North Osborne Park WA 6017 Telephone (08) 9241 1800 Facsimile (08) 9241 1999 Website www.vdmgroup.com.au	
Postal Address	PO Box 1852 Osborne Park DC, 6916	
Auditors	Ernst & Young 11 Mounts Bay Road Perth WA 6000	
Share Register	Security Transfer Registrars Pty Ltd 770 Canning Highway Applecross WA 6153 Telephone (08) 9315 2333 Facsimile (08) 9315 2233	

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**” or “**VDM**” means VDM Group Limited ABN 95 109 829 334

“**VDM Group**” or “**Group**” means VDM Group Limited and its controlled entities

VDM GROUP LIMITED

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VDM GROUP LIMITED

DIRECTORS' REPORT

For the year ended 30 June 2010

Your directors submit their report for the year ended 30 June 2010.

DIRECTORS

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

Current directors

John Saleeba

Non-executive Chairman

Appointed 27 October 2005

Member of the Nominations & Remuneration Committee

Member of the Audit & Risk Committee

BCom, LLB, CPA

Mr Saleeba was formerly a partner in the law firm Clayton Utz. He is a Fellow of the Australian Institute of Company Directors and is currently Chairman of RER Limited and is a non-executive director of Azure Minerals Limited. Mr Saleeba has held directorships with Centrepont Alliance Limited, Skywest Limited, Burtway Limited, Floreat Close Limited and a number of other companies, covering a wide range of business activities.

Other current directorships of ASX listed companies:

RER Limited – Non-Executive Director and Chairman since February 2002

Azure Minerals Limited – Non-Executive Director since October 2003

Former directorships of ASX listed companies held in the past three years:

Centrepont Alliance Limited – May 2002 to November 2007

Michael Perrott AM

Non-Executive Deputy Chairman

Appointed 2 July 2009

Chairman of the Nominations & Remuneration Committee

B.Com, FAIM, FAICD

Mr Perrott has been involved in industries associated with construction, contracting, mining and land development since 1969. He is currently the chairman of GME Resources Limited since 1996 and a non-executive director of Schaffer Corporation Limited. Mr Perrott has previously held the role of Managing Director of Gardner Perrott Group Limited, Chairman of Port Bouvard Limited and was a non-executive director of Portman Limited. He is also a member of the Board of Notre Dame University and SANE Australia.

Current directorships of ASX listed companies:

GME Resources Limited – Non-executive Director and Chairman since November 1996

Schaffer Corporation Limited – Non-executive Director since February 1995

Former directorships of ASX listed companies held in the past three years:

Port Bouvard Limited – March 1998 to April 2009

Portman Limited – June 1997 to December 2008

Gage Roads Brewing Co Limited – October 2006 to October 2007

James (Jim) John van der Meer

Executive Director

Appointed 30 June 2004

Member of the Nominations & Remuneration Committee

Former member of the Finance & Investment Committee

BE (Hons), MEngSc, FIE Aust, CPEng

Mr van der Meer was appointed acting Chief Executive Officer of VDM Group effective 26 April 2009 until Ken Perry's appointment on 1 February 2010. Mr van der Meer's role is primarily related to developing the Group's consulting infrastructure business especially in the area of marine infrastructure, heavy lifting and special projects. As a member of the Executive Committee, Mr van der Meer plays a role in integrating acquisitions into the VDM Group. Mr van der Meer's interest in pre-cast concrete has been influential in developing the Group's expertise in concrete design. His experience in both design and construction has provided innovative solutions to complex projects.

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DIRECTORS' REPORT

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Ross Kestel

Non-Executive Director

Appointed 1 September 2005

Chairman of the Audit & Risk Committee

Member of the Finance & Investment Committee

BBus, ACA, FCPA, AICD

Mr Kestel is both a Chartered Accountant and Certified Practising Accountant and was a director of the accounting practice Nissen Kestel Harford from July 1980 until April 2010. Mr Kestel has acted as a director and company secretary of a number of public companies involved in mineral exploration, mining, mine services, property development, manufacturing and technology industries.

Mr Kestel is a member of the Australian Institute of Company Directors.

Current directorships of ASX listed companies:

Jabiru Metals Limited – Non-executive Director since August 2003

Resource Star Limited – Non-executive Director since August 2006

Blackcrest Resources Limited – Non-executive Director since June 2006

JatOil Limited – Non-executive Director since September 2007

Xstate Resources Limited – Non-executive Director since September 2006

Regis Resources Limited – Non-executive Director since July 2009

Former directorships of ASX listed companies held in the past three years:

Equigold NL – April 2005 to June 2008

Dioro Exploration NL – April 2008 to February 2010

DVM International Limited – April 2005 to November 2007

Barry Nazer

Non-Executive Director

Appointed 1 October 2008

Chairman of the Finance & Investment Committee

Member of the Audit & Risk Committee

Member of the Nominations & Remuneration Committee

BBus, FCPA, FFin, ANZIIF (Fellow), FAICD

Mr Nazer is a non-executive director of Coventry Group Limited and MG Kailis Group. He is also Chief Financial Officer of Wesbeam Holdings Limited, an unlisted public company which operates a laminated veneer lumber manufacturing facility at Neerabup in Western Australia. He was Chief Financial Officer of WESFI Limited, a publicly listed engineered wood products manufacturer and distributor, from August 1999 until its sale in 2001. He previously spent over 9 years as Chief Financial Officer of Bank of Western Australia Limited (BankWest).

Mr Nazer is a Fellow of the Australian Institute of Company Directors.

Current directorships of ASX listed companies:

Coventry Group Limited – Non-executive director since September 2003

Past directors that resigned during the year and until the date of this report

Hugh Anthony (Tony) Parker

Executive Director

Appointed 31 August 2005

Mr Parker resigned as an Executive Director of VDM at the close of the annual general meeting on 27 November 2009.

Clive Martin Bradshaw

Executive Director

Appointed 30 June 2004

Mr Bradshaw resigned as an Executive Director of VDM effective 2 July 2009.

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DIRECTORS' REPORT

For the year ended 30 June 2010

COMPANY SECRETARY

Nevenka Jackson

Company Secretary
Appointed 28 August 2009
BCom, CA

Ms Jackson is a Chartered Accountant with more than 15 years accounting experience across a broad range of industry sectors including engineering and contracting companies. Ms Jackson previously worked with one of the big four accounting firms and more recently with Australian listed companies as Chief Financial Officer and Company Secretary.

Peter Andrew Simpson

Group General Manager, Chief Financial Officer and Company Secretary
Appointed 30 June 2005

Mr Simpson resigned as Company Secretary and executive of VDM effective 28 August 2009.

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DIRECTORS' REPORT

For the year ended 30 June 2010

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
J Saleeba	98,570
M Perrott	100,000
J van der Meer	4,599,778
R Kestel	-
B Nazer	71,428

No director has an interest in any options over securities of the Company.

DIVIDENDS

	Cents per share	Total amount \$'000	Franked / Unfranked	Date of payment
Dividends declared after year end:				
Final dividend 2010	2c	4,176	Fully franked	13 October 2010
Dividends declared and paid during the year:				
Interim dividend 2010	-	-	-	-
Final dividend 2009	-	-	-	-

NATURE AND PRINCIPAL ACTIVITIES

The principal activities during the year within the consolidated entity were:

Construction division

- Civil and mechanical construction
- Mining, resources and infrastructure construction
- Major commercial and industrial construction
- Hyparspace – steel roof and wall structural system
- Structural fabrication

Resources and Infrastructure division

- Civil contracting and bulk earthworks
- Mobile crushing and screening
- Dam construction and management
- Feed/ ROM pad management
- Marine based civil contracting
- Drilling, blasting and rock placement
- Port breakwater
- Seawall construction

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DIRECTORS' REPORT

For the year ended 30 June 2010

Consulting division

- Master planning
- Town planning
- Environmental consulting
- Building design
- Project management
- Civil engineering
- Structural engineering
- Marine engineering
- Traffic engineering
- Security consulting
- Acoustic engineering
- Building services consulting

General

VDM Group employs approximately 1,000 people, operating in offices in Western Australia, Victoria, New South Wales, Queensland and the Northern Territory. Offices overseas are located in Hanoi (Vietnam) and Dubai (United Arab Emirates).

There have been no significant changes in the nature of those activities during the year.

OPERATING AND FINANCIAL REVIEW

Review

VDM Group's operations consist of three divisions: Consulting, Construction and Resources and Infrastructure.

The Construction division recorded an after tax profit of \$3,598,000 (2009: loss of \$28,694,000) on revenue of \$263.3 million (2009: \$273.2 million). The Construction division's operations in Western Australia performed strongly whilst in Queensland they have remained relatively subdued. Margins for this division continue to be relatively tight.

The Resources and Infrastructure division recorded an after tax profit of \$22,723,000 (2009: loss of \$27,205,000) on revenue of \$191.4 million (2009: \$116.9 million). The Resources and Infrastructure division performed strongly, particularly in the second half of the financial year when utilisation reached peak levels.

The Consulting division recorded an after tax loss of \$2,574,000 (2009: loss of \$3,604,000) on revenue of \$76.2 million (2009: \$53.2 million). The Consulting division's exposure to the property development sector diminished during the financial year and the division was restored to profitability in the second half of the financial year.

Operating results for the year

VDM Group recorded an after tax profit of \$16.8 million for the full year ended 30 June 2010 (2009: \$106.0 million loss).

Revenue grew by 17.8% to \$521.3 million (2009: \$442.5 million).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 23 October 2009 the Company announced a capital raising of \$35 million (before costs) via two placements and an entitlements offer as follows:

- On 28 October 2009, 10 million fully paid ordinary shares were allotted at an issue price of \$0.50 per share (tranche 1 placement) pre the entitlements offer;
- On 30 November 2009, 60,075,758 fully paid ordinary shares were allotted at an issue price of \$0.42 per share pursuant to the entitlements offer prospectus dated 23 October 2009; and
- On 15 December 2009, 10 million fully paid ordinary shares were allotted at an issue price of \$0.475 per share (tranche 2 placement).

Effective 1 January 2010, VDM Group acquired the 25% minority interest in Cape Crushing & Earthmoving Contractors Pty Ltd ('Cape Crushing'). VDM Group acquired the remaining interest for \$2.5 million, \$2 million of which was paid in cash and the balance via the issue of 1,052,632 fully paid ordinary shares at \$0.475 per share. Cape Crushing became a wholly owned subsidiary of VDM Group effective from that date.

On 30 June 2010, pursuant to a deed of settlement relating to the deferred consideration on the acquisition of Bellerio Constructions (Qld) Pty Ltd on 1 November 2007, 2,485,339 VDM Group Limited shares were forfeited.

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SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 26 August 2010, the directors of VDM Group declared a final dividend on ordinary shares in respect of the 2010 financial year. The total amount of the dividend is \$4.2 million which represents a fully franked dividend of 2 cents per share. The dividend has not been provided for in the 30 June 2010 financial statements.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Other than as referred to in this report, further information as to likely developments in the operations of VDM Group would, in the opinion of the directors, be likely to result in unreasonable prejudice to VDM Group.

ENVIRONMENTAL REGULATION AND PERFORMANCE

VDM Group's operations are subject to environmental regulations under Commonwealth and State legislation. The Board believes that VDM Group 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 Group.

SHARE OPTIONS

As at the date of this report, there were 495,625 unissued ordinary shares under option (2009: 1,185,000).

There were no options exercised during the financial year and up to the date of this report by the employees and executives.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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.

The liabilities insured are costs and 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 in the consolidated entity.

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 of Directors	Meetings	
	Attended	Maximum Possible
Current directors		
J Saleeba (Chairman)	14	15
J van der Meer	15	15
R Kestel	15	15
B Nazer	13	15
M Perrott ¹	13	14
Past directors		
C Bradshaw ²	1	1
A Parker ³	7	7

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Nominations and Remuneration Committee	Meetings	
	Attended	Maximum Possible
Current directors		
M Perrott ¹ (Chairman)	3	3
J Saleeba	3	3
B Nazer	3	3
J van der Meer ⁴	2	2

Audit and Risk Committee	Meetings	
	Attended	Maximum Possible
Current directors		
R Kestel (Chairman)	5	5
J Saleeba	5	5
B Nazer	5	5
Past directors		
C Bradshaw ²	-	-

Finance and Investment Committee	Meetings	
	Attended	Maximum Possible
Current directors		
B Nazer (Chairman)	1	1
R Kestel	1	1
J van der Meer	1	1

Notes:

1. Appointed on 2 July 2009.
2. Resigned on 2 July 2009.
3. Resigned on 27 November 2009.
4. Resigned from the Nominations and Remuneration Committee on 29 April 2010.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The directors received an Independence Declaration from the auditor of VDM Group Limited, attached on page 20.

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.

Refer to Note 38 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 Class Order 98/0100. The Company is an entity to which the Class Order applies.

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DIRECTORS' REPORT

For the year ended 30 June 2010

REMUNERATION REPORT (AUDITED)

This remuneration report outlines director and executive remuneration arrangements of the Company and VDM Group 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.

For the purposes of this report, key management personnel (KMP) of VDM Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and VDM Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the five executives in the parent and VDM Group receiving the highest remuneration.

For the purposes of this report, the term 'executive' encompasses the chief executive officer (CEO), executive directors, senior executives and general managers of the Parent and of VDM Group companies.

1. Individual KMP disclosures

Details of KMP including the top five remunerated executives of the Company and VDM Group are set out below.

Current directors

J Saleeba	<i>Non – Executive Chairman</i>
M Perrott	<i>Non – Executive Deputy Chairman</i>
J van der Meer	<i>Executive Director</i>
R Kestel	<i>Non – Executive Director</i>
B Nazer	<i>Non – Executive Director</i>

Past directors

C Bradshaw	<i>Executive Director – resigned 2 July 2009</i>
A Parker	<i>Executive Director – resigned 27 November 2009</i>

Current executives

K Perry	<i>Chief Executive Officer – appointed 1 February 2010</i>
D Ferrara	<i>Managing Director – VDM Contracting Pty Ltd</i>
R Gregg	<i>Chief Operating Officer – VDM Consulting</i>
G Simpson	<i>Managing Director – VDM Construction Pty Ltd – from 1 April 2010</i>
L Troncione	<i>Chief Financial Officer – appointed 3 August 2009</i>

Past executives

M Nagle	<i>Managing Director – VDM Construction Pty Ltd – resigned 28 May 2010</i>
R Goodwin	<i>Managing Director – Bellerio Constructions (QLD) Pty Ltd – resigned 30 June 2010</i>
P Simpson	<i>Chief Financial Officer / Company Secretary – resigned 28 August 2009</i>

2. Board oversight of remuneration

Nominations and Remuneration Committee

The Nominations and Remuneration Committee is responsible for making recommendations to the board on the remuneration arrangements for directors and executives.

The Nominations and Remuneration Committee 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 director and executive team.

The Nominations and Remuneration Committee comprises three non-executive directors (NED).

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DIRECTORS' REPORT

For the year ended 30 June 2010

Remuneration approval process

The board approves the remuneration arrangements of the CEO and executives and all awards made under the long-term incentive (LTI) plan, following recommendations from the Nominations and Remuneration Committee. The board also sets the aggregate remuneration of NEDs which is then subject to shareholder approval.

The Nominations and Remuneration Committee approves, having regard to the recommendations made by the CEO, the level of the VDM Group short-term incentive (STI) pool.

Remuneration strategy

VDM Group's remuneration strategy is designed to attract, motivate and retain employees and NEDs by identifying and rewarding high performers and recognising the contribution of each employee to the continued growth and success of VDM Group.

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

- Are aligned to the VDM Group'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 through measuring total shareholder return (TSR).

Remuneration structure

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

3. 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 board considers advice from external consultants when undertaking the annual review process.

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 2008 annual general meeting (AGM) held on 19 November 2008 when shareholders approved an aggregate fee pool of \$500,000 per year.

The board will not seek any increase for the NED fee pool at the 2010 AGM.

Structure

The remuneration of NEDs consist of directors' fees and committee fees. NEDs do not receive retirement benefits, other than superannuation and they do not participate in any incentive programs.

NED fees were reviewed in July 2009. Each NED receives a base fee of \$50,000 for being a director of VDM Group. An additional fee of \$5,000 is also paid for each board committee on which a NED sits and \$10,000 if the director is a chair of a board committee. The chairman of the board receives an additional \$25,000. All fees include superannuation benefits where applicable. The payment of additional fees for serving on a committee recognises the additional time commitment required by NEDs who serve on sub-committees.

The remuneration of NEDs for the year ended 30 June 2010 and 30 June 2009 is detailed in tables 1 and 2 respectively of this report.

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DIRECTORS' REPORT

For the year ended 30 June 2010

4. Executive remuneration arrangements

Remuneration levels and mix

VDM Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within VDM Group and aligned with market practice.

VDM Group's policy is to position total employment cost (TEC) close to the median of its defined talent market to ensure a competitive offering. VDM Group undertakes an annual remuneration review to determine the total remuneration positioning against the market.

The CEO's remuneration mix comprises 40% fixed remuneration as a proportion of total remuneration, 30% maximum STI and 30% maximum LTI.

