VDM GROUP LIMITED

ABN 95 109 829 334

NOTICE OF EXTRAORDINARY GENERAL MEETING

EXPLANATORY MEMORANDUM AND PROXY FORM

Date of Meeting

Friday 16 August 2013

Time of Meeting

10.00am (AWST)

Place of Meeting

Level 5, The Ernst & Young Building, 11 Mounts Bay Road, Perth

This Notice of Extraordinary General Meeting and accompanying Independent Expert's Report (which considers the transaction the subject of Resolution 1 to be fair and reasonable to non-associated Shareholders) should be read in its entirety. If Shareholders are in any doubt as to how they should vote, they should seek advice from their professional advisors prior to voting.

Should you wish to discuss the matters in this Notice of Extraordinary General Meeting please do not hesitate to contact the Transaction Information Line on 1300 093 656 (toll free in Australia) or +61 3 9415 4171 (from overseas) on Monday to Friday between 9.00am and 5.00pm (AEST).

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Notice of Extraordinary General Meeting

VDM Group Limited (**VDM** or **the Company**) will hold an Extraordinary General Meeting on Friday 16 August 2013 at 10.00am (AWST) at Level 5, The Ernst & Young Building, 11 Mounts Bay Road, Perth for the purposes of transacting the business outlined below.

BUSINESS

1. Proposed Issue of Shares to H&H Holdings Australia Pty Ltd

To consider and if thought fit pass the following ordinary resolution:

Resolution 1

"That for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, approval is given for the Company to allot and issue to H&H Holdings Australia Pty Ltd 600,000,000 ordinary shares in the capital of the Company at an issue price of $0.025 per share on the terms and conditions set out and as described in the Explanatory Memorandum accompanying this Notice of Extraordinary General Meeting".

Voting Exclusion: In accordance with item 7 of section 611 of the Corporations Act, the Company will disregard any votes cast on this resolution by H&H Holdings Australia Pty Ltd and any of its Associates.

Explanatory Memorandum

The Explanatory Memorandum accompanying this Notice is incorporated in and comprises part of this Notice.

Shareholders are specifically referred to the glossary in the Explanatory Memorandum which contains definitions of capitalised terms used both in this Notice and the Explanatory Memorandum.

Voting by proxy

A Shareholder entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint a proxy. A proxy may, but need not be, a Shareholder. A Shareholder entitled to cast 2 or more votes may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise, but where the proportion or number is not specified, each proxy may exercise half of the votes. For details on how to complete and lodge the Proxy Form, please refer to the instructions on the Proxy Form.

Shareholders should complete the Proxy Form that accompanies this Notice and Explanatory Memorandum, and return it by mail, in person, online or by facsimile. Proxy Forms must be returned by 10.00am (AWST) on Wednesday 14 August 2013 to be effective.

As stated on the Proxy Form accompanying this Notice, the Chair intends to vote available proxies in favour of the Resolution.

Documents may be lodged:

BY MAIL	Computershare Investor Services Pty Limited GPO Box 242, Melbourne, Victoria 3001 Australia
ONLINE	www.investorvote.com.au
BY FAX	1800 783 447 (within Australia) +61 3 9473 2555 (outside Australia)

Entitlement to vote

The Company may specify a time, not more than 48 hours before the Meeting, at which a “snapshot” of Shareholders will be taken for the purposes of determining Shareholder entitlement to vote at the Extraordinary General Meeting.

The Directors have determined that all Shares registered at 5.00pm (AWST) on Wednesday 14 August 2013 shall, for the purposes of determining voting entitlements at the Extraordinary General Meeting, be taken to be held by the person registered as holding the Shares at that time.

Voting in person

To vote in person, attend the Extraordinary General Meeting on the date and at the place set out above. Shareholders are asked to arrive at the venue 30 minutes prior to the time designated for the Meeting, if possible, so that the Company may check their Shareholding against the Company’s share register and note attendances.

Voting by Corporate Representative

Any corporate Shareholder who has appointed a person to act as its corporate representative at the Extraordinary General Meeting should provide that person with a certificate or letter executed in accordance with the Corporations Act authorising him or her to act as that company's representative. The authority may be sent to the Company's Share Registrar in advance of the Extraordinary General Meeting or handed in at the Extraordinary General Meeting when registering as a corporate representative. A corporate representative form may be downloaded from the Computershare website if required.