Structure

In the 2010 financial year, the executive remuneration framework consisted of the following components:

- Fixed remuneration; and
- Variable remuneration

The table below illustrates the structure of VDM Group's executive remuneration arrangements:

Remuneration component	Vehicle	Purpose	Link to performance
Fixed remuneration	<ul style="list-style-type: none"> • Represented by total employment cost (TEC) • Comprises base salary, superannuation contributions and other benefits 	<ul style="list-style-type: none"> • Set with reference to role, market and experience • Executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for VDM Group 	<ul style="list-style-type: none"> • No link to company performance
STI component	<ul style="list-style-type: none"> • Paid in cash 	<ul style="list-style-type: none"> • Rewards executives for their contribution to achievement of VDM Group and business unit outcomes, as well as individual key performance indicators (KPIs) 	<ul style="list-style-type: none"> • Earnings per share (EPS) and EBIT to sales ratio are the key financial metrics • Linked to Lost Time Injury Frequency rate (LTIFR) • Linked to other internal financial measures including management and leadership
LTI component	<ul style="list-style-type: none"> • Awards are made in the form of performance shares 	<ul style="list-style-type: none"> • Rewards executives for their contribution to the creation of shareholder value over the longer term 	<ul style="list-style-type: none"> • Vesting of awards is dependent on VDM Group's TSR performance relative to a peer group

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For the year ended 30 June 2010

Fixed remuneration

Executive contracts of employment do not include any guaranteed base pay increases. TEC is reviewed annually by the Nominations and Remuneration Committee. The process consists of a review of company, business unit and individual performance, relevant comparative remuneration internally and externally and, where appropriate, external advice independent of management.

The fixed component of executives' remuneration is detailed in the preceding table.

Variable remuneration — short term incentive (STI)

VDM Group operates an annual STI program that is available to executives and awards a cash bonus subject to the attainment of clearly defined VDM Group, business unit and individual measures.

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 Group is reasonable in the circumstances.

Actual STI payments awarded to each executive depend on the extent to which specific targets set at the beginning of the financial year are met. The targets consist of a number of key performance indicators (KPIs) covering both financial and non-financial, corporate and individual measures of performance. The KPI set for the executives included:

Financial measure:

- Earnings per share (EPS)
- EBIT to sales ratio

Non-financial measures:

- Lost Time Injury Frequency Rate (LTIFR)
- Market and competitive positioning
- Customer service
- Implementation of key growth initiatives
- Risk management
- Leadership/ team contribution

The proportion of the STI award varies depending on the executive. The CEO's proportion of STI award measure is as follows:

Performance measures	Proportion of STI award measure applies to
Financial measure: <ul style="list-style-type: none"> • Earnings per share (EPS) • EBIT to sales ratio 	65% 10%
Non-financial measures: <ul style="list-style-type: none"> • Lost Time Injury Frequency Rate (LTIFR) 	25%

These measures were chosen as they represent the key drivers for the short-term success of the business and provide a framework for delivering long-term value.

The aggregate of annual STI payments available for executives across the VDM Group is subject to the approval of the Nominations and Remuneration Committee. On an annual basis, after consideration of performance against KPIs, the Nominations and Remuneration Committee, in line with their responsibilities, determine the amount, if any, of the short-term incentive to be paid to each executive. This process usually occurs within three months after the reporting date. Payments made are delivered as a cash bonus in the following reporting period.

The Nominations and Remuneration Committee met in July 2009 to review the STI payments for the 2009 financial year. Based on the KPIs identified above, the Nominations and Remuneration Committee recommended that no bonus payments be paid due to the depletion in shareholder value experienced during the financial year.

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The Nominations and Remuneration Committee met in July 2010 to consider the STI payments for the 2010 financial year. The maximum STI cash bonus available for the 2010 financial year is \$318,000. This amount has been fully accrued at 30 June 2010 on the basis that the VDM Group's EPS target for the year ended 30 June 2010 has been met and it is expected that executives will meet their respective individual KPIs. Any adjustments between the actual amounts to be paid as determined by the Nominations and Remuneration Committee and the amounts accrued will be adjusted in the 2011 financial year. The minimum amount of the STI cash bonus assuming that no executives meet their respective KPIs for the 2010 financial year is nil.

There was no alteration to the STI bonus plan for the year.

Variable remuneration — long term incentive (LTI)

Other than the CEO, key management personnel do not participate in the existing Equity Incentive Plan and therefore do not have LTI arrangements other than their direct shareholdings in the Company.

Under the LTI plan, the CEO is offered performance rights under the VDM Group Equity Incentive Plan every 12 months during his three year term of employment. If the initial term is extended, the board may in its discretion, make further offers of performance rights. Each performance right entitles the CEO to acquire one fully paid ordinary share in the Company for no consideration (subject to the predetermined performance and vesting conditions below).

Each offer will be made on the following basis:

- The maximum number of performance rights available for each offer is equal to 75% of the CEO's annual TEC
- The actual number of performance rights offered will be determined in accordance with VDM's Total Shareholder Return (TSR) ranking as follows:

Relative TSR performance ranking	Percentage of award that will vest
Below the 50 th percentile	0%
At the 50 th percentile	50%
Between the 50 th and 75 th percentile	An additional 2% for every one percentile above the 50 th percentile
At or above the 75 th percentile	100%

- VDM's TSR ranking will be determined by comparing VDM's TSR over the performance period against the average TSR for the same period of a basket of peer group listed companies. This peer group was chosen as it reflects the VDM Group's competitors for capital and talent and may be varied by the board from time to time to reflect its relevance and appropriateness given the operating circumstances of the Company.
- The performance rights vest over a period of three years;
- The CEO is able to exercise the performance rights up to five years after vesting before the performance rights lapse.

The CEO is only eligible to participate in the VDM Group Equity Incentive Plan once he has served 12 months of his three year term of employment which is February 2011.

Where the CEO ceases employment during the term of his employment prior to the vesting of their award, the performance rights which have not vested or been granted will automatically lapse unless the board determines otherwise in its absolute discretion.

If the term is not extended beyond the initial 3 year period, any performance rights which have been offered but not granted by the expiry of that 3 year period will be granted and will vest and become exercisable, and granted but not vested on the expiry of that 3 year period will vest and become exercisable.

Currently, the VDM Group does not restrict KMP from entering into arrangements to protect the value of unvested LTI awards. However, under the Securities Dealing Policy, members of the board are required to advise the Company Secretary of any shareholdings including any derivative arrangements.

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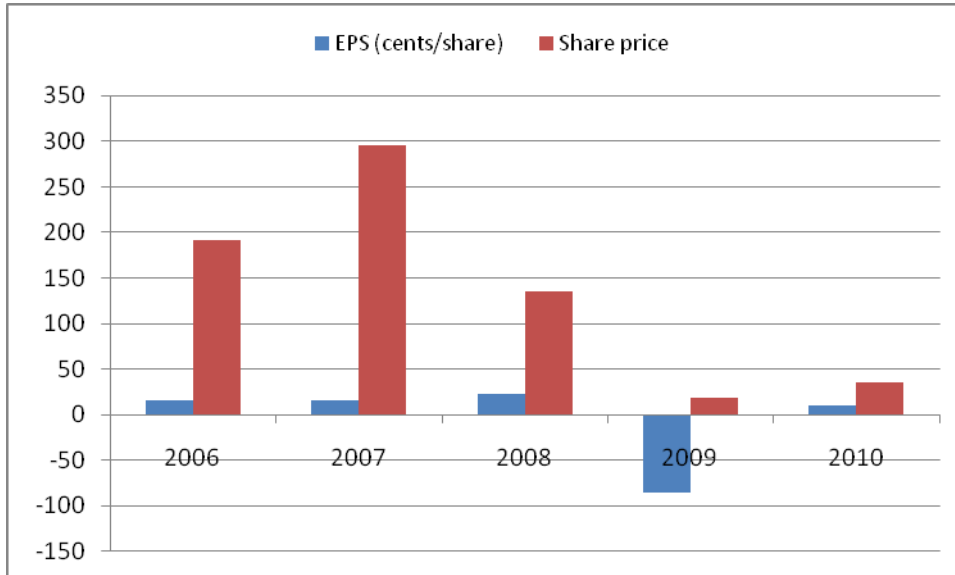
DIRECTORS' REPORT

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5. Company performance and the link to remuneration

Company performance and its link to short-term incentives

The financial performance measure driving the majority of the STI payment outcomes is earnings per share (EPS). The graph below shows VDM Group Limited's basic EPS history for the past five years (including the current period).



*Note: data applies from the Company's listing in February 2006

EPS performance in 2010 was relatively strong. As a result, the board anticipates that executives will receive 100% of the STI award accrued in the 2010 financial year.

Company performance and its link to long-term incentives

The performance measure which drives LTI vesting is the Company's TSR performance relative to a basket of peer group listed companies. The CEO is only eligible to participate in the VDM Group Equity Incentive Plan once he has served 12 months of his three year term of employment which is February 2011.

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6. Executive contractual arrangements

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

Chief Executive Officer

The CEO, Mr K Perry, is employed under a 3 year fixed contract.

Under the terms of the present contract:

- The CEO receives fixed remuneration of \$600,000 per annum (representing 40% as a proportion of total maximum remuneration);
- The CEO's maximum STI opportunity is 75% of TEC (representing 30% as a proportion of total maximum remuneration) ; and
- The CEO's maximum LTI opportunity is 75% of TEC (representing 30% as a proportion of total maximum remuneration).

The CEO's termination provisions are as follows:

	Notice period	Payment in lieu of notice	Treatment of STI on termination	Treatment of LTI on termination
Employer-initiated termination	12 months	12 months	Pro-rated for time and performance subject to board discretion	Unvested awards forfeited subject to board discretion
Termination for serious misconduct	None	None	Pro-rated for time and performance subject to board discretion	Unvested awards forfeited
Employee-initiated termination	3 months	3 months	Pro-rated for time and performance subject to board discretion	Unvested awards forfeited subject to board discretion

Other KMP

All other KMP have rolling contracts. The Company may terminate all other KMP by providing between 6 weeks to 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.

VDM GROUP LIMITED

DIRECTORS' REPORT

For the year ended 30 June 2010

Remuneration of directors and key management personnel including the five highest paid executives of VDM Group

Table 1: Remuneration for the year ended 30 June 2010

	SHORT TERM			POST	EQUITY	Termination	Total	Options /
	Base Salary & Fees	Cash Bonus	Non-Monetary Benefits	EMPLOYMENT	SETTLED SHARE BASED PAYMENT			
	\$	\$	\$	Super Contributions	Value of Share Options	Benefits	\$	Performance Related
	\$	\$	\$	\$	\$	\$	\$	%
Current non-executive directors								
J Saleeba	92,889	-	-	8,360	-	-	101,249	-
R Kestel	72,504	-	-	-	-	-	72,504	-
B Nazer	66,926	-	-	5,573	-	-	72,499	-
M Perrott	60,000	-	-	-	-	-	60,000	-
Current executive directors								
J van der Meer	341,823	50,000	30,208	60,302	-	-	482,333	10%
Past executive directors								
C Bradshaw ¹	131,878	-	34,751	22,055	-	154,973	343,657	-
A Parker ²	86,309	-	-	49,822	-	76,312	212,443	-
Current key management personnel								
K Perry ³	231,764	187,500	-	20,859	-	-	440,123	43%
D Ferrara	332,071	-	29,022	50,897	-	-	411,990	-
R Gregg	257,988	25,000	54,375	50,170	-	-	387,533	6%
G Simpson ⁴	231,699	30,500	-	19,679	-	-	281,878	11%
L Troncone ⁵	231,538	25,000	-	20,838	-	-	277,376	9%
Past key management personnel								
M Nagle ⁶	437,002	-	-	29,945	-	80,275	547,222	-
R Goodwin ⁷	261,154	-	-	-	-	-	261,154	-
P Simpson ⁸	82,077	-	15,554	16,366	-	106,936	220,933	-
	2,917,622	318,000	163,910	354,866	-	418,496	4,172,894	8%

Notes:

1. C Bradshaw retired as a director on 2 July 2009
2. A Parker retired as a director on 27 November 2009
3. K Perry was appointed as CEO on 1 February 2010
4. G Simpson became a KMP on 1 April 2010
5. L Troncone was appointed on 3 August 2009
6. M Nagle resigned on 28 May 2010
7. R Goodwin resigned on 30 June 2010
8. P Simpson resigned on 28 August 2009

VDM GROUP LIMITED

DIRECTORS' REPORT

For the year ended 30 June 2010

Table 2: Remuneration for the year ended 30 June 2009

	SHORT TERM			POST	SHARE	Termination	Total	Options /
	Base Salary & Fees	Cash Bonus	Non-Monetary Benefits	EMPLOYMENT Super Contributions	BASED PAYMENT Value of Share Options			
	\$	\$	\$	\$	\$	\$	\$	%
Current non-executive directors								
J Saleeba	69,292	-	-	20,598	-	-	89,890	-
R Kestel	77,496	-	-	-	-	-	77,496	-
B Nazer ¹	42,660	-	-	-	-	-	42,660	-
M Perrott ²	-	-	-	-	-	-	-	-
Current executive directors								
J van der Meer	200,547	-	31,544	75,179	-	-	307,270	-
A Parker	112,758	-	1,612	84,762	-	-	199,132	-
Past executive directors								
J Farrell ⁴	677,890	-	-	-	-	150,000	827,890	-
S Cuthbert ³	264,274	-	-	97,712	-	143,777	505,763	-
C Bradshaw ⁶	322,722	-	33,644	61,490	-	-	417,856	-
Current key management personnel								
M Nagle	322,209	-	4,735	29,566	-	-	356,510	-
R Gregg ⁵	171,477	-	35,545	101,984	-	-	309,006	-
R Goodwin ⁵	262,500	-	-	-	-	-	262,500	-
D Ferrara	242,500	-	18,933	83,981	-	-	345,414	-
Past key management personnel								
P Simpson	393,650	-	31,894	80,200	11,383	-	517,127	2%
	3,159,975	-	157,907	635,472	11,383	293,777	4,258,514	0%

Notes:

1. B Nazer was appointed a director on 1 October 2008
2. M Perrott was appointed a director on 2 July 2009
3. S Cuthbert retired as a director on 19 November 2008 but continued in his executive role until his resignation on 30 June 2009
4. J Farrell resigned on 26 April 2009
5. R Gregg and R Goodwin did not meet the definition of a KMP under AASB 124 for 2008
6. C Bradshaw retired as a director on 2 July 2009

7. Equity instruments

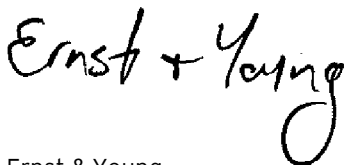
There were no options granted as part of remuneration during the year ended 30 June 2010. There were no alterations to the terms and conditions of options granted as remuneration since their grant date. There were no forfeitures relating to options granted to KMP during the year. There were no shares issued on exercise of compensation options.

Signed in accordance with a resolution of the directors.

J J van der Meer
Director
 Perth, Western Australia
 27 August 2010

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

In relation to our audit of the financial report of VDM Group Limited for the financial year ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive script.

Ernst & Young

A handwritten signature in black ink that reads 'P McIver' in a cursive script.

P McIver
Partner
Perth
27 August 2010

VDM GROUP LIMITED

CORPORATE GOVERNANCE STATEMENT

For the year ended 30 June 2010

CORPORATE GOVERNANCE STATEMENT

ASX Principles and Recommendations

The Board of Directors ("Board") of VDM Group Limited ("VDM" or "Company") is responsible for the corporate governance of the Company and to ensure that VDM and its controlled entities ("VDM Group") are properly managed and controlled. In this regard, the Board is committed to maintaining and promoting the principles of good corporate governance.

In August 2007, the ASX Corporate Governance Principles and Recommendations Second Edition ("Guidelines") were published. ASX Listing Rules require VDM to disclose in its Annual Report its practices and policies relating to the Guidelines. This statement reflects the corporate governance practices and policies in place for VDM during the 2010 financial year.

In summary, as at the date of this report, VDM considers that it complies in all substantial aspects with the Guidelines.

Each year the Board reviews the Company's corporate governance practices and policies to ensure that they reflect corporate governance developments and assist VDM in maintaining robust corporate performance and accountability.

Each year the Board reviews and confirms all charters, codes and policies relating to the Guidelines. As a result of the recent review the majority of the Corporate Governance practices and policies were reaffirmed with only minor alterations.

The major change to the policies was the introduction of a Policy for Indigenous Relations.

The corporate governance charters, codes and policies currently adopted by the Company can be viewed on the Company's website <<http://www.vdmgroup.com.au>>.

The Company's corporate governance statement is structured with reference to the Principles and Recommendations of the Guidelines, which are as follows:

PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Recommendation 1.1 – Companies should establish the functions reserved to the Board and those delegated to senior executives and disclose those functions.

The Company complies with this recommendation.