By order of the Board of Directors

Michael Fry
Company Secretary
VDM Group Limited

Dated 8 July 2013

Explanatory Memorandum

Purpose of this Explanatory Memorandum

This document is important. It contains information for Shareholders relating to the Placement. This Explanatory Memorandum provides Shareholders with necessary information to assist them in deciding how to vote on the resolution to be considered at the Meeting. This Explanatory Memorandum does not take into account the individual investment objectives, financial situation and particular needs of Shareholders or any other person. Accordingly, it should not be relied upon as the sole basis for any decision in relation to the Placement.

You should read this Explanatory Memorandum in its entirety before making a decision as to how to vote at the Meeting.

The frequently asked questions section of this Explanatory Memorandum answers some common questions about the Placement generally. They are not intended to address all issues relevant to Shareholders.

If you have any doubt as to what you should do once you have read this Explanatory Memorandum, you should consult your legal, financial or other professional adviser.

Forward looking statements

Certain statements in this Explanatory Memorandum relate to the future. Those statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by those statements. These statements reflect views only as at the date of this Explanatory Memorandum.

While VDM believes that the expectations reflected in the forward looking statements in this document are reasonable, neither the Company nor any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statements in this Explanatory Memorandum will actually occur and you are cautioned not to place undue reliance on those forward looking statements.

Notice to persons outside Australia

This Explanatory Memorandum has been prepared in accordance with Australian laws, disclosure requirements and accounting standards. These laws, disclosure requirements and accounting standards may be different to those in other countries.

Disclaimer

No person is authorised to give any information or make any representation in connection with the Placement which is not contained in this Explanatory Memorandum. Any information or representation not contained in this Explanatory Memorandum may not be relied on as having been authorised by VDM or the Directors in connection with the Placement.

Responsibility for Information

The information concerning the Company contained in this Explanatory Memorandum including information as to the views and recommendations of the Directors has been prepared by the Company and is the responsibility of the Company. H&H, its Associates or their advisers do not assume any responsibility for the accuracy or completeness of that information.

Information concerning H&H and its Associates in this Explanatory Memorandum, including information as to the intentions of H&H, has been provided by H&H and is the responsibility of H&H. Neither the Company nor its advisers assume any responsibility for the accuracy or completeness of that information.

BDO Corporate Finance (WA) Pty Ltd has prepared the Independent Expert's Report in relation to Resolution 1 and takes responsibility for that report and has consented to the inclusion of that report in this Explanatory Memorandum. BDO Corporate Finance (WA) Pty Ltd is not responsible for any other information contained within this Explanatory Memorandum.

Shareholders are urged to read the Independent Expert's Report carefully to understand the scope of the report, the methodology of the assessment, the sources of information and the assumptions made.

ASIC and ASX involvement

A draft of this Explanatory Memorandum (including the Independent Expert's Report) has been provided to ASIC. A copy of this Explanatory Memorandum has been lodged with ASX pursuant to the Listing Rules. Neither ASIC or ASX nor any of their respective officers takes any responsibility for the contents of this Explanatory Memorandum.

Definitions

Capitalised terms used in this Explanatory Memorandum are defined in the glossary in section 12 of this Explanatory Memorandum.

8 July 2013

Dear Fellow Shareholder,

I am pleased to enclose an Explanatory Memorandum containing information regarding the proposed share placement to H&H Holdings Australia Pty Ltd.

Transaction Summary

As announced on 29 May 2013, VDM has entered into a binding Share Subscription Agreement under which H&H has agreed to subscribe for 600 million new fully paid ordinary Shares to raise $15 million.

The Placement price of 2.5 cents per Share represents a premium of:

- 127% to the closing price of 1.1 cents per Share on 28 May 2013, the day before the Placement was announced;
- 78% to the 60 day VWAP of 1.4 cents per Share for the period ending 28 May 2013; and
- 108% to the closing price of Shares of 1.2 cents per Share on 5 July 2013, the day before the Explanatory Memorandum went to print.

In conjunction with the Placement, Dr Dongyi Hua, the owner and controller of H&H, is to be appointed as Managing Director of VDM.

Successful completion of the Placement is subject to the approval of Resolution 1 by Shareholders at the Extraordinary General Meeting and no material adverse change arising prior to completion.

Directors' Unanimous Recommendation

The Directors **unanimously recommend that Shareholders vote to approve Resolution 1**, subject to the Independent Expert not changing its view and concluding that the Placement is "not fair and reasonable" prior to the Extraordinary General Meeting. As a further signal to Shareholders of our support of the Placement, each Director intends to vote all Shares they own or control the right to vote in favour of Resolution 1.

Rationale for the Placement

Activity in the construction industry in general remains volatile and the Company has continued to see weakness across the resources sector. Notwithstanding this, the Board is of the view that opportunities exist for companies that have strong balance sheets and industry recognised capabilities.