The Company has established a Board Charter, which sets out the role, composition and responsibilities of the Board within the governance structure of the VDM Group. The Board Charter sets out the following key responsibilities and functions of the Board:

- to develop, review and monitor the VDM Group's long-term business strategies and provide strategic direction to senior executives
- to ensure policies and procedures are in place to safeguard the VDM Group's assets and business and to enable the VDM Group to act ethically and prudently
- to develop and promote a system of corporate governance which ensures the VDM Group is properly managed and controlled
- to identify the VDM Group's principal risks and ensure that it has in place appropriate systems of risk management, internal control, reporting and compliance and that management is taking appropriate action to minimise those risks
- to review and approve the VDM Group's financial statements
- to monitor management's performance and the VDM Group's consolidated financial results on a regular basis
- to appoint, appraise and determine the remuneration and benefits of the chief executive officer
- to delegate powers to the chief executive officer as necessary to enable the day-to-day business of the VDM Group to be carried on, and to regularly review those delegations
- to ensure that the VDM Group has in place appropriate systems to comply with relevant legal and regulatory requirements that impact on its operations
- to determine the appropriate capital management for the VDM Group including share and loan capital and dividend payments
- to determine and regularly review an appropriate remuneration policy for employees of the VDM Group.

VDM GROUP LIMITED

CORPORATE GOVERNANCE STATEMENT

For the year ended 30 June 2010

The Board has developed and reviews at least every 12 months a formal instrument of delegation to the chief executive officer. The instrument contains all necessary powers to enable the chief executive officer to conduct business of the VDM Group on a day-to-day basis. The Board requires the chief executive officer to report at least every 12 months on the exercise of certain delegated powers, in particular sub-delegated authorities, to other senior executives.

The Board has established the following committees to streamline the discharge of its responsibilities:

- Audit and Risk Committee
- Nominations and Remuneration Committee
- Finance and Investment Committee

Each new non-executive director is required to sign and return a letter of appointment which sets out the key terms of the director's appointment. The content of the letters of appointment for new non-executive directors is consistent with the ASX principles.

The Company also has formal employment contracts with the chief executive officer, executive directors and chief financial officer which describe, amongst other things, their term of office, duties, rights, responsibilities and entitlements on termination.

Recommendation 1.2 – Companies should disclose the process of evaluating the performance of senior executives.

The chief executive officer conducts a formal review each year assessing the performance of senior executives and reports back to the Board.

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

Recommendation 2.1 – A majority of the Board should be independent directors.

The Company complies with this recommendation, as four of the five directors are independent.

The Board considers that its structure has been appropriate in the context of the VDM Group's current operations. The Board considers that each of the directors possess skills and experience required for managing and developing the VDM Group and believes any additional information or advice can be more appropriately and economically obtained from independent external expert consultants.

Assessment of Directors Independence

The Board is comprised of both executive and non-executive directors with a majority of non-executive directors. Non-executive directors bring a fresh perspective to the Board's consideration of strategic, risk and performance matters and are best placed to exercise independent judgment and review and constructively challenge the performance of management.

The Board Charter states that an independent director:

- is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company
- within the last three years has not been employed in an executive capacity by the VDM Group, or been a director after ceasing to hold any such employment
- within the last three years has not been a principal of a material professional advisor or a material consultant to the VDM Group or an employee materially associated with the service provided
- is not a material supplier or customer of the VDM Group or an officer of or otherwise associated directly or indirectly with a material supplier or customer, has no material contractual relationship with the VDM Group other than as a director of the Company
- has not served on the Board for a period, which could or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company
- is free from any interest and any business or other relationship which could or could reasonably be perceived to, materially interfere with the directors' ability to act in the best interests of the Company.

VDM GROUP LIMITED

CORPORATE GOVERNANCE STATEMENT

For the year ended 30 June 2010

The Board has adopted ASSB Standard 1031 to determine the levels of materiality. A relationship is presumed immaterial when it generates less than 5% and presumed material when it generates more than 10% of revenue of the VDM Group over a 12 month period in the absence of evidence or convincing argument to the contrary. In considering such evidence or argument, VDM considers the strategic value and other material but non-quantitative aspects of the relationship in question. The threshold for materiality for the purposes of assessing the materiality of relationships between a non-executive director and VDM (other than as a director shall be judged according to the significance of the relationship to the director in the context of their activities as a whole.

The independent directors of the Company are:

- Mr J Saleeba (Chairperson)
- Mr M Perrott (Deputy Chairperson and Chairperson of the Nominations and Remuneration Committee)
- Mr R Kestel (Chairperson of the Audit and Risk Committee)
- Mr B Nazer (Chairperson of the Finance and Investment Committee)

Independent Decision-making

Each director has the right under the Board Charter to seek independent professional advice on matters of concern. Such advice will be at the expense of the VDM Group, if approval is first given by the chairperson. During the financial year no directors sought to obtain such independent legal accounting and other professional advice.

Recommendation 2.2 – The chairperson should be an independent director.

The Company complies with this recommendation.

Recommendation 2.3 – The roles of chairperson and chief executive officer should not be exercised by the same individual.

The Company complies with this recommendation.

Recommendation 2.4 – The Board should establish a nomination committee.

The Company complies with this recommendation.

The purpose of the Nominations and Remuneration Committee is to assist and advise the Board on matters relating to the appointment and remuneration of directors, the chief executive officer and other senior executives and employees of the VDM Group.

The role of the committee in relation to nomination is to:

- review the size and composition of the Board
- review and advise the Board on the range of skills available on the Board and appropriate balance of skills for future Board membership
- review and consider succession planning for the chief executive officer, the chairperson and other directors and key executives
- develop criteria and procedures for the identification of candidates for appointment as directors, with the criteria including a consideration of the candidate's:
 - skills, experience, expertise and personal qualities
 - capability to devote the necessary time and commitment to the role
 - potential conflicts of interest and independence
- apply the criteria and procedures to identify prospective candidates for appointment as a director and make recommendations to the Board
- make recommendations to the Board regarding any directors who should not continue in office, having regard to the results of a formal performance appraisal of directors and/or consideration of the appropriate composition of the Board
- nominate for approval by the Board external experts (where appropriate) to advise on the matters listed above
- review the time required from a non-executive director and whether directors are meeting this requirement
- evaluate management's recommendations on the appointment of key executives
- develop a plan for identifying, assessing and enhancing director competencies
- ensure that there is an appropriate induction program for new directors and members of senior management and reviewing its effectiveness.

VDM GROUP LIMITED

CORPORATE GOVERNANCE STATEMENT

For the year ended 30 June 2010

The role of the committee in relation to remuneration is to:

- determine remuneration policies and remuneration of directors
- determine remuneration and incentive policies and packages of key executives
- determine the VDM Group's recruitment, retention and termination policies and procedures for senior management
- determine and review incentive plans and require that equity-based incentive plans involving the issue of new securities to executives, other than directors, be approved by shareholders, prior to implementation and that such plans prohibit hedging of unvested options
- determine and review superannuation arrangements of the VDM Group
- determine and review professional indemnity and liability insurance for directors and senior management.

The charter of the Nominations and Remuneration Committee provides that at least three directors, with the majority being independent directors, shall comprise the committee. The chairperson of the committee shall be the chairperson of the Board or an independent director. The Board has adopted a formalised policy for the appointment of non-executive directors. The current committee comprises:

- Mr M Perrott (Chairperson)
- Mr J Saleeba
- Mr B Nazer

Recommendation 2.5 – Companies should disclose the process of evaluating the performance of the Board, its committees and individual directors.

At the commencement of each financial year the Board establishes performance targets. Each year the Board undertakes for the previous financial year a self-assessment of its collective performance and the assistance provided to it by its various Board committees. Senior executives and executive directors are assessed against previously agreed key performance indicators by the chief executive officer and the findings communicated to the independent directors. The performance of the chief executive officer is reviewed by the Nominations and Remuneration Committee.

PRINCIPLE 3 – PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

Recommendation 3.1 – Companies should establish a code of conduct and disclose the code or a summary of the codes as to:

- practices necessary to maintain confidence in the Company's integrity
- the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practice.

The Company complies with this recommendation.

The Company has a Code of Conduct ("Code") which is endorsed by the Board and applies to all directors and employees. The Code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Company's integrity.

The objective of the Code is to:

- provide a benchmark for professional behaviour throughout the VDM Group
- support the VDM Group's business reputation and corporate image within the community
- make employees aware of the consequences if they breach the Code.

In summary, the Code requires that at all times the VDM Group personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and the VDM Group policies.

The Code contains statements of commitments to employees, clients, shareholders, governments and communities. In addition, the Code deals with compliance with and respect for the law, fair dealing, equal opportunity and anti-discrimination, occupational health and safety, disclosure of the VDM Group's information and securities dealing, conflicts of interest, gifts, prizes and entertainment, improper use or theft of property or assets.

The Code of Conduct is available on the Company's website.

VDM GROUP LIMITED

CORPORATE GOVERNANCE STATEMENT

For the year ended 30 June 2010

Recommendation 3.2 – Disclose the policy concerning trading in the Company securities by directors, officers and employees.

The Company complies with this recommendation pursuant to its Securities Dealing Policy. The policy prohibits the buying or selling of Company securities at any time by any director, officer, executive, contractor, consultant or employee who possesses sensitive information about the VDM Group that is not available to investors and the stock market generally.

This prohibition applies regardless of how or in what capacity the person comes in possession of the information. The policy is designed to assist in preventing breaches of the insider provision of the Corporations Act and to enable the Company to satisfy the disclosure requirements of ASX Listing Rules.

The policy applies additional dealing restrictions in the Company's securities to all directors and any executive, employee or contractor considered necessary or appropriate by the chief executive officer and the company secretary ("Restricted Persons").

The policy requires that Restricted Persons must not deal in the Company's securities:

- during the period from 1 January until two trading days following the release of the Company's half-year results
- during the period from 1 July until two trading days following release of the Company's full-year results.

The policy acknowledges that except during the above black-out period, Restricted Persons are permitted to deal in the Company's securities provided:

- the Company is currently in compliance with its continuous disclosure obligations under ASX Listing Rule 3.1
- the Company is not withholding any material information from disclosure by reasons of the exceptions listed in ASX Listing Rule 3.1A
- the Restricted Person does not otherwise possess any inside information
- the Restricted Person has satisfied the notification requirements of the policy.

The Securities Dealing Policy is available on the Company's website.

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Recommendation 4.1 – The Board shall establish an audit committee.

The Company complies with this recommendation.

The Audit and Risk Committee's primary responsibilities are to assist the Board in:

- fulfilling its overview of the audit process
- overseeing financial reporting
- fulfilling its overview of the systems of internal control which the Board and management have established
- its processes of risk management and in monitoring compliance with corporate policies, the code of conduct and corporate governance and risk management policies generally.

The charter of the Audit and Risk Committee provides for at least three directors to comprise the committee. The chairperson of the committee is appointed by the Board. The committee chairperson is an independent non-executive director. The chief executive officer, the chief financial officer and any other individual may attend meetings at the invitation of the chairperson of the committee, but are not members of the committee. The current committee comprises:

- Mr R Kestel (Chairperson)
- Mr J Saleeba
- Mr B Nazer

VDM GROUP LIMITED

CORPORATE GOVERNANCE STATEMENT

For the year ended 30 June 2010

Recommendation 4.2 – The Audit Committee should be appropriately structured.

The Company considers that it complies with this requirement.

The Audit Committee:

- consists only of non-executive directors
- is chaired by an independent chairperson who is not chairperson of the Board
- has at least three members.

Recommendation 4.3 – The Audit Committee should have a formal operating charter.

The Company complies with this recommendation.

The charter sets out the committee's purpose, membership role, responsibilities and functions relating to financial reporting, auditors and risk, as well as committee administrative procedures.

The charter of the Audit Committee is available on the Company's website.

PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE

Recommendation 5.1 – Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior management level for that compliance and disclose those policies or a summary of those policies.

The Company complies with this recommendation.

The purpose of the Market Disclosure Policy is to establish procedures for:

- identifying material price-sensitive information
- reporting such information to the reporting officer for review
- ensuring the Company achieves best practice in complying with its continuous disclosure obligations under the Corporations Act and ASX Listing Rules
- ensuring the VDM Group, the Board and key senior management do not contravene the Corporations Act or ASX Listing Rules.

The rules set out in the policy are designed to ensure that announcements made by the Company are:

- made in a timely manner
- factual
- do not omit material information
- are expressed in concise and clear language that allows shareholders and the market to assess the impact of the information when making investment decisions.

This policy applies to directors, executive officers and members of senior management who are most likely to be in possession of, or become aware of, the relevant information. All staff have been made aware of the existence of the policy so that they can assist with reporting of potentially sensitive information to the appropriate persons within the VDM Group.

The Market Disclosure Policy is available on the Company's website.

VDM GROUP LIMITED

CORPORATE GOVERNANCE STATEMENT

For the year ended 30 June 2010

PRINCIPLE 6 – RESPECT THE RIGHTS OF SHAREHOLDERS

Recommendation 6.1 – Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.

The Company complies with this recommendation.

The Communications Policy is based on compliance with the Company's disclosure obligations and aims at all times to achieve best practice. The Communications Policy commits the Company to facilitating shareholder participation in the member meetings and to dealing promptly with shareholder enquiries. The Company believes that communicating with shareholders by electronic means, particularly through its website, is an efficient way of distributing information in a timely, convenient manner.

The Company's Communication Policy is available on the Company's website.

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

Recommendation 7.1 – Companies should establish policies for the oversight and management of material business risks.

The Company complies with this recommendation.

The Risk Management Policy is designed to assist in the development of organisational capabilities in risk management for internal control purposes.

Recommendation 7.2 – The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively.

Risk management is regarded as an integral part of the Company's strategic planning, business planning and investment/project appraisal procedures. The focus of risk management is the identification and treatment of risks with the objective to add maximum sustainable value to all of the activities of the organisation.

The Risk Management Policy has been established to assist in the development of organisational capabilities in risk management. The Risk Management Policy sets out the following rules and responsibilities:

- The Board is ultimately responsible for the risk management and internal control framework of the VDM Group.
- The Board shall regularly review the effectiveness of the risk management and internal control framework.
- The Board will review and discuss strategic risks and opportunities arising from changes in the VDM Group's business environment regularly and on an as-needs basis.
- The Board has delegated some of its responsibilities to the Audit and Risk Committee; however, maintains the overall responsibility for the process.
- The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to management. Management is required to report back to the Board through the Audit and Risk Committee on the efficiency and effectiveness of risk management.

The Company maintains a risk register which is currently a standing agenda item for each monthly Board meeting.

Recommendation 7.3 – The Board should disclose whether it has received assurance from the chief executive officer and the chief financial officer that:

- the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control
- the system is operating effectively in all material respects in relation to the financial reporting risks.

In accordance with the Board's policy, the chief executive officer and the chief financial officer made the attestations required by Recommendation 7.3 prior to the Board signing the annual report.

VDM GROUP LIMITED

CORPORATE GOVERNANCE STATEMENT

For the year ended 30 June 2010

PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

Recommendation 8.1 – The Board should establish a remuneration committee.

The Company complies with this recommendation.

The Nominations and Remuneration Charter sets out the committee's purpose, membership including procedures for attendance by non-members, its role and administrative procedures.

The purpose of the Nominations and Remuneration Committee is to assist and advise the Board on matters relating to the appointment and remuneration of directors, the chief executive officer and other senior executives and employees of the VDM Group.

The commentary under Recommendation 2.4 summarises the role of the committee in relation to remuneration. Each member of the executive team signs a formal employment contract at the time of their appointment covering a range of matters including duties, rights, responsibilities and entitlements on termination. The current remuneration of the directors and selected senior executives is published in the Directors' Report and Notes to the Financial Statements. These Notes also describe the Company's remuneration principles and policies.

The Charter of the Nominations and Remunerations Committee is available on the Company's website.

Recommendation 8.2 – Clearly distinguish the structure of non-executives directors' remuneration from that of executives.

The non-executive directors of the Company are entitled to a fee that is determined by the Nominations and Remuneration Committee. The fee may include superannuation contributions. Additional fees are periodically payable for participation on board committees. Non-executive directors do not participate in equity plans of the Company and do not receive retirement benefits other than statutory entitlements.

Guidelines for Information

Recommendations 1.3, 2.6, 3.3, 4.4, 5.2, 6.2 and 7.4 – The Company should provide the information in the Guide for reporting principles.

The Company considers that the level of information disclosed satisfies these recommendations.

The Company's website <<http://www.vdmgroup.com.au>> contains the following corporate governance charters, codes and policies:

- Board Charter
- Audit and Risk Committee Charter
- Nominations and Remunerations Committee Charter
- Guidelines for the Operation of the Board of Directors
- Code of Conduct
- Appointment and Selection of non-executive directors
- Communications Policy
- Market Disclosure Policy
- Securities Dealing Policy
- Risk Management Policy
- Equal Opportunity Policy
- Whistle Blower Protection Policy
- Policy for Indigenous Relations

VDM GROUP LIMITED
STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2010

		Consolidated	
	Notes	2010	2009
Continuing operations			
Rendering of services		519,894	440,912
Other revenue	5	1,397	1,559
Revenue		521,291	442,471
Cost of sales		(444,393)	(386,570)
Gross profit		76,898	55,901
Other income	6	281	434
Marketing expenses		(258)	(866)
Occupancy expenses		(3,928)	(4,511)
Administrative expenses		(44,383)	(49,189)
Financing costs	7(b)	(4,596)	(7,636)
Reversal of gain on sale of shares in controlled entity		-	(10,085)
Other expenses	7(a)	(621)	(3,668)
Impairment charge	7(d)	(2,459)	(88,859)
Reversal/ (allowance) for trade receivable impairment loss	7(f)	570	(7,097)
Share of profits from associates	18	19	155
Profit/ (loss) from continuing operations before income tax		21,523	(115,421)
Income tax (expense)/ benefit	8	(4,801)	9,841
Total comprehensive income/ (loss) for the year		16,722	(105,580)
Total comprehensive income/ (loss) for the year is attributable to:			
Non-controlling interest		(44)	391
Owners of the parent		16,766	(105,971)
		16,722	(105,580)
Basic earnings/ (loss) per ordinary share (cents per share)	9	9.48	(86.01)
Diluted earnings/ (loss) per ordinary share (cents per share)	9	9.48	(86.01)

VDM GROUP LIMITED
STATEMENT OF FINANCIAL POSITION
As at 30 June 2010

	Notes	Consolidated	
		2010 \$'000	2009 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	11	19,259	18,254
Trade and other receivables	12	58,258	44,013
Contracts in progress	13	44,746	24,153
Inventory	15	4,070	5,050
Development properties	14	5,608	24,810
Other assets	16	2,618	3,695
		134,559	119,975
Non-current assets classified as held for sale	17	1,193	3,465
Total current assets		135,752	123,440
Non-current assets			
Receivables	12	-	200
Investments in associates	18	38	530
Property, plant and equipment	19	77,882	71,149
Deferred tax assets	8	7,494	7,975
Intangible assets and goodwill	20	67,453	69,604
Total non-current assets		152,867	149,458
TOTAL ASSETS		288,619	272,898
LIABILITIES			
Current liabilities			
Trade and other payables	21	76,807	60,093
Income tax payable		414	519
Interest-bearing loans and borrowings	22	15,722	68,821
Provisions	23	14,326	7,922
Total current liabilities		107,269	137,355
Non-current liabilities			
Interest-bearing loans and other borrowings	22	21,065	22,372
Deferred tax liabilities	8	12,002	7,757
Provisions	23	799	1,129
Total non-current liabilities		33,866	31,258
TOTAL LIABILITIES		141,135	168,613
NET ASSETS		147,484	104,285
EQUITY			
Equity attributable to equity holders of the parent			
Contributed equity	24	214,121	185,144
Reserves	25	1,284	210
Accumulated losses	25	(67,837)	(84,603)
Parent interests		147,568	100,751
Non-controlling interests	26	(84)	3,534
TOTAL EQUITY		147,484	104,285

VDM GROUP LIMITED
STATEMENT OF CASH FLOWS
For the year ended 30 June 2010

	Notes	Consolidated	
		2010 \$'000	2009 \$'000
Cash flows from operating activities			
Receipts from customers		530,651	474,686
Payments to suppliers and employees		(487,123)	(438,137)
Interest received		525	795
Interest paid		(4,596)	(7,636)
GST paid		(6,803)	(13,189)
Income tax paid		(885)	(4,459)
Net cash flows from operating activities	27 (a)	31,769	12,060
Cash flows from investing activities			
Purchase of property, plant and equipment		(6,945)	(3,293)
Proceeds from sale of property, plant and equipment		2,617	3,648
Proceeds from sale of investment		500	-
Purchase of intangibles		(655)	(1,929)
Repayment from/ (loans to) related entities		174	(718)
Purchase of investments		(1)	-
Acquisition of subsidiary, net of cash acquired	32	(2,030)	(2,859)
Net cash flows used in investing activities		(6,340)	(5,151)
Cash flows from financing activities			
Proceeds from borrowings		2,090	29,487
Repayment of borrowings		(58,710)	(30,365)
Dividends paid to ordinary shareholders		-	(5,167)
Transaction costs on issue of shares		(1,946)	-
Proceeds from share placements		34,982	-
Net cash flows used in financing activities		(23,584)	(6,045)
Net increase in cash and cash equivalents		1,845	864
Cash and cash equivalents at beginning of year		17,414	16,550
Cash and cash equivalents at end of year	11	19,259	17,414

VDM GROUP LIMITED
STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2010

	Issued capital \$'000	Retained earnings \$'000	Equity reserve \$'000	Option Reserve \$'000	Total equity \$'000	Minority interest \$'000	Total \$'000
Balance at 1 July 2009	185,144	(84,603)	-	210	100,751	3,534	104,285
Comprehensive income for the year	-	16,766	-	-	16,766	(44)	16,722
Total comprehensive income for the year	-	16,766	-	-	16,766	(44)	16,722
Transactions with owners in their capacity as owners							
Issue of shares	37,189	-	-	-	37,189	-	37,189
Settlement of prior year acquisitions	(7,120)	-	-	-	(7,120)	-	(7,120)
Change of ownership interest in a subsidiary	-	-	1,074	-	1,074	(3,574)	(2,500)
Transaction costs on share issue	(1,946)	-	-	-	(1,946)	-	(1,946)
Tax benefit of transaction costs	584	-	-	-	584	-	584
Share-based payments	270	-	-	-	270	-	270
Balance at 30 June 2010	214,121	(67,837)	1,074	210	147,568	(84)	147,484
Balance at 1 July 2008	182,141	27,419	-	64	209,624	3,135	212,759
Comprehensive loss for the year	-	(105,971)	-	-	(105,971)	391	(105,580)
Total comprehensive loss for the year	-	(105,971)	-	-	(105,971)	391	(105,580)
Transactions with owners in their capacity as owners							
Issue of shares	2,744	-	-	-	2,744	-	2,744
Equity dividends paid	-	(6,051)	-	-	(6,051)	-	(6,051)
Share-based payments	259	-	-	146	405	8	413
Balance at 30 June 2009	185,144	(84,603)	-	210	100,751	3,534	104,285

VDM GROUP LIMITED

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VDM GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

1. CORPORATE INFORMATION

The financial report of VDM Group Limited for the year ended 30 June 2010 was authorised for issue in accordance with resolution of the directors on 27 August 2010.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

(a) 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.

(b) New accounting standards and interpretations

VDM Group has adopted all new and amended Australian Accounting Standards and AASB Interpretations from 1 July 2009 mandatory for annual reporting periods beginning on or after 1 July 2009. The adoption of these new and amended Standards and Interpretations did not have any effect on the financial position or performance of VDM Group, except for the accounting standards below:

Reference	Title	Application date of standard*
AASB 3 (Revised)	Business Combinations	1 July 2009
AASB 127 (Revised)	Consolidated and Separate Financial Statements	1 July 2009

* designates the beginning of the applicable annual reporting period unless otherwise stated

The effect of the change in accounting policies relating to adoption of these standards is disclosed in note 2(c) and 2(d).

VDM GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

The following standards and interpretations have been issued by the AASB but are not yet effective for the period ending 30 June 2010. VDM Group has not elected to early adopt any other new Standards or amendments that are issued but not yet effective. VDM Group has not assessed the impact of these standards and interpretations on the Group.

Reference	Title	Application date of standard*
AASB 9	Financial instruments	1 January 2013
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	1 January 2010
AASB 2009-8	Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]	1 January 2010
AASB 2009-9	Amendments to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards</i> .	1 January 2010
AASB 2009-10	Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]	1 February 2010
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	1 January 2013
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	1 January 2011
AASB 2009-13	Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1]	1 July 2010
AASB 2009-14	Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement	1 January 2011
Interpretation 19	Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

* designates the beginning of the applicable annual reporting period unless otherwise stated

(c) Basis of consolidation

Subsequent to 1 January 2009

The consolidated financial statements comprise the financial statements of VDM Group Limited and its subsidiaries as at and for the year ended 30 June each year. Interests in associates are equity accounted and are not part of the consolidated VDM Group (see note (m) below).

Subsidiaries are all those entities over which VDM Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intragroup transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by VDM Group and cease to be consolidated from the date on which control is transferred out of VDM Group.

Investments in subsidiaries held by VDM Group Limited are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate income statement of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

VDM GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values (see note (d) below).

The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

Non-controlling interests are allocated their share of net profit after tax in the statement of comprehensive income and are presented within equity in the consolidated statement of financial position, separately from the equity of the owners of the parent.

Losses are attributed to the non-controlling interest even if that results in a deficit balance.

If VDM Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary.
- Derecognises the carrying amount of any non-controlling interest.
- Derecognises the cumulative translation differences, recorded in equity.
- Recognises the fair value of the consideration received.
- Recognises the fair value of any investment retained.
- Recognises any surplus or deficit in profit or loss.
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss.

Prior to 1 January 2009

In comparison to the above mentioned requirements which were applied on a prospective basis from 1 January 2009, the following differences applied:

- Non-controlling interests (formerly known as minority interests) represented the portion of profit or loss and net assets of a subsidiary that were not wholly-owned by VDM Group and were presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from parent shareholders' equity. Acquisitions of non-controlling interests were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired was recognised in goodwill.
- Losses incurred by VDM Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these.
- Upon loss of control, VDM Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost.

(d) Business combinations

Subsequent to 1 January 2009

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When VDM Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the VDM Group's operating or accounting policies and other 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, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

VDM GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

Prior to 1 January 2009

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for in separate steps. Any additional interest in the acquiree acquired did not affect previously recognised goodwill. The goodwill amounts calculated at each step acquisition were accumulated.

When the VDM Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, VDM Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were adjusted against goodwill.

(e) Operating segments reporting – refer note 4

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start up operations which are yet to earn revenues. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team.

VDM Group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in each of the following respects:

- Nature of the products and services,
- Nature of the production processes,
- Type or class of customer for the products and services,
- Methods used to distribute the products or provide the services, and if applicable,
- Nature of the regulatory environment.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

(f) Foreign currency translation

Functional and presentation currency

Both the functional and presentation currency of the Company and its Australian subsidiaries is Australian dollars (A\$). The functional currency of the overseas subsidiary (Van Der Meer Consulting Vietnam Co. Ltd) is United States Dollars (US\$), which is translated to presentation currency (see below).

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Translation of VDM Group Companies functional currency to presentation currency

As at the reporting date the assets and liabilities of the overseas subsidiary are translated into the presentation currency of the VDM Group at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the year. All exchange differences in the consolidated financial report are taken to reserves.

VDM GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

(g) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term 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.

(h) Trade and other receivables

Trade receivables, which generally have 30-60 day terms unless otherwise contractually agreed, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Other debtors are settled on an at-call basis and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectibility of trade and other receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment allowance is recognised when there is objective evidence that VDM Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are generally considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

Receivables from related parties are recognised and carried at the amortised cost due less allowance for impairment. All receivables are repayable on demand.

(i) Inventories

Inventories 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 land and buildings are held for development or sale it is held at the lower of cost and net realisable value. Cost includes all costs of acquisition, construction and development, and capitalised borrowing costs.

(j) 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.

VDM GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

(k) Development properties

Development properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing development property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of a development property. Subsequent to initial recognition, development properties are stated at fair value, which is based on active market prices, adjusted if necessary, for any difference in the nature, location or condition of the specific asset at the balance sheet date. Gains or losses arising from changes in the fair values of development properties are recognised in profit or loss in the year in which they arise.

Development properties are derecognised either when they have been disposed of or when the development property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of a development property are recognised in profit or loss in the year of retirement or disposal.

Transfers are made to development property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from development property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

For a transfer from development property to owner-occupied property or inventories, the deemed cost of property for subsequent accounting is its fair value at the date of change in use. If the property occupied by VDM Group as an owner-occupied property becomes a development property, VDM Group accounts for such property in accordance with the policy stated under *Property, plant and equipment* up to the date of change in use. For a transfer from inventories to property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss. When VDM Group completes the construction or development of a self-constructed development property, any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

(l) 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. They are not depreciated or amortised. 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.

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.

(m) Investment in associates

VDM Group's investment in its associates is accounted for using the equity method of accounting in the consolidated financial statements and at cost in the parent. The associates are entities over which VDM Group has significant influence and that are neither subsidiaries nor joint ventures. The VDM Group generally deems they have significant influence if they have over 20% of the voting rights.

Under the equity method, investments in associates are carried in the consolidated balance sheet at cost plus post-acquisition changes in VDM Group's share of net assets of the associates. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, VDM Group determines whether it is necessary to recognise any additional impairment loss with respect to VDM Group's net investment in associates.

VDM Group's share of its associates post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movement in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying value of the investments. Dividends receivable from associates are recognised in the parent entity's income statement, while in the consolidated financial statements they reduce the carrying amount of the investments.

When VDM Group's share of losses in associates equals or exceeds its interest in the associate, including any unsecured long-term receivables and loans, VDM Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The reporting dates of the associate and VDM Group are identical and the associate's accounting policies conform to those used by the VDM Group for like transactions and events in similar circumstances.

VDM GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

(n) Interests in jointly controlled operations

VDM Group has interests in joint ventures through jointly controlled operations. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. A jointly controlled operation involves use of assets and other resources of the venturers rather than establishment of a separate entity. VDM Group recognises its interest in the jointly controlled operation by recognising its interest in the assets and the liabilities of the joint venture. VDM Group also recognises the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the jointly controlled operation.

(o) 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 basis 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.

(p) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of an arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

VDM Group as a lessee

Finance leases, which transfer to VDM Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the 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 as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that VDM Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction in liability.

VDM Group as a lessor

Leases in which VDM Group retains substantially all the risks and benefits of ownership of the leased 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 as an expense over the lease term on the same basis as rental income.

VDM GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

(q) Impairment of non-financial assets other than goodwill

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

VDM Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(r) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over VDM Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following 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 VDM Group's cash-generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of VDM Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is so allocated includes the:

- Construction cash generating unit.
- Consulting cash generating unit; and
- Resources and Infrastructure cash generating unit.

Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

VDM Group performs its impairment testing as at 30 June each year using a value in use, discounted cashflow methodology for all the cash generating units to which goodwill has been allocated.

When the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

(s) Intangible assets

Intangibles

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 charged against profits in the year in which the expenditure is incurred.

VDM GROUP LIMITED

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For the year ended 30 June 2010

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 tested for impairment annually either individually or at the cash-generating unit level consistent with the methodology outlined for goodwill above. Such intangibles are not amortised. 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 VDM 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 the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefit from the related project. Amortisation is recognised in the income statement in the line "administrative expenses".

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use, or more frequently when an indication of impairment arises during the reporting period.

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

(t) 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 VDM Group prior to the end of the financial year that are unpaid and arise when VDM Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

Payables to related parties are carried at amortised cost. Interest, when charged by the lender, is recognised as an expense using the effective interest method.

(u) Trade and other payables

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless VDM Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs are recognised as an expense when incurred. VDM Group currently has development properties which meet the definition of a qualifying asset. As such, the borrowing costs directly associated with the qualifying development properties are capitalised in the cost of the asset.

VDM GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

(v) Provisions and employee benefits

Provisions are recognised when VDM Group 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 VDM 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 expected 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 national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(w) Share based payment transactions

Equity settled transactions

VDM Group provides benefits to senior executives of VDM Group in the form of share-based payments, where senior executives render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 31.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of VDM Group (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the income statement is the product of:

- (i) the grant date fair value of the award;
- (ii) the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and
- (iii) the expired portion of the vesting period.

The charge to the income statement for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

Equity-settled awards granted by VDM Group to employees of subsidiaries are recognised in the parent's separate financial statements as an additional investment in the subsidiary with a corresponding credit to equity. As a result, the expense recognised by VDM Group in relation to equity-settled awards only represents the expense associated with grants to employees of the parent. The expense recognised by VDM Group is the total expense associated with all such awards.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

VDM GROUP LIMITED

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For the year ended 30 June 2010

The terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (see note 9).

Shares in VDM Group reacquired on-market are classified and disclosed as reserved shares and deducted from equity (see note 2 (x)).

(x) Contributed equity

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Reserved shares

VDM Group's own equity instruments, which are reacquired for later use in employee share based payment arrangements (reserved shares) are deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of VDM Group's own equity instruments.

(y) 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 VDM 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.

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

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

Revenue is recognised when the shareholders' right to receive the payment is established.

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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.

(z) 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.

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For the year ended 30 June 2010

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 cashflows .

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

(aa) 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.

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) Determination of percentage of completion of contracts

Contract revenue is recognised as revenue in the income statement using the percentage of completion method in the reporting periods in which the work is performed. The percentage complete is calculated on:

- actual costs over the sum of actual plus projected costs to complete the contract, or
- in the case where VDM Group participates in joint contracts and VDM Group's costs are not representative of overall contract costs, based on the percentage of VDM Group's costs to the total estimated cost for VDM Group associated with that project, or
- in the case where there is an independent assessment of the percentage complete, based on the independent assessment.

Contract costs are recognised as an expense in the income statement in the reporting periods in which the work to which they relate is performed. Any expected excess of total contract costs over total contract revenue for the contract is recognised as an expense immediately

VDM GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

(b) Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences, where management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

(c) Impairment testing of goodwill

Goodwill is tested for impairment each reporting period or if an impairment indicator exists. Impairment indicators include divisional product and service delivery performance, technology, economic and political environments and future budget expectations. This requires an estimation of the recoverable amount of the cash-generating units, using a value in use discounted cash flow methodology, to which goodwill is allocated. The assumptions used in this estimation of recoverable amount and carrying amount of goodwill including a sensitivity analysis are discussed in note 20.