The Board believes that the Placement will deliver a number of significant benefits to VDM and Shareholders including:

- Strengthen the balance sheet to support ongoing work;
- Improve market confidence in VDM which will have flow on benefits to clients, Shareholders, employees, and suppliers;
- Provide increased working capital support allowing the business to bid for a greater range of projects, enabling the Company to target new markets and increase revenues;
- Improve the ability of the Company to renegotiate banking and security facilities; and
- The presence of H&H allows the Company to pursue new opportunities, leveraging off the global experience of H&H in the mining and construction sectors.

Although H&H will obtain a significant Shareholding in VDM as a result of the Placement, the Directors consider that the benefits of the Placement, as well as the fact that the existing Directors will hold the majority of positions on the new Board immediately following completion of the Placement, outweigh any disadvantage.

Independent Expert

The Directors have asked for an Independent Expert's Report from BDO Corporate Finance (WA) Pty Ltd to assist Shareholders in deciding whether or not to approve Resolution 1. In that report, **the Independent Expert has concluded that the Placement is fair and reasonable to Shareholders not associated with H&H**. The Independent Expert's Report is set out in Appendix A to the Explanatory Memorandum.

Further Information

The Explanatory Memorandum contains further details of the proposed Placement. While the Directors unanimously recommend that you vote in favour of the Placement, there are a number of potential disadvantages and risks associated with it that are set out in section 6 of the Explanatory Memorandum. Please read the Explanatory Memorandum in full before making your decision and voting on Resolution 1 at the Meeting.

The Directors encourage you to participate in the vote. You can vote in person at the Extraordinary General Meeting on Friday 16 August 2013 or, if you cannot attend the Meeting in person, you can vote by proxy or through an assigned power of attorney or corporate representative using the proxy form enclosed with the Explanatory Memorandum.

If you have any questions about the proposed Placement, you should consult your independent financial, legal and/or tax adviser. For assistance with matters concerning the Placement, the Extraordinary General Meeting, or voting procedures, please call the Transaction Information Line on 1300 093 656 (toll free in Australia) or +61 3 9415 4171 (from overseas) on Monday to Friday between 9.00am and 5.00pm (AEST).

I and my fellow Directors believe that the alignment with H&H will significantly benefit the Company and its Shareholders. If you support our views and would like the Placement to proceed, it is important that you vote in favour of Resolution 1.

Yours faithfully

Michael Perrott AM
Chairman
VDM Group Limited

Table of Contents

1. Frequently asked questions (FAQs)

Why did I receive this document?	This document contains information relating to the proposed Placement to H&H. A transaction of this importance requires your approval at a general meeting of Shareholders before it can be implemented. The Placement will be considered at a meeting of Shareholders on Friday 16 August 2013. The information set out in this document will assist you, as a Shareholder, to decide how you wish to vote on the Placement.
Who is H&H and what does it do?	H&H is a private investment platform, owned and operated by Dr Dongyi Hua. The company's primary role is to act as the overseas expansion vehicle for its parent company, H&H Holdings Group Limited (a company incorporated in the British Virgin Islands) (**H&H Holdings**). Further information on Dr Hua is set out in section 5(c) of this Explanatory Memorandum.
What is the Placement?	The Placement involves the issue of 600 million Shares in the Company to H&H, to raise $15 million. Further information on the Placement is set out in section 2 of this Explanatory Memorandum.
Why should I vote to approve the Placement?	If approved, the Placement will, amongst other things, have the following benefits for Shareholders: • Strengthen the Company's balance sheet; • Improve market confidence in VDM; and • Provide an enhanced financial platform on which to accelerate growth. Please see section 6(a) for further details on the benefits of the Placement.
How does the Board recommend that I vote?	**The Board unanimously recommends that Shareholders vote to approve the Placement.** Each Director will vote in favour of the Placement in respect of the Shares they hold or control.
What is the opinion of the Independent Expert?	The terms and conditions of the Placement have been reviewed by an Independent Expert, BDO Corporate Finance (WA) Pty Ltd. **BDO Corporate Finance (WA) Pty Ltd has concluded that the Placement is fair and reasonable to Shareholders not**