(d) Impairment of non-financial assets other than goodwill

VDM Group assesses impairment of all non-financial assets other than goodwill at each reporting date by evaluating conditions specific to VDM Group and to the particular asset that may lead to impairment. These include product and service delivery performance, technology, economic and political environments and future product expectations. If an impairment indicator exists the recoverable amount of the asset is determined. Given the current uncertain economic environment, management considered that the indicators of impairment were significant enough and as such the non financial assets other than goodwill have been tested for impairment in this financial period.

(e) Share-based payment transactions

VDM Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined with the assistance of an external valuer using a binomial model, with the assumptions detailed in note 31. The accounting estimates and assumptions relating to equity-settled share based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

(f) 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.

(g) Capitalised development costs

Development costs are capitalised by VDM Group when it can be demonstrated that the technical feasibility of completing the intangible asset is valid so that the asset will be available for use or sale.

(h) Accounting for outstanding litigations

Where VDM Group is involved with outstanding litigation, provision is raised where claims against VDM Group 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, disclosure is made by way of a contingent liability note - refer note 36.

VDM GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

4. SEGMENT INFORMATION

Identification of reportable segments

VDM Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the nature of services provided. Discrete financial information about each of these operating businesses is reported to the executive management team on at least a monthly basis. The reportable segments are based on aggregated operating segments determined by the similarity of the services provided, as these are the sources of VDM Group's major risks and have the most effect on the rates of return.

Types of services

Construction division

- Civil and mechanical construction
- Mining, resources and infrastructure construction
- Major, commercial and industrial construction
- Hyperspace – steel roof and wall structural system
- Structural fabrication

Resources and infrastructure division

- Civil contracting and bulk earthworks
- Mobile crushing and screening
- Dam construction and management
- Feed/ ROM pad management
- Marine based civil contracting
- Drilling, blasting and rock placement
- Port breakwater
- Seawall construction

Consulting division

- Master planning
- Town planning
- Environmental consulting
- Building design
- Project management
- Civil engineering
- Structural engineering
- Marine engineering
- Traffic engineering
- Security consulting
- Acoustic engineering
- Building services consulting

Accounting policies and inter-segment transactions

The accounting policies used by VDM Group in reporting segments internally are the same as those contained in note 2 to the accounts and in the prior period except as detailed below:

Inter entity sales

Inter entity sales and cost of sales are recognised on an arm's length basis and eliminated on consolidation.

Finance charges/ income

Finance charges/ income are allocated to each business segment based on the respective loan account balance to/ from VDM Group at an interest rate equivalent to the bank's overdraft/ deposit rate.

Income tax expense

Income tax expense is calculated based on the segment operating net profit using a notional charge of 30% (2009: 30%). No effect is given for taxable or deductible temporary differences.

VDM GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

It is VDM Group's policy that if items of revenue and expense are not allocated to operating segments then any associated assets and liabilities are also not allocated to segments. This is to avoid asymmetrical allocations within segments which management believe would be inconsistent.

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

The following table presents revenue and profit information for reportable segments for the years ended 30 June 2010 and 30 June 2009.

Year ended 30 June 2010	Construction \$'000	Resources and Infrastructure \$'000	Consulting \$'000	Unallocated items \$'000	Total \$'000
Revenue					
External sales	263,178	186,317	70,399	-	519,894
Other external revenue	159	929	113	196	1,397
Inter-segment sales	(11)	4,138	5,673	-	9,800
Total segment revenue	263,326	191,384	76,185	196	531,091
Inter-segment elimination					(9,800)
Total revenue per statement of comprehensive income					<u>521,291</u>
Results					
Segment result after tax	3,598	22,723	(2,574)	-	23,747
Interest income	897	468	222	(1,062)	525
Interest expense	(460)	(3,677)	(1,005)	546	(4,596)
Depreciation and amortisation	(1,956)	(12,456)	(2,197)	(1,258)	(17,867)
Impairment of goodwill, assets and development costs and software	(592)	-	-	(1,867)	(2,459)
Income tax expense	(1,542)	(9,738)	1,103	-	(10,177)
Reconciliation of segment net profit after tax to net profit before tax					
Segment net profit after notional tax					23,747
Notional income tax expense at 30% (2009: 30%)					10,177
Corporate charges					(12,401)
Net profit before tax per the statement of comprehensive income					<u>21,523</u>
Segment assets					
Segment operating assets	82,774	128,243	57,840	19,762	288,619
Additions	554	5,434	1,120	606	7,714
Segment liabilities					
Segment operating liabilities	65,154	65,091	8,575	2,315	141,135

Major customers

VDM Group has a number of customers to which it provides services. The most significant client accounts for 24% of external revenue and is reported under Construction. The next most significant client accounts for 16% of external revenue and is reported under Resources and Infrastructure.

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NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2010

Year ended 30 June 2009	Construction \$'000	Resources and Infrastructure \$'000	Consulting \$'000	Unallocated items \$'000	Total \$'000
Revenue					
External sales	271,553	116,575	52,784	-	440,912
Other external revenue	1,063	149	140	207	1,559
Inter-segment sales	622	145	278	-	1,045
Total segment revenue	273,238	116,869	53,202	207	443,516
Inter-segment elimination					(1,045)
Total revenue per statement of comprehensive income					<u>442,471</u>
Results					
Segment result after tax	(28,694)	(27,205)	(3,604)	-	(59,503)
Interest income	1,109	266	418	(998)	795
Interest expense	(1,630)	(3,928)	(626)	(1,452)	(7,636)
Depreciation and amortisation	(2,709)	(11,395)	(1,524)	(1,024)	(16,652)
Impairment of goodwill, assets and development costs and software	(42,929)	(43,782)	-	(2,148)	(88,859)
Other non cash items	(1,254)	(192)	(52)	(12,255)	(13,753)
Income tax expense	12,298	11,659	1,545	-	25,502
Reconciliation of segment net profit after tax to net profit before tax					
Segment net profit after notional tax					(59,503)
Notional income tax expense at 30% (2008: 30%)					(25,502)
Corporate and other charges					(30,416)
Net profit before tax per the statement of comprehensive income					<u>(115,421)</u>
Segment assets					
Segment operating assets	82,365	116,617	47,884	26,032	272,898
Additions	163	3,334	746	95	4,338
Segment liabilities					
Segment operating liabilities	22,355	60,224	13,752	72,282	168,613

Geographical segments (Secondary reporting)

VDM Group operates within Australia.

VDM GROUP LIMITED
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For the year ended 30 June 2010

	2010	Consolidated 2009
	\$'000	\$'000
5. OTHER REVENUE		
Interest	525	795
Other	872	764
Total other revenue	1,397	1,559
6. OTHER INCOME		
Gain on disposal of property, plant and equipment	281	143
Gain on foreign exchange	-	291
Total other income	281	434
7. EXPENSES		
(a) Other expenses		
Loss on disposal of property, plant and equipment	525	435
Loss on foreign exchange	96	-
Settlement of investment and property transactions	-	2,000
Loss on onerous contracts	-	370
Write off of fixed assets	-	623
Write off of investments	-	240
Total other expenses	621	3,668
(b) Finance costs		
Finance charges payable under hire purchase contracts	2,825	4,345
Bank loans and overdrafts	1,771	3,271
Other finance costs	-	20
Total finance costs	4,596	7,636
(c) Depreciation and amortisation		
Depreciation	16,391	15,605
Amortisation of development costs and software	1,476	1,047
Total depreciation and amortisation	17,867	16,652
Depreciation and amortisation included in administration expenses	2,699	2,125
Depreciation and amortisation included in cost of sales	15,168	14,527
(d) Impairment charges		
Impairment of goodwill	-	81,906
Impairment of assets	2,459	4,820
Impairment of development costs and software	-	2,133
Total impairment charges	2,459	88,859
(e) Employee benefits expense		
Wages and salaries	119,071	111,384
Restructuring/ redundancy costs	1,230	2,154
Defined contribution superannuation expense	6,906	9,598
Share based payment expense	270	413
Other employee benefits expense	3,135	6,154
Total employee benefits expense	130,612	129,703
Included in cost of sales	101,461	101,309

VDM GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2010

	2010	Consolidated
	\$'000	2010 \$'000
(f) (Reversal) / allowance for trade receivable impairment losses	(570)	7,097
(g) Settlement costs included in administration expenses	-	1,648

8. INCOME TAX

(a) Income tax expense

Income statement

Current income tax:

Current income tax expense	1,385	1,602
Adjustments in respect of current income tax of previous years	(2,188)	(538)

Deferred income tax:

Relating to origination & reversal of temporary differences	5,604	(10,905)
Income tax expense/ (benefit) reported in the income statement	4,801	(9,841)

(b) Numerical reconciliation between aggregate tax expense recognised in the income statement and the tax expense calculated in the statutory income tax return

Accounting profit/ (loss) before income tax	21,523	(115,421)
Prima facie income tax expense/ (benefit) @ 30%	6,457	(34,626)
Share of associates net profits	-	(59)
Research & development (prior year)	(1,613)	-
Employee share based payments	-	48
Unrecognised foreign tax losses	139	316
Other non deductible items	183	(2,076)
Loan impairment	-	-
Goodwill impairment	-	26,658
Rixtam settlement	-	494
Investment allowance	-	(15)
Dividend gross-up	-	(43)
Foreign withholding tax credits not refundable	209	-
Investment allowance (prior year)	(373)	-
Prior year over provision	(201)	(538)
Aggregate income tax expense/ (benefit)	4,801	(9,841)

VDM GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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	Statement of financial position		Statement of comprehensive income	
	2010	2009	2010	2009
(c) Recognised deferred tax asset and liabilities	\$'000	\$'000	\$'000	\$'000
Consolidated				
Deferred tax liabilities				
Contracts in progress and inventory	(12,002)	(6,382)	5,620	(3,178)
Property, plant and equipment	-	(1,167)	(1,167)	(955)
Other	-	(208)	(208)	208
Gross deferred tax liabilities	(12,002)	(7,757)	4,245	(3,925)
Deferred tax assets				
Provision for employee entitlements	2,359	1,742	(617)	376
Provisions – other	240	240	-	863
Development costs	-	(507)	(507)	1,049
Impairment	-	248	248	(248)
Recognised income tax revenue losses	-	1,174	1,174	(1,174)
Trade and other receivable	1,626	2,354	728	(1,696)
Trade and other payables	1,588	1,134	(454)	(892)
Property, plant and equipment	565	1,388	823	(1,388)
Contributed equity	651	448	384	274
Other	465	(246)	(711)	246
Gross deferred tax assets	7,494	7,975	1,068	(2,590)
Under/ over statement of opening deferred tax asset / liabilities			291	(4,390)
Deferred tax expense			5,604	(10,905)
Net deferred tax liability recognised in the balance sheet	(4,508)	218		

(d) Tax losses

VDM Group has no carried forward tax losses. Last year a deferred tax asset of \$1,174,000 was recognised associated with losses.

(e) Unrecognised temporary differences

At 30 June 2010, there are no unrecognised temporary differences associated with VDM Group's investments in subsidiaries, associates or joint ventures, as VDM Group has no liability for additional taxation should unremitted earnings be remitted (2009: nil).

(f) Tax consolidation

Members of the tax consolidation group and the tax sharing arrangement

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

Tax effect accounting by members of the tax consolidated group

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

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

	2010	Consolidated
	\$'000	2009
		\$'000
9. EARNINGS PER SHARE		

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

(a) Earnings/ (losses) used in calculating earnings/ (loss) per share

For basic earnings/ (loss) per share:

Net profit/ (loss) from continuing operations attributable to ordinary equity holders of the parent	16,766	(105,971)
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For diluted earnings/ (loss) per share:

Net profit/ (loss) from continuing operations attributable to ordinary equity holders of the parent	16,766	(105,971)
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	2010	Consolidated
		2009
(b) Weighted average number of shares		
Weighted average number of ordinary shares for basic earnings per share	176,910,766	123,210,256
Effect of dilution:		
Share options	-	-
Weighted average number of ordinary shares for diluted earnings per share	176,910,766	123,210,256

There are 495,625 share options outstanding at 30 June 2010 (2009: 1,185,000), which have been excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future because they are antidilutive for 30 June 2010.

There have been no other transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

VDM GROUP LIMITED
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For the year ended 30 June 2010

	2010	Consolidated
	\$'000	2009
		\$'000
10. DIVIDENDS PROPOSED AND PAID		
(a) Declared and paid during the year:		
Dividends on ordinary shares:		
Final fully franked dividend for 2009: nil (2008: 5 cents per share)	-	6,051
Interim fully franked dividend for 2010: nil (2009: nil cents per share)	-	-
	-	6,051

(b) Dividend proposed, not recognised as a liability:

Final fully franked dividend for 2010: 2 cents per share (2009: nil cents per share)	4,176	-
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After the balance sheet date, the above dividend was proposed for approval at the Company's Annual General Meeting. The amount was not recognised as a liability in 2010 but will be brought to account in 2011.

(c) Franking credits:

Franking credits available for the subsequent financial year:		
- franking account balance as at the end of the financial year at 30% (2009: 30%)	6,913	1,875
- franking credits that will arise from the payments of income tax payable as at the end of the financial year	415	(59)
	7,328	1,816

Amount of franking credits available for future reporting periods:
- impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to the equity holders during the period

	(1,790)	-
Franking credits available for future periods	5,538	1,816

(d) Tax rates:

The tax rate at which paid dividends have been franked is 30% (2009: 30%). Dividends proposed will be franked at the rate of 30% (2009: 30%).

11. CASH AND CASH EQUIVALENTS

Cash at bank and in hand	19,259	18,254
Total cash and cash equivalents	19,259	18,254

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	19,259	18,254
Bank overdrafts (note 22)	-	(840)
Total cash for reconciliation of cash flow statement	19,259	17,414

VDM GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2010

	2010	Consolidated 2009
	\$'000	\$'000
12. TRADE AND OTHER RECEIVABLES		
Current		
Trade receivables	60,477	47,577
Allowance for impairment loss	(5,388)	(7,791)
	55,089	39,786
Other debtors	2,261	966
Retentions	868	1,847
Loans to related entities	828	2,140
Impairment of intercompany and related loans	(788)	(726)
Total current receivables	58,258	44,013
Non-Current		
Loans to related entity	-	200
Total non-current receivables	-	200
(a) Ageing of receivables		
0-30 days	42,769	28,135
31- 60 days	7,205	6,742
> 60 days PDNI	5,509	4,909
> 60 days CI	4,994	7,791
	60,477	47,577
<i>*PDNI – Past due but not impaired</i>		
<i>CI – Considered impaired</i>		
(b) Allowance for impairment loss		
Balance at 1 July	8,517	1,690
(Reversal)/ charge for the year	(570)	7,097
Amounts written off	(1,771)	(270)
At 30 June	6,176	8,517

Trade receivables are non-interest bearing and are generally on 30-60 day terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment loss reversal of \$570,000 (2009: \$7,097,000 impairment loss) has been recognised by VDM Group.

Other receivables do not contain impaired assets and are not past due. It is expected that these other receivables will be received when due. See note 29 for terms and conditions relating to related party receivables.

(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 is disclosed in note 33.

(e) Related party receivables

For terms and conditions of related party receivables refer to notes 29 and 30.

VDM GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS
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	2010	Consolidated
	\$'000	2009
		\$'000
13. CONTRACTS IN PROGRESS		
Contract costs incurred to date	457,144	254,651
Profit recognised to date (less recognised losses)	70,288	31,253
Less progress billings	(498,063)	(271,894)
Total construction contracts in progress	29,369	14,010
Represented by:		
Construction work in progress	33,555	19,219
Unearned revenue	(4,186)	(5,209)
Total construction contracts in progress	29,369	14,010
Construction work in progress	33,555	19,219
Other work in progress	11,191	4,934
Total contracts in progress	44,746	24,153

14. DEVELOPMENT PROPERTIES

Development properties	5,608	24,810
Total development properties	5,608	24,810

(a) Reconciliation of carrying amounts

At 1 July	24,810	6,719
Transfer (to)/ from property, plant and equipment	(18,007)	2,114
Additions	2,138	17,613
Disposals	(2,741)	-
Impairment of development properties	(592)	(1,636)
At 30 June	5,608	24,810

(b) Impairment of development properties

Within VDM Group, recoverable amount was estimated for certain development properties. The recoverable amount was based on management's estimation on the fair value. As a result, an impairment loss of \$592,000 in total was recognised to reduce the carrying amount of development properties to their recoverable amount. This has been recognised and included in the impairment charge in the statement of comprehensive income.

(c) Transfers

During the year ended 30 June 2010, development property to the value of \$18,007,000 was transferred to property, plant and equipment as a result of a change in use.

15. INVENTORY

Consumables at cost	4,070	5,050
Total inventories	4,070	5,050

16. OTHER CURRENT ASSETS

Prepayments	2,605	3,634
Other	13	61
Total other current assets	2,618	3,695

VDM GROUP LIMITED
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	2010	Consolidated
	\$'000	2009
17. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE		
Property, plant and equipment	1,193	3,465
Total non-current assets classified as held for sale	1,193	3,465

The above assets consist of modular buildings currently being used by a client attached to which there is a put option to acquire the buildings. VDM Group believes that the put option will be exercised within the next 12 months and no material gains or losses are expected. These assets are included in the construction division.