	associated with H&H. BDO Corporate Finance (WA) Pty Ltd's report is set out in Appendix A of this Explanatory Memorandum.
If the Placement is approved what will happen?	H&H must subscribe for and accept the issue of 600 million Shares in the Company, as consideration for the payment of $15 million to the Company.
When will the Placement take place?	Completion of the Placement is expected to take place within 3 Business Days of approval by Shareholders.
How will the structure of the Company's ownership change?	The number of Shares held by existing Shareholders (other than H&H) will not change, however, by issuing additional Shares to H&H, the total of VDM's issued Shares will increase from approximately 934 million Shares to approximately 1,534 million Shares. Following the Placement, H&H will hold approximately 645 million Shares, or 42.1% of the Company's issued share capital.[1]
If the Placement takes place, my Shareholding will be diluted. What does this mean to me?	If the Placement proceeds there will be more Shares on issue and therefore your overall percentage holding in VDM will be reduced. However, the Directors consider that the benefits of the Placement, as well as the fact that the existing Directors will hold the majority of positions on the new Board immediately following completion of the Placement, outweigh any disadvantage. The value of your Shares will be determined by the price that Shares trade at on the ASX.
Will anything happen to my Shares? Will I still be able to sell them on the ASX after the Placement?	Nothing will happen to your Shares. You will continue to own the same number of Shares. VDM will remain listed on the ASX and you can continue to trade your Shares as you normally would.
Who will sit on the Board post completion of the Placement?	If the Placement proceeds, the Board will change to reflect the new Shareholder ownership of the Company following the Placement. The new Board will comprise 7 members. Dr Dongyi Hua will be appointed to the Board as Managing Director replacing Andrew Broad. Michael Perrott AM, VDM's current Chairman, will remain as Chairman. H&H will also have the opportunity to have 2 non-executive Directors appointed to the Board.

[1] Equivalent to 31.98% on a fully diluted basis – that is, assuming that all Options and Rights to be issued Shares currently on issue are exercised.

	Further information on composition of the Board post completion of the Placement is set out in sections 2 and 5 of this Explanatory Memorandum.
Who will manage VDM post Placement?	The Board of VDM shall comprise 7 Directors in total, with 3 Directors being nominees of H&H and the remaining 4 Directors being non-executive Directors who are independent of H&H. 1 of the 3 H&H nominees shall be Dr Dongyi Hua who shall be appointed as the Managing Director of VDM, subject to Dr Hua and the Company entering into the MD Service Contract. While Andrew Broad will no longer be Managing Director, H&H's intent is that Mr Broad will remain with the Company in a senior executive role. At the time of printing this Explanatory Memorandum, the future role of Mr Broad within VDM was under discussion. No other immediate changes to the current management team are expected to be made by Dr Hua upon his assumption of the role of Managing Director. Further information on the intentions of H&H is set out in section 5(b) of this Explanatory Memorandum.
What am I being asked to vote on?	Shareholders are being asked to vote on a resolution authorising the Placement, being the proposed issue of 600 million Shares to H&H at an issue price of $0.025 per Share, to raise $15 million. Further information on Resolution 1 is set out in section 2 of this Explanatory Memorandum.
Why is my approval required?	You are a Shareholder and given the nature and size of the Placement, approval of the Shareholders is required under the Corporations Act.
When and where will the Meeting be held?	The Meeting will take place on Friday 16 August 2013 at 10.00am (AWST) at Level 5, The Ernst & Young Building, 11 Mounts Bay Road, Perth.
Who can vote?	In accordance with the Corporations Regulations 2001 (Cth), the Board has determined that the Shareholders entitled to attend and vote at the Meeting shall be those persons who are recorded in VDM's register of members at 5.00pm (AWST) on Wednesday 14 August 2013. In accordance with the Corporations Act, the Resolution to be put to the Meeting in relation to the Placement has a voting exclusion statement. This voting exclusion statement is set out in this Explanatory Memorandum and requires the Company to exclude the votes of H&H and its Associates.

What is the voting approval threshold?	The Resolution being put to Shareholders is an ordinary resolution, requiring simple majority approval (i.e. more than 50% of votes cast by Shareholders entitled to vote on Resolution 1 must be cast in favour).
Is voting compulsory?	Voting is not compulsory, though your vote is important. If you cannot attend the Meeting to be held on Friday 16 August 2013, you are strongly encouraged to complete and return the Proxy Form that is enclosed with this document. If you are an overseas Shareholder and hold your Shares through a broker or nominee holder, you should contact them as soon as possible to instruct them to vote on your behalf. If you require any assistance in completing or lodging your proxy, please feel free to contact the Transaction Information Line on 1300 093 656 (toll free in Australia) or +61 3 9415 4171 (from overseas) on Monday to Friday 9.00am to 5.00pm (AEST) or contact your financial or other professional advisor.
What will happen if Shareholders do not approve the resolution relating to the Placement?	Further information on what will happen if Shareholders do not approve the Resolution relating to the Placement is set out in section 8(a) of this Explanatory Memorandum.
Further Questions	If you have any questions regarding the Placement after having read this Explanatory Memorandum and the Independent Expert's Report, please call the Transaction Information Line on 1300 093 656 (toll free in Australia) or +61 3 9415 4171 (from overseas) on Monday to Friday between 9.00am and 5.00pm (AEST).