18. INVESTMENTS IN ASSOCIATES

(a) Investment details

Unlisted

Complete Steel Projects Pty Ltd	-	691
Structural Fabrications Pty Ltd	-	43
Anagan Pty Ltd (trading as Quikloc Building Systems)	-	(121)
Track Procurement Services Pty Ltd	-	(203)
Other Investments	38	120
Total investment in associate	38	530

The consolidated entity's share in the retained profits and reserves of the associated companies is not available for payment of dividends to shareholders of VDM Group until such time as those profits and reserves are distributed by the associated company.

(b) Movements in carrying amount of VDM Group's investment in associates

Balance at beginning of the financial year	530	691
Purchase of investments during the year	126	24
Dividend/ distribution	-	(100)
Write off of investment	-	(240)
Sale of investments during the year	(637)	-
Share of associates profits	19	155
Carrying amount of investment in associates at the end of the financial year	38	530

On 3 February 2010 the VDM Group sold its 50% interest in Complete Steel Projects Pty Ltd for \$0.6 million. The effective date of the sale was 1 January 2010. Complete Steel Projects Pty Ltd contributed \$74,000 to the share of losses from associates for the current financial year up to the effective date of sale. No material profit or loss was recorded on the sale.

Effective 1 July 2009, the VDM Group acquired the remaining shareholding of Anagan Pty Ltd for nil consideration. Anagan Pty Ltd is now a wholly owned subsidiary of VDM Group.

VDM GROUP LIMITED
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For the year ended 30 June 2010

(c) Summarised financial information	2010	Consolidated
	\$'000	2009
		\$'000

The following table illustrates summarised financial information relating to VDM Groups associates:

Extract from the associates' balance sheets:

Current assets	-	3,904
Non-current assets	-	787
Current liabilities	-	(3,381)
Non-current liabilities	-	(590)
Net assets	-	720

Share of associates net assets		530
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Extract from the associates' income statement:

Revenue	-	16,824
Net profit after tax	-	109

The associates have no material commitments or contingent liabilities as at 30 June 2010.

19. PROPERTY, PLANT AND EQUIPMENT

Leasehold improvements at cost	2,424	1,252
Accumulated depreciation	(1,172)	(192)
	1,252	1,060
Freehold land and buildings at cost	17,812	3,774
Accumulated depreciation	(159)	(124)
	17,653	3,650
Plant and equipment under lease at cost	58,410	74,624
Accumulated depreciation and impairment	(23,045)	(24,351)
	35,365	50,273
Plant and equipment at cost	62,888	42,514
Accumulated depreciation and impairment	(39,276)	(26,348)
	23,612	16,166
Total property, plant and equipment	77,882	71,149

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For the year ended 30 June 2010

	2010	Consolidated
(a) Reconciliation of carrying amount	\$'000	2009
		\$'000
<i>Leasehold improvements</i>		
At 1 July net of accumulated depreciation	1,060	2,200
Additions	180	286
Disposals	(3)	-
Additions through acquisition of entities	-	97
Depreciation	(1,092)	(416)
Transferred from/ (to) development properties	1,107	(1,107)
At 30 June net of accumulated depreciation	1,252	1,060
<i>Freehold land and buildings</i>		
At 1 July net of accumulated depreciation	3,650	5,277
Additions	34	-
Disposals	(1,028)	(584)
Depreciation	(36)	(36)
Transferred from/ (to) development properties	16,900	(1,007)
Impairment	(1,867)	-
At 30 June net of accumulated depreciation	17,653	3,650
<i>Plant and equipment under lease</i>		
At 1 July net of accumulated depreciation	50,273	52,698
Additions	2,939	13,912
Disposals	(1,297)	(3,356)
Depreciation	(4,291)	(9,232)
Transferred to non-current assets held for sale	-	(2,011)
Transferred to plant & equipment	(12,259)	-
Impairment	-	(1,738)
At 30 June net of accumulated depreciation	35,365	50,273
<i>Plant and equipment</i>		
At 1 July net of accumulated depreciation	16,166	18,005
Additions	6,829	7,512
Disposals	(524)	-
Additions through acquisition of entities	-	93
Depreciation	(10,972)	(5,921)
Transferred to non-current assets held for sale	-	(1,454)
Transferred from plant under lease	12,259	-
Foreign exchange difference	(10)	-
Transferred to software	(136)	-
Write off of assets	-	(623)
Impairment	-	(1,446)
At 30 June net of accumulated depreciation	23,612	16,166
Total property, plant and equipment	77,882	71,149

(b) Property, plant and equipment pledged as security for liabilities

Included in the balances above are assets of VDM Group to the value of \$35,365,000 (2009: \$52,973,000) granted as security for hire purchase debts. Refer to Note 22 (c) for details of property, plant and equipment pledged as security for borrowings.

(c) Impairment of property, plant and equipment

Within VDM Group, recoverable amount was estimated for certain freehold land and buildings. The recoverable amount was based on current market value. As a result, an impairment loss of \$1,867,000 in total was recognised to reduce the carrying amount of freehold land and buildings to their recoverable amount. This has been recognised and included in the impairment charge in the statement of comprehensive income. There was no reversal of impairment charges recognised in prior periods.

VDM GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2010

	2010	Consolidated 2009
	\$'000	\$'000
20. INTANGIBLE ASSETS AND GOODWILL		
Goodwill	65,874	67,303
Capitalised development costs	-	38
Accumulated amortisation and impairment	-	-
	-	38
Software	4,914	3,967
Accumulated amortisation and impairment	(3,335)	(1,704)
	1,579	2,263
Total intangibles assets and goodwill	67,453	69,604

(a) Reconciliation of carrying amounts

<i>Goodwill</i>		
At 1 July	67,303	143,683
Impairment of goodwill	-	(81,906)
Finalisation of goodwill from prior year acquisitions	(1,429)	167
Goodwill arising from acquisition of subsidiaries	-	5,359
At 30 June	65,874	67,303

<i>Development</i>		
At 1 July net of accumulated amortisation	38	1,805
Capitalised development costs	-	38
Development costs written off	(38)	-
Amortisation	-	(185)
Impairment of development costs	-	(1,620)
At 30 June net of accumulated amortisation	-	38

<i>Software</i>		
At 1 July net of accumulated amortisation	2,263	1,718
Additions	655	1,891
Additions through acquisition of entities	-	47
Disposals	-	(18)
Amortisation	(1,476)	(862)
Foreign exchange difference	1	-
Transferred from plant & equipment	136	-
Impairment of software	-	(513)
At 30 June net of accumulated amortisation	1,579	2,263

VDM GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

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

Goodwill

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

Development costs

Development costs relate to the development phase of research and development projects, where VDM Group is satisfied that the conditions outlined in VDM Group's accounting policy for development projects (refer Intangible Assets policy note) have been met.

Development costs are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation commences once development is complete. These intangible assets have been assessed as having a finite life and are amortised using the straight line method over a period of 5 years. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

(c) Impairment losses recognised for goodwill

There was no impairment loss recognised in the 2010 financial year.

An impairment loss of \$81.9million was recognised for continuing operations in the 2009 financial year. \$41.5million of the impaired goodwill related to the construction cash generating unit and \$40.4million related to the resources and infrastructure cash generating unit. The recoverable amount was based on value in use.

(d) Impairment tests for goodwill

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

Goodwill acquired through business combinations has been allocated to three cash generating units for impairment testing purposes. The cash generating units are:

- Consulting;
- Construction; and
- Resources and Infrastructure.

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

The discount rate applied to the cash flow projections is 13.36% (2009: 15.5%) and cash flows beyond the five-year period are extrapolated using a 0% growth rate. The growth rates adopted in the five year period approximate the expected long term average growth rate for the engineering and construction industries in general in the current economic climate.

	2010	Consolidated 2009
	\$'000	\$'000
(ii) Carrying amount of goodwill allocated to each of the cash generating units		
Consulting	34,324	34,324
Construction	9,198	16,615
Resources and Infrastructure	22,352	16,364
Total Goodwill	65,874	67,303

VDM GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

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

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

- Discount rates,
- Growth rates to extrapolate cash flows beyond the budget period, and
- Cash flow projections

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

Growth rate estimates are based on published industry research.

(iv) Sensitivity to changes in key assumptions used in value in use calculations

The following reasonably possible sensitivities were conducted on the value in use calculations:

- A 2% increase in discount rate;
- A 30% decrease in growth rates; and
- A 10% decrease in cash flow projections.

Based on the sensitivities tested, there was no impairment.

(e) Impairment of development costs and software

There was no impairment of development costs during the 2010 financial year (2009: \$1,620,000). There was no reversal of impairment charges recognised in prior periods.

There was no impairment of capitalised software during the 2010 financial year (2009: \$513,000). There was no reversal of impairment charges recognised in prior periods.

	2010	Consolidated
	\$'000	2009
		\$'000
21. TRADE AND OTHER PAYABLES		
Trade payables and accruals	59,995	45,850
Employee related payables	1,787	1,198
Sundry creditors	8,326	5,191
GST payable/ (receivable)	2,432	896
Unearned revenue	4,267	6,958
Total current payables	76,807	60,093

(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 33.

(c) Financial guarantees

There are no financial guarantees provided by VDM Group to the subsidiaries.

VDM GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2010

	2010	Consolidated
	\$'000	2009
		\$'000
22. INTEREST-BEARING LOANS AND OTHER BORROWINGS		
Current		
Bank overdrafts (secured)	-	840
Bank loans and other (secured)	3,107	49,404
Non-interest bearing loans	28	1,164
Premium funding	1,682	1,359
Hire purchase liabilities	10,905	16,054
Total current interest-bearing loans and borrowings	15,722	68,821
Non-Current		
Bank loans and other (secured)	7,500	1,397
Hire purchase liabilities	13,565	20,975
Total non-current interest-bearing loans and borrowings	21,065	22,372

(a) Fair values

The carrying amount of VDM Group's current and non-current borrowings approximate 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 33.

(c) Assets pledged as security

<i>Finance arrangements</i>		
Plant and equipment	35,365	50,273
<i>First mortgage</i>		
Freehold land and buildings	-	2,700
<i>Floating charge</i>		
All the remaining wholly owned assets	253,254	202,265

(d) Financing facilities available

Bank overdrafts	20,450	9,950
Bank loans	13,519	65,712
Bank guarantees and insurance bonds	65,000	80,000
Interest rate swap facility	2,832	-
Total financing facilities available	101,801	155,662

(e) Defaults and breaches

VDM Group were not in breach or default of their loan covenants with the bank at 30 June 2010.

(f) Interest rates and counterparties

The majority of interest bearing bank overdrafts and loans at 30 June 2010 bear interest at variable rates between 6.23% and 12.15% (2009: 4.55% and 9.05%). 85% (2009: 89%) of interest bearing bank overdrafts and loan facilities are granted by BankWest while the balance is granted by other financial institutions.

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	2010	Consolidated
	\$'000	2009
		\$'000
23. PROVISIONS		
Current		
Provision for employee entitlements	7,863	7,500
Provision for contingent consideration	6,463	422
	14,326	7,922
Non-Current		
Provision for employee entitlements	799	1,129
	799	1,129

(a) Movements in provisions

<i>Provision for contingent consideration – current and non current</i>		
At 1 July	422	1,315
Arising during the year	6,052	-
Utilised during the year	(11)	(893)
At 30 June	6,463	422

(b) Nature and timing of provisions

(i) Provision for employee entitlements

Refer to Note 2(v) for the relevant accounting policy and a discussion of the significant estimates and assumptions applied in the measurement of this provision.

(ii) Provision for contingent consideration

VDM Group has recognised a provision for contingent consideration payable on certain acquisitions made during the 2008 financial year. The provision is based on actual financial performance from acquisition date to 30 June 2010. It is expected that the contingent considerations will be paid to the vendors during the 2010/2011 financial year.

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24. CONTRIBUTED EQUITY	2010	2009
	\$'000	\$'000

(a) Ordinary shares

Issued and fully paid	214,121	185,144
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Movement in ordinary shares on issue

	Date	Shares	Price (\$)	Value (\$'000)
Balance at 30 June 2009		124,026,770		185,144
Settlement consideration	6 August 2009	6,150,000	0.28	1,708
Placement – tranche 1	28 October 2009	10,000,000	0.50	5,000
Entitlements offer	1 December 2009	60,075,758	0.42	25,231
Placement – tranche 2	15 December 2009	10,000,000	0.475	4,750
Capital raising costs				(1,946)
Tax benefit of capital raising				584
Acquisition of Cape Crushing and Earthmoving Contractors Pty Ltd minorities (refer to note 32)	1 January 2010	1,052,632	0.48	500
Share based payments during the year				270
Settlement of Bellerio Constructions (QLD) Pty Ltd acquisition (refer to note 32)	30 June 2010	(2,485,339)	2.87	(7,120)
Balance at 30 June 2010		208,819,821		214,121

(b) Treasury shares	2010	2009
	No.	No.

Treasury shares held in trust (refer to note 31)	214,864	214,864
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(c) 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.

VDM GROUP LIMITED

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For the year ended 30 June 2010

(d) 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. The Board also aims to maintain a capital structure that ensures the lowest weighted average cost of capital available to the Company.

The Company did not pay dividends during the year (2009: \$6,051,000). However a final dividend for 2010 of \$4,176,000 has been declared. The Directors anticipate paying out between 35% to 50% of the Company's after-tax profits as dividends. It is the Directors' intention to pay future interim dividends to shareholders in April of each year and pay future final dividends to shareholders in October each year. The payment of dividends 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.

The Board considers net debt and total equity to be capital and monitors this through the gearing ratio. VDM Group is targeting to maintain a gearing ratio of less than 25%. The gearing ratio based on continuing operations at 30 June 2010 and 2009 were as follows:

	2010	Consolidated
	\$'000	2009
		\$'000
Interest bearing loans and other borrowings	36,787	91,193
Less cash and cash equivalents	(19,259)	(18,254)
Net debt	17,528	72,939
Total equity	147,484	104,285
Total capital	165,012	177,224
Gearing ratio (net debt: total capital)	10.6%	41.2%

VDM Group is not subject to any externally imposed capital requirements.

25. RETAINED EARNINGS AND RESERVES

(a) Movement in retained earnings

Balance at the beginning of the year	(84,603)	27,419
Net profit/ (loss) attributable to members of VDM Group Ltd	16,766	(105,971)
Dividends provided for or paid	-	(6,051)
Balance at the end of the year	(67,837)	(84,603)

(b) Movement in option reserve

Balance at the beginning of the year	210	64
Share based payment	-	146
Balance at the end of the year	210	210

(c) Movement in equity reserve

Balance at the beginning of the year	-	-
Acquisition of non-controlling interest (refer to note 32)	1,074	-
Balance at the end of the year	1,074	-

26. MINORITY INTEREST

Movement in minority interest

Balance at the beginning of the year	3,534	3,135
Retained earnings	(44)	391
Acquisition of Cape Crushing and Earthmoving Contractors Pty Ltd minorities (refer to note 32)	(3,574)	-
Share based payments	-	8
Balance at the end of the year	(84)	3,534

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	2010	Consolidated
	\$'000	2009
		\$'000
27. CASHFLOW STATEMENT INFORMATION		
(a) Reconciliation of net profit after tax to the net cash flows from operations		
<i>Net profit/ (loss) after tax</i>	16,722	(105,580)
<i>Non-Cash Items:</i>		
Depreciation	16,391	15,605
Amortisation	1,476	1,047
Impairment of goodwill, assets, development costs and software	2,459	88,859
Bad debts (recovered)/ provided	(570)	7,097
Reversal of gain on sale of shares in controlled entity	-	10,085
Settlement of investment and property transactions	-	2,000
Loss on onerous contract	-	370
Net loss on disposal of property, plant and equipment	244	292
Write off of investment	-	240
Share of associates' profits	(19)	(155)
Share based payments expense	270	413
Write off of fixed assets	70	623
Net loss/ (gain) on foreign exchange	96	(291)
<i>Change in assets and liabilities:</i>		
(Increase)/ decrease in trade and other receivables	(14,702)	16,613
(Increase)/ decrease in contracts in progress	(20,594)	15,783
Decrease/ (increase) in other assets	3,749	(657)
Decrease/ (increase) in development properties	602	(17,613)
Decrease/ (increase) in inventory	980	(1,007)
Increase in deferred tax assets	481	(2,590)
Increase/ (decrease) in trade and other creditors	18,158	(8,614)
Increase in provisions	372	244
Increase/ (decrease) in current tax liability	1,338	(6,779)
Increase/ (decrease) in deferred income tax liability	4,246	(3,925)
Net cash flows from operating activities	31,769	12,060
(b) Non-cash financing and investing activities		
Purchase of property, plant and equipment on hire purchase	2,939	13,192
Settlement of subsidiary purchases with shares (note 32)	(6,620)	1,865

28. INTERESTS IN JOINTLY CONTROLLED OPERATIONS

(a) Commitments relating to the jointly controlled operations

There are no commitments at 30 June 2010 relating to jointly controlled operations.

(b) Contingent liabilities relating to the jointly controlled operations

There are no contingent liabilities at 30 June 2010 relating to jointly controlled operations.

(c) Impairment

No assets employed in the jointly controlled operation were impaired during the year (2009: \$nil).

VDM GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

29. RELATED PARTY DISCLOSURE

(a) Subsidiaries

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

Name	Country of incorporation	% equity interest	
		2010	2009
Storm Buildings Pty Ltd	Australia	-	100%
Keytown Constructions Pty Ltd	Australia	100%	100%
VDM Investments Pty Ltd	Australia	100%	100%
VDM Developments Pty Ltd	Australia	100%	100%
VDM Consulting (WA) Pty Ltd	Australia	100%	100%
VDM Consulting (NSW) Pty Ltd	Australia	100%	100%
VDM Consulting (VIC) Pty Ltd	Australia	100%	100%
VDM Consulting (QLD) Pty Ltd	Australia	100%	100%
VDM Projects Pty Ltd	Australia	100%	100%
VDM Asset Management Pty Ltd	Australia	100%	100%
Skilful Holdings Pty Ltd	Australia	100%	100%
ACN 087 442 877 Pty Ltd (formerly called VDM Constructions Pty Ltd)	Australia	100%	100%
Burchill VDM Pty Ltd	Australia	100%	100%
Cape Crushing and Earthmoving Contractors Pty Ltd	Australia	100%	75%
VDM Construction Pty Ltd (formerly called Wylie & Skene Pty Ltd)	Australia	100%	100%
VDM Earthmoving Contractors Pty Ltd	Australia	100%	100%
VDM Group Ltd International (Dubai Branch) Pty Ltd	Australia	100%	100%
Como Engineers Pty Ltd	Australia	100%	100%
VDM Contracting Pty Ltd (formerly called VDM Resources and Infrastructure Pty Ltd)	Australia	100%	100%
Bellerio Constructions (QLD) Pty Ltd	Australia	100%	100%
Van Der Meer Consulting Vietnam Co Ltd	Vietnam	100%	100%
BCA Consultants Pty Ltd	Australia	100%	100%
VDM Consulting Pty Ltd	Australia	100%	100%
VDM Resources and Infrastructure Pty Ltd	Australia	100%	100%
VDM Equity Incentives Pty Ltd	Australia	100%	100%
VDM Consulting (NT) Pty Ltd	Australia	100%	-
VDM CCE Pty Ltd (formerly called Civmec Construction and Engineering Pty Ltd)	Australia	100%	100%
Robinson Avenue Trust	Australia	75%	75%
Anagan Pty Ltd	Australia	100%	45%
Belleng VDM Pty Ltd	Australia	100%	100%
Burchill VDM (International) Pty Ltd	Australia	100%	100%
Advanced Protective Engineering Consulting Global Pty Ltd	Australia	50%	50%
Riverside Structural Modelling Pty Ltd	Australia	100%	100%
Barlow Gregg VDM Pty Ltd	Australia	100%	100%
VDM Consulting (UAE) Pty Ltd	Australia	100%	-
Agenda Lab Pty Ltd	Australia	100%	100%
VDMAHP Pty Ltd	Australia	50%	50%
Quartz South Hedland Pty Ltd	Australia	52%	52%
Quartz Trust	Australia	100%	100%
QBS International Pty Ltd	Australia	70%	70%

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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

(b) Key management personnel

Details relating to KMP, including remuneration paid, are included in note 30.

(c) Ultimate parent

VDM Group Limited is the ultimate Australian parent entity.

(d) Transactions with related parties

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year (for information regarding outstanding balances on related party trade receivables and payables at year end, refer to notes 29 (e) below:

	2010			2009		
	Sales to related parties \$'000	Purchases from related parties \$'000	Other transactions with related parties \$'000	Sales to related parties \$'000	Purchases from related parties \$'000	Other transactions with related parties \$'000
Consolidated						
<i>Associates:</i>						
Complete Steel Projects Pty Ltd	470	132	10	3,388	503	21
Anagan Pty Ltd (trading as Quickloc Building Systems)	-	-	-	925	-	18

Terms and conditions of transactions with related parties

Sales to and purchases from related parties are made in arm's length transactions both at normal prices and on normal commercial terms.

Terms and conditions of the tax funding arrangement are set out in note 8.

(e) Loans to related parties

As at 30 June 2010, VDM Group had the following balances with related entities:

- \$0.8 million (2009: \$0.8 million) receivable from Track Procurement Pty Ltd of which \$0.8 million (2009: \$0.8 million) has been provided for.
- \$nil (2009: \$0.2 million) receivable from Complete Steel Projects Pty Ltd.
- \$nil (2009: \$0.8 million) receivable from Cape Crushing and Earthmoving Contractors Pty Ltd.
- \$nil (2009: \$0.1 million) other related receivables.

Other than the allowance for impairment loss made against Track Procurement Pty Ltd receivable of \$0.8 million, there were no other allowances for impairment loss recognised during the year ended 30 June 2010.

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For the year ended 30 June 2010

	2010	Consolidated
	\$'000	2009
		\$'000
30. DIRECTORS' AND EXECUTIVE DISCLOSURES		
(a) Compensation for key management personnel		
Short Term	3,399,532	3,317,882
Post Employment	354,866	635,472
Termination benefits	418,496	293,777
Share Based Payments	-	11,383
	4,172,894	4,258,514

(b) Shareholdings of key management personnel

	Balance 1 July	Received as	Options	Net change	Balance
	2009	remuneration	exercised	Other	30 June 2010
Current directors					
J Saleeba	52,000	-	-	46,570	98,570
J van der Meer	3,219,846	-	-	1,379,932	4,599,778
R Kestel	-	-	-	-	-
B Nazer	50,000	-	-	21,428	71,428
M Perrott	-	-	-	100,000	100,000
Past directors					
C Bradshaw	3,294,269	-	-	(3,294,269)*	-
A Parker	1,495,118	-	-	(1,495,118)*	-
Current executives					
K Perry	-	-	-	923,401	923,401
D Ferrara	3,012,312	-	-	1,290,990	4,303,302
R Gregg	1,007,694	-	-	-	1,007,694
G Simpson	-	-	-	42,000	42,000
L Tronccone	-	-	-	-	-
Past executives					
M Nagle	-	-	-	-	-
R Goodwin	1,664,102	-	-	(1,664,102)*	-
P Simpson	37,000	-	-	(37,000)*	-
Total Shareholding	13,832,341	-	-	(2,686,168)	11,146,173

*Balance reduced to nil as the KMP resigned during the year

VDM GROUP LIMITED
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	Balance 1 July 2008	Received as remuneration	Options exercised	Net change Other	Balance 30 June 2009
Current directors					
J Saleeba	52,000	-	-	-	52,000
J van der Meer	3,049,762	-	-	170,084	3,219,846
A Parker	1,495,118	-	-	-	1,495,118
R Kestel	-	-	-	-	-
B Nazer	-	-	-	50,000	50,000
M Perrott	-	-	-	-	-
Past directors					
J Farrell	1,298,873	-	-	(1,298,873)*	-
C Bradshaw	3,101,235	-	-	193,034	3,294,269
S Cuthbert	4,075,267	-	-	(4,075,267)*	-
Current executives					
M Nagle	960,024	-	-	(960,024)	-
D Ferrara	3,012,312	-	-	-	3,012,312
R Gregg	-	-	-	1,007,694	1,007,694
R Goodwin	-	-	-	1,664,102	1,664,102
Past executives					
P Simpson	37,000	-	-	-	37,000
Total Shareholding	17,081,591	-	-	(3,249,250)	13,832,341

*Balance reduced to nil as the KMP resigned during the year

All equity transactions with KMP other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those VDM Group would have adopted if dealing at arm's length.

(c) Option holdings of key management personnel

The movement during the reporting period in the number of options in VDM Group Limited held directly, indirectly or beneficially, by each key management personnel, including their personally related entities, is as follows:

30 June 2010	Balance 1 July 2009	Granted as remuneration	Options exercised	Net change Other	Balance 30 June 2010
P A Simpson	140,000	-	-	(140,000)*	-
Total Option Holding	140,000	-	-	(140,000)	-

*Balance reduced to nil as the KMP resigned during the year

30 June 2009	Balance 1 July 2008	Granted as remuneration	Options exercised	Net change Other	Balance 30 June 2009
Executives					
P A Simpson	140,000	-	-	-	140,000
Total Option Holding	140,000	-	-	-	140,000

(d) Loans to key management personnel

There were no loans granted to KMP during the year ended 30 June 2010 and 2009.

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For the year ended 30 June 2010

(e) Other transactions and balances with key management personnel and their related entities

During the year ended 30 June 2010, the consolidated entity had the following transactions with director related entities:

- VDM Group rented an office building from O Corp Pty Ltd, a company related to J van der Meer and C Bradshaw, on normal commercial terms and conditions. The amount recognised as an expense during the year in relation to these transactions was \$598,000 (2009: \$678,000). The amount payable to O Corp Pty Ltd at the end of the financial year was \$9,000 (2009: \$62,000).
- VDM Group obtained advice from Nissen Kestel Hartford, a company related to R Kestel, on normal terms and conditions. The amount recognised as an expense during the year in relation to these transactions was \$nil (2009: \$4,000).
- VDM Group rented an office building from Winero Pty Ltd and Goodbell Pty Ltd, a company related to R Goodwin, on normal commercial terms and conditions. The amount recognised as an expense during the year in relation to these transactions was \$460,000 (2009: \$446,000). The amount payable to Winero Pty Ltd and Goodbell Pty Ltd Ltd at the end of the financial year was \$nil (2009: \$nil).

	2010	Consolidated
	\$'000	2009
		\$'000
31. SHARE-BASED PAYMENT PLANS		
(a) Recognised share based payment expense		
Expense arising from equity-settled share-based payment transactions	270	413
Total share-based payment expense	270	413

(b) Types of share-based payment plans

VDM Group Performance Rights Plan

The initial public offer included a 300,000 share allocation for the VDM Group's Performance Rights Plan. In order to retain key personnel, selected key employees were allocated an amount of shares ranging from 5,000 to 25,000. These shares vested over a period of up to 24 months, with vesting criteria based on continuity of service. During the year the amount vesting and a corresponding expense of \$97,000 (2009: \$8,000) was recognised in relation to the Plan. 150,005 shares are not yet allocated and are held in trust.

The acquisition of Como Engineers included an allocation of 265,865 shares for the VDM Group's Performance Rights Plan. In order to retain key personnel, selected key employees were allocated an amount of shares ranging from 5,000 to 25,000. These shares vest over a period of up to 36 months, with vesting criteria based on continuity of service. During the year the amount vesting and a corresponding expense of \$171,000 (2009: \$159,000) was recognised in relation to the Plan. 18,765 shares are yet to be allocated and are held in trust.

VDM Group Employee Incentive Plan

VDM Group bought 119,876 shares for the Employee Incentive Plan which was set up in February 2008 and included the allocation of 119,876 shares to retain employees. Selected employees were allocated an amount of shares ranging from 500 to 750. These shares vested over a period of up to 24 months, with vesting criteria based on continuity of service. During the year the amount vesting and a corresponding expense of \$2,000 (2009: \$93,000) was recognised in relation to the Plan. 46,094 shares are not yet allocated and are held in trust.

Employee Option Plan (EOP)

On 31 January 2008 VDM Group offered employees the right to participate in a share option scheme. The offer closed on 11 February 2008. 1,710,000 options were taken up at an exercise price of \$2.25. 25% of the options vested on 21 December 2008, 25% of the options vested on 21 December 2009, 25% of the options vest on 21 December 2010 and the remaining 25% of the options vest on 21 December 2011. 689,375 options were forfeited during the year (2009: 525,000). Of the remaining options, 305,625 are subject to time conditions only and 190,000 are subject to both time and performance conditions.

	2010	2009
	No.	No.
(c) Reconciliation of treasury shares		
VDM Group Performance Rights Plan	150,005	150,005
VDM Group Performance Rights Plan – Como Engineers	18,765	18,765
VDM Group Employee Incentive Plan	46,094	46,094
Total treasury shares	214,864	214,864

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(d) Summaries of options granted under the Employee Option Plan (EOP)

The following table illustrates the number (No.) and weighted average exercise price (WAEP) of, and movements in, share options during the year:

	2010 No.	2010 WAEP	2009 No.	2009 WAEP
Outstanding at the beginning of the year	1,185,000	2.25	1,710,000	2.25
Granted during the year	-	-	-	-
Forfeited during the year	(689,375)	2.25	(525,000)	2.25
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	495,625	2.25	1,185,000	2.25
Exercisable at the end of the year	-	-	-	-

(e) Weighted average remaining contractual life

The weighted average remaining contractual life for the share options outstanding as at 30 June 2010 is 0.49 years (30 June 2009: 1.1 years).

(f) Weighted average fair value (EOP)

There were no options granted during the year ended 30 June 2010 and 2009.

(g) Option pricing model (EOP)

There were no options granted during the year ended 30 June 2010 and 2009.

32. BUSINESS COMBINATIONS

Additional acquisition of Cape Crushing

Effective 1 January 2010, VDM Group acquired the 25% minority interest in Cape Crushing & Earthmoving Contractors Pty Ltd ('Cape Crushing'). VDM Group acquired the remaining interest for \$2.5 million, \$2 million of which was paid in cash and the balance via the issue of 1,052,632 fully paid ordinary shares at \$0.475 per share. The difference of \$1.1 million between the carrying value of the non-controlling interest and the consideration paid was taken to an equity reserve.

Additional acquisition of Anagan Pty Ltd

Effective 1 July 2009, the VDM Group acquired the remaining 55% shareholding of Anagan Pty Ltd for no consideration. The fair value of the identifiable assets and liabilities at the effective date was \$0.2 million net liability.

Prior period acquisitions

On 1 November 2007 the Company acquired 100% of the voting shares in Bellerio Constructions (QLD) Pty Ltd ("Bellerio"). VDM Group provisionally calculated the purchase consideration to be \$26.9 million made up of a cash component of \$12.4 million (including costs), 4,970,678 VDM Group Ltd shares at a value of \$14.2 million and a contingent consideration payment of \$0.3 million based on performance to 30 June 2010. Under a deed of settlement dated 30 June 2010, 2,485,339 VDM Group Limited shares were forfeited. As a result, the goodwill balance has been adjusted downward by \$7.4 million.

On 2 November 2007 the Company acquired 100% of the voting shares in VDM Contracting Pty Ltd (formerly called Kayano Nominees Pty Ltd) ("VDM Contracting"). The company paid a total of \$16.7 million made up of a cash component of \$8.1 million (including costs) and 3,012,312 VDM Group Ltd shares at a value of \$8.6 million. A further contingent consideration estimated at \$6.0 million is payable based on the performance to 30 June 2010. As a result, the goodwill balance has been adjusted upward by \$6.0 million.

Other than the acquisition of VDM Contracting and Bellerio, the fair value of business combinations determined provisionally in the prior year are materially the same as that recognised at 30 June 2009.

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33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

VDM Group 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 VDM 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 short term deposits is not a material risk due to the short term nature of these financial instruments.

VDM Group's main exposure to interest rate risk arises from bank loans. VDM Group regularly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing and the appropriate mix of fixed and variable interest rates.

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

	2010	Consolidated
	\$'000	2009
		\$'000
Financial assets		
Cash and cash equivalents	19,259	18,254
	19,259	18,254
Financial liabilities		
Interest bearing borrowings and loans	10,607	53,000
	10,607	53,000

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.

Post-tax gain/ (loss)	Impact on profit	
+ 2% (100 basis points)	121	(486)
- 1% (100 basis points)	(61)	243

The movement in profit is due to lower / higher interest cost from variable rate debt and cash balances. The sensitivity is lower in 2010 because of a reduction in outstanding borrowings.

Other than retained earnings, there is no impact on equity in the consolidated entity.

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Foreign currency risk

VDM Group has international operations in Vietnam and the Middle East and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar and United Arab Emirates Dirham.

Foreign currency risk arises from transactions, assets and liabilities that are denominated in a currency that is not VDM Group's functional currency. Measuring the exposure to foreign currency risk is achieved by regularly monitoring and performing sensitivity analysis on VDM Group's financial position.

VDM Group's foreign financial instruments are largely denominated in US Dollars and United Arab Emirates Dirham. Currently there are no foreign exchange hedge programmes in place.

At balance date, VDM Group had the following exposure on their financial instruments to US Dollars and United Arab Emirates Dirham:

	2010	Consolidated
	\$'000	2009 \$'000
Financial assets		
Cash and cash equivalents	34	12
Trade and other receivables	-	445
	34	457
Financial liabilities		
Interest bearing borrowings and loans	127	1
	127	1

The following table summarises the sensitivity of financial instruments held at balance sheet date to movements in the exchange rate of the Australian dollar to the US Dollar and United Arab Emirates Dirham, with all other variables held constant. The sensitivity is based on foreseeable changes over a financial year.

Post-tax gain/ (loss)	Impact on profit	
AUD/ USD and AED +10%	(7)	32
AUD/ USD and AED -10%	7	(32)

Other than retained earnings, there is no impact on equity in the consolidated entity.

(b) Credit risk

Credit risk arises from the financial assets of VDM Group, which comprises cash and cash equivalents and trade and other receivables. VDM Group'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 Group manages its credit risk by trading only with recognised, creditworthy third parties, and as such collateral is not requested nor is it VDM Group'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. At balance sheet date there were no significant concentrations of credit risk within VDM Group and financial instruments are held amongst reputable Australian financial institutions thus minimising the risk of default of counterparties.