2. Description of the Placement

(a) Summary and key terms of the Placement

VDM and H&H have entered into the Share Subscription Agreement pursuant to which H&H has agreed to subscribe for 600 million new Shares to raise $15 million. Prior to entering into the Share Subscription Agreement, H&H acquired 45,030,015 Shares on-market, representing Voting Power of 4.82% on an undiluted basis. If the Placement proceeds, H&H will increase its Voting Power from 4.82% to 42.1%.[2]

Upon completion of the Placement and subject to the Company and Dr Dongyi Hua having entered into the MD Service Contract, Dr Hua is to be appointed as Managing Director of the Company. The Share Subscription Agreement provides that Dr Hua shall enter into the MD Service Contract with the Company, on terms that will be substantially similar with the agreement in place for the current Managing Director, both in terms of employment conditions and aggregate remuneration. H&H will also have the ability to nominate 2 non-executive Directors to the Board. Following completion, it is intended that the Board shall comprise 7 members, with at least 4 Directors who are independent of H&H. Michael Perrott AM shall remain as non-executive Chairman of the Company, while Managing Director Andrew Broad will step down from this role following completion.

[2] Equivalent to 31.98% on a fully diluted basis – that is, assuming that all Options and Rights to be issued Shares currently on issue are exercised.

A summary of the material terms of the proposed MD Service Contract (which it is intended be entered into by the Company and Dr Dongyi Hua) is set out in Schedule B to this Explanatory Memorandum.

Completion of the Placement is subject to a number of conditions, including Shareholder approval and no material adverse change arising between now and completion.

The Share Subscription Agreement contains customary exclusivity provisions, including no shop, no talk and no due diligence provisions. Customary provisions are also contained within the Share Subscription Agreement that allow the Board to exercise its fiduciary duties in the event that an alternate proposal eventuates. The exclusivity obligations apply until the earlier of the end of the Meeting, or 25 November 2013.

To demonstrate and secure its commitment to the Placement, H&H has entered into an Escrow Deed with VDM. Under the terms of the Escrow Deed, H&H shall place $15 million into an escrow account at least five Business Days prior to the Meeting, and upon completion, this amount will immediately be released to VDM. Prior to signing the Share Subscription Agreement an amount of $500,000 was placed into the escrow account and is payable to VDM should completion not occur as a result of H&H being unable to fulfil certain of its obligations under the terms of the Share Subscription Agreement.

Further information about the Share Subscription Agreement is set out in Schedule A.

(b) Steps involved in implementing the Placement

The following steps must be taken to implement the Placement:

1. Shareholders must approve Resolution 1 by the requisite majority (more than 50% of votes cast by Shareholders entitled to vote on Resolution 1 are cast in favour) under item 7 of section 611 of the Corporations Act, at the Meeting. For the avoidance of doubt, H&H and its Associates are not entitled to vote.

2. All other conditions under the Share Subscription Agreement that are outlined in Schedule A to this Explanatory Memorandum must be either satisfied or waived.

(c) Reason Shareholder approval is required

You are a Shareholder, and given the nature and size of the Placement, and the fact the Placement will increase the Voting Power of H&H, approval of Shareholders is required under the Corporations Act and the Listing Rules.

Further information on the reason Shareholder approval is required is contained in section 11 of this Explanatory Memorandum.

3. Rationale for the Placement

Activity and sentiment in the sectors in which the Company operates within the construction industry remains weak. Over the past 6 months, major resource companies have been quite public in terms of their announcements to reduce operating costs and cancel or defer capital expenditure plans.

The volume of new construction work awarded by major resource companies has reduced over the past 6 months, as compared to the volumes awarded over the past 2 to 3 years. The reduction in the available new work is placing additional financial pressure on all construction contractors.

In response to the changing market environment, VDM has made progress in its overhead cost reduction strategy and working capital management initiatives. Despite solid progress in these areas, the Company is periodically faced with working capital constraints resulting from timing mismatches that occur between the inflow of project revenues and the outflow of costs for suppliers and subcontractors. Cashflow timing mismatches of this nature on construction projects are typical to the construction industry.

On 22 November 2012, the Company provided an update to the market by way of an announcement