The maximum exposure to credit risk at the reporting date was as follows:

Current		
Cash and cash equivalents	19,259	18,254
Trade and other receivables	58,258	44,013
	77,517	62,267
Non-current		
Trade and other receivables	-	200
Trade and other receivables	-	200

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(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 Group continually reviews its liquidity position including cash flow forecasts to determine the forecast liquidity position and maintain appropriate liquidity levels. VDM Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, hire purchase liabilities and committed available credit lines.

The table below reflects all contractually fixed payments for settlement, repayments and interest resulting from recognised financial assets and liabilities. 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 2010. For details on breaches and other defaults refer to note 22 (e). Repayment obligations in respect of the bank loans, hire purchase facilities and trade and other payables are as follows:

	Consolidated	
	2010	2009
	\$'000	\$'000
No later than one year	90,582	127,433
Later than one year but not later than two years	9,415	12,085
Later than two years but not later than three years	7,248	6,896
Later than three years but not later than four years	5,773	3,990
Later than four years but not later than five years	983	2,606
Later than five years	-	703
	114,001	153,713

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
Year ended 30 June 2010	\$'000	\$'000	\$'000	\$'000	\$'000
Consolidated					
Financial assets					
Cash and cash equivalents	19,259	19,259	-	-	-
Other receivables	3,169	3,169	-	-	-
Trade receivables	55,089	49,974	5,115	-	-
	77,517	72,402	5,115	-	-
Financial liabilities					
Trade and other payables	36,261	33,656	2,605	-	-
Other payables	36,279	36,279	-	-	-
Hire purchase liabilities	27,541	450	12,070	15,021	-
Interest bearing loans and borrowings	13,920	180	5,342	8,398	-
	114,001	70,565	20,017	23,419	-
Net maturity	(36,484)	1,837	(14,902)	(23,419)	-
	Total	0-60 days	61 days - 1 year	1-5 years	>5 years
Year ended 30 June 2009	\$'000	\$'000	\$'000	\$'000	\$'000
Consolidated					
Financial assets					
Cash and cash equivalents	18,254	18,254	-	-	-
Other receivables	4,427	4,427	-	-	-
Trade receivables	39,786	34,877	4,909	-	-
	62,467	57,558	4,909	-	-
Financial liabilities					
Trade and other payables	24,363	21,093	3,270	-	-
Other payables	28,773	28,773	-	-	-
Hire purchase liabilities	43,026	3,645	15,534	23,847	-
Interest bearing loans and borrowings	57,551	464	54,653	1,731	703
	153,713	53,975	73,457	25,578	703
Net maturity	(91,246)	3,583	(68,548)	(25,578)	(703)

VDM GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

Fair value

The fair value of financial assets, other than investments in controlled entities and associates, and financial liabilities approximate the carrying value due to the liquid nature of these assets and / or the short term nature of these financial rights and obligations. Due to the liquid nature of these assets / or short term nature of these financial rights and obligations, no valuation techniques, methods or assumptions have been applied to determine fair value. There are no unrecognised financial assets or financial liabilities at year-end.

34. PARENT ENTITY INFORMATION	Parent entity	
	2010 \$'000	2009 \$'000
Information relating to VDM Group Ltd:		
Current assets	82,633	86,704
Total assets	219,729	224,201
Current liabilities	79,182	119,750
Total liabilities	86,686	119,923
Issued capital	214,121	185,144
Accumulated losses	(81,288)	(81,076)
Option reserve	210	210
Total shareholders' equity	133,043	104,278
Loss of the parent entity	(212)	(76,328)
Total comprehensive loss of the parent entity	(212)	(76,328)

(a) Bank guarantees and insurance bonds:

As at 30 June 2010 VDM Group Ltd had \$233,000 (2009: \$37,000) in bank guarantees held for retention allowances with BankWest.

(b) Contingent liabilities

Legal claim

VDM is involved in the provision of engineering services. The nature of these services are such that claims arise from time to time for and against VDM. A number of claims and counter-claims exist at 30 June 2010. Provisions have been made where such claims are likely to lead to potential losses or are not covered under VDM's insurance policies.

(c) Property, plant and equipment commitments

VDM had no capital commitments at 30 June 2010 and 2009.

VDM GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2010

	2010	Consolidated
	\$'000	2009
		\$'000
35. COMMITMENTS		
(a) Operating leases		
Future minimum rentals payable under non cancellable operating leases as follows:		
Within one year	2,836	2,731
One year or later but not later than five years	4,124	3,373
After more than five years	593	119
Total minimum lease payments	7,553	6,223

During the year VDM Group made operating lease payments totalling \$3,313,000 (2009: \$2,572,000).

VDM Group has entered into operating leases on various commercial properties. These leases have an average life of between 2 and 5 years and generally provide VDM Group with a right of renewal, at which time, all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are generally based on movements in the Consumer Price Index. There are no restrictions placed upon VDM Group from entering into the leases.

(b) Hire purchase commitments

Not later than one year	12,521	18,776
After one year but not more than five years	15,020	24,250
Total minimum hire purchase payments	27,541	43,026
Future finance charges	(3,071)	(5,997)
Present value of minimum lease payments	24,470	37,029

Total hire purchase liability

Included in the financial statements as:

Current – Hire purchase liabilities (refer note 22)	10,905	16,054
Non – Current Hire purchase liabilities (refer note 22)	13,565	20,975
Total included in interest bearing liabilities	24,470	37,029

VDM Group has acquired plant and equipment under hire purchase agreements expiring from 1 to 5 years.

(c) Property, plant and equipment commitments

VDM Group has capital commitments at 30 June 2010 amounting to \$80,000 (2009: \$2,973,000)

(d) Remuneration commitments

VDM Group did not have any remuneration commitments at 30 June 2010 (2009: \$nil) other than as disclosed in the remuneration report.

VDM GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

36. CONTINGENCIES

(a) Legal claim

VDM Group is involved in the provision of engineering services. The nature of these services are such that claims arise from time to time for and against VDM Group. A number of claims and counter-claims exist at 30 June 2010, none of which would lead VDM Group to incur material losses.

(b) Bank guarantees and insurance bonds:

As at 30 June 2010 VDM Group had \$18,376,000 (2009: \$22,350,000) in bank guarantees held for retention allowances with BankWest.

As at 30 June 2010 VDM Group had \$21,441,000 (2009: \$12,106,000) in insurance bonds held for retention allowances with Assetinsure Pty Ltd.

37. SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 26 August 2010, the directors of VDM Group declared a final dividend on ordinary shares in respect of the 2010 financial year. The total amount of the dividend is \$4.2 million which represents a fully franked dividend of 2 cents per share. The dividend has not been provided for in the 30 June 2010 financial statements

There are no other matters or circumstances that have arisen since the end of the financial year end which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent financial years.

	2010	Consolidated 2009
	\$	\$
38. AUDITORS' REMUNERATION		
Amount received or receivable by the auditor for:		
Auditing the financial statements	390,000	396,550
Non audit fees – tax compliance	129,397	23,230
	519,397	419,780

VDM GROUP LIMITED

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2010

39. CLOSED GROUP CLASS ORDER DISCLOSURES

(a) Closed group class order disclosures

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

Name	Country of incorporation	% equity interest	
		2010	2009
Storm Buildings Pty Ltd	Australia	-	100%
Keytown Constructions Pty Ltd	Australia	100%	100%
VDM Investments Pty Ltd	Australia	100%	100%
VDM Developments Pty Ltd	Australia	100%	100%
VDM Consulting (WA) Pty Ltd	Australia	100%	100%
VDM Consulting (NSW) Pty Ltd	Australia	100%	100%
VDM Consulting (VIC) Pty Ltd	Australia	100%	100%
VDM Consulting (QLD) Pty Ltd	Australia	100%	100%
VDM Projects Pty Ltd	Australia	100%	100%
VDM Asset Management Pty Ltd	Australia	100%	100%
Skilful Holdings Pty Ltd	Australia	100%	100%
ACN 087 442 877 Pty Ltd (formerly called VDM Constructions Pty Ltd)	Australia	100%	100%
Burchill VDM Pty Ltd	Australia	100%	100%
Cape Crushing and Earthmoving Contractors Pty Ltd	Australia	100%	75%
VDM Construction Pty Ltd (formerly called Wylie & Skene Pty Ltd)	Australia	100%	100%
VDM Earthmoving Contractors Pty Ltd	Australia	100%	100%
VDM Group Ltd International (Dubai Branch) Pty Ltd	Australia	100%	100%
Como Engineers Pty Ltd	Australia	100%	100%
VDM Contracting Pty Ltd (formerly called VDM Resources and Infrastructure Pty Ltd)	Australia	100%	100%
Bellero Constructions (QLD) Pty Ltd	Australia	100%	100%
Van Der Meer Consulting Vietnam Co Ltd	Vietnam	100%	100%
BCA Consultants Pty Ltd	Australia	100%	100%
VDM Consulting Pty Ltd	Australia	100%	100%
VDM Resources and Infrastructure Pty Ltd	Australia	100%	100%
VDM Equity Incentives Pty Ltd	Australia	100%	100%
VDM Consulting (NT) Pty Ltd	Australia	100%	-
VDM CCE Pty Ltd (formerly called Civmec Construction and Engineering Pty Ltd)	Australia	100%	100%
Robinson Avenue Trust	Australia	75%	75%
Anagan Pty Ltd	Australia	100%	45%
Belleng VDM Pty Ltd	Australia	100%	100%
Burchill VDM (International) Pty Ltd	Australia	100%	100%
Advanced Protective Engineering Consulting Global Pty Ltd	Australia	50%	50%
Riverside Structural Modelling Pty Ltd	Australia	100%	100%
Barlow Gregg VDM Pty Ltd	Australia	100%	100%
VDM Consulting (UAE) Pty Ltd	Australia	100%	-
Agenda Lab Pty Ltd	Australia	100%	100%
VDMAHP Pty Ltd	Australia	50%	50%
Quartz South Hedland Pty Ltd	Australia	52%	52%
Quartz Trust	Australia	100%	100%
QBS International Pty Ltd	Australia	70%	70%

VDM GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2010

(b) Entities subject to class order relief

Pursuant to Class Order 98/1418, relief has been granted to VDM Construction Pty Ltd (formerly called Wylie & Skene Pty Ltd), Bellero Constructions (QLD) Pty Ltd, VDM Contracting Pty Ltd (formerly called Kayano Nominees Pty Ltd), VDM Earthmoving Contractors Pty Ltd and Cape Crushing and Earthmoving Contractors Pty Ltd from the *Corporations Act 2001* requirements for the preparation, audit and lodgement of their financial reports.

As a condition of the Class Order, VDM Group Ltd, VDM Consulting (WA) Pty Ltd, VDM Consulting (QLD) Pty Ltd, Barlow Gregg VDM Pty Ltd, VDM Consulting (NSW) Pty Ltd, VDM Consulting (VIC) Pty Ltd, Riverside Structural Modelling Pty Ltd, VDM Projects Pty Ltd, Skilful Holdings Pty Ltd, VDM Group Ltd International (Dubai Branch) Pty Ltd, VDM Asset Management Pty Ltd, Burchill VDM Pty Ltd, Belleng VDM Pty Ltd, Burchill VDM (International) Pty Ltd, VDM Consulting Pty Ltd, BCA Consultants Pty Ltd, Agenda Lab Pty Ltd, Keytown Constructions Pty Ltd, Anagan Pty Ltd, VDM Investments Pty Ltd, VDM CCE Pty Ltd (formerly called Civmec Construction and Engineering Pty Ltd), VDM Construction Pty Ltd (formerly called Wylie & Skene Pty Ltd), VDM Developments Pty Ltd, ACN 087 442 877 Pty Ltd (formerly called VDM Constructions Pty Ltd), Bellero Constructions (QLD) Pty Ltd, VDM Earthmoving Contractors Pty Ltd, Como Engineers Pty Ltd, VDM Contracting Pty Ltd (formerly called Kayano Nominees Pty Ltd), VDM Resources and Infrastructure Pty Ltd, VDM Equity Incentives Pty Ltd and Cape Crushing and Earthmoving Contractors Pty Ltd, (the "Closed Group"), entered into a Deed of Cross Guarantee on 1 February 2010. The effect of the deed is that VDM Group Ltd 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 Ltd 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.

(c) Statement of comprehensive income

The consolidated income statement and balance sheet of the entities that are members of the Closed Group are as follows:

	Closed Group
	2010
	\$'000
Profit from continuing operations before income tax	21,576
Income tax expense	(4,664)
Profit after tax from continuing operations	16,912
Non-controlling interest	29
Retained earnings at the beginning of the year	(83,767)
Retained earnings at the end of the year	(66,826)

VDM GROUP LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2010

(d) Statement of financial position

	Closed Group 2010 \$'000
ASSETS	
Current assets	
Cash and cash equivalents	19,187
Trade and other receivables	63,559
Contracts in progress	44,804
Inventory	4,054
Development properties	
Other assets	2,581
	134,185
Non-current assets classified as held for sale	1,194
Total current assets	135,379
Non-current assets	
Receivables	-
Investments	882
Property, plant and equipment	77,868
Deferred tax assets	7,494
Intangible assets and goodwill	67,323
Total non-current assets	153,567
TOTAL ASSETS	288,946
LIABILITIES	
Current liabilities	
Trade and other payables	76,691
Income tax payable	430
Interest-bearing loans and borrowings	15,151
Provisions	14,326
Total current liabilities	106,598
Non-current liabilities	
Interest-bearing loans and other borrowings	21,065
Deferred tax liabilities	12,002
Provisions	799
Total non-current liabilities	33,866
TOTAL LIABILITIES	140,464
NET ASSETS	148,482
EQUITY	
Contributed equity	214,121
Reserves	1,284
Accumulated losses	(66,826)
Parent interests	148,579
Non-controlling interests	(97)
TOTAL EQUITY	148,482

VDM GROUP LIMITED

DIRECTORS' DECLARATION

For the year ended 30 June 2010

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 2010 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(a);
- (c) 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 2010; and
- (e) as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 39 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



J J van der Meer
Director
Perth, Western Australia
27 August 2010

Independent audit report to members of VDM Group Ltd

Report on the Financial Report

We have audited the accompanying financial report of VDM Group Limited ('VDM'), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

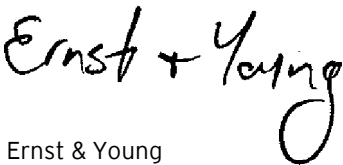
1. the financial report of VDM Group Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position at 30 June 2010 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 19 of the directors' report for the year ended 30 June 2010. 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.

Auditor's Opinion

In our opinion the Remuneration Report of VDM Group Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



P McIver
Partner
Perth
27 August 2010

VDM GROUP LIMITED

ASX ADDITIONAL INFORMATION

For the year ended 30 June 2010

SHAREHOLDER INFORMATION

Additional information required by ASX Listing Rules and not shown elsewhere in the report is set out below. The information is current as of 18 August 2010.

TWENTY LARGEST SHAREHOLDERS

Shareholder	Number of ordinary fully paid shares held	% held of capital
Cogent Nominees Pty Ltd	21,048,532	9.96
National Nominees Ltd	9,911,143	4.69
LTKC Civils Pty Ltd	6,475,000	3.06
Cootingall Pty Ltd	3,639,285	1.72
Citicorp Nominees Pty Ltd	3,596,879	1.70
Redmont Resources Pty Ltd	2,620,000	1.24
UBS Nominees Pty Ltd	2,294,918	1.09
Tashka Pty Ltd	2,292,250	1.08
Mammoth Nominees Pty Ltd	2,275,000	1.08
Escapade Pty Ltd	2,229,445	1.06
Ms Patricia Ann Ferrara	2,151,651	1.02
Veresdale Holdings Pty Ltd	2,076,300	0.98
Peacefield Holdings Pty Ltd	2,051,700	0.97
Ladyman Super Pty Ltd	1,709,130	0.81
Apple Nominees Pty Ltd	1,605,650	0.76
Mr Darryl Carlo Ferrara	1,506,156	0.71
Mr Paul Stuart Nichols and Ms Therese Mary Nichols	1,500,000	0.71
Mr Edward John Bate	1,489,018	0.70
Mr Anil Rama Hira and Ms Rama Hira	1,361,158	0.64
P & M Bellerio Super Pty Ltd	1,242,669	0.59
	73,075,884	34.57

SHARES IN VOLUNTARY ESCROW

There are 9,537,971 ordinary shares fully paid which the holders have entered into voluntary escrow deeds with the company. These shares will come out of escrow on the following dates:

Release date	No.
Past the release date	8,485,339
1 January 2012	1,052,632
	9,537,971

SUBSTANTIAL SHAREHOLDINGS

Hunter Hall Investment Management Ltd	11,162,407
National Australia Bank Ltd	9,968,382
	21,130,789

VDM GROUP LIMITED

ASX ADDITIONAL INFORMATION

For the year ended 30 June 2010

DISTRIBUTION OF SHAREHOLDINGS

Range of holding	Number of shareholders	Number of ordinary shares	%
1 – 1,000	705	320,545	0.15
1,001 – 5,000	1,500	4,346,363	2.06
5,001 – 10,000	873	6,901,581	3.27
10,001 – 100,000	1,615	52,170,205	24.69
100,0001 and above	265	147,566,466	69.84
	4,958	211,305,160	100.00

The number of shareholders with less than a marketable parcel is 865 holding in total 510,076 shares.

VOTING RIGHTS

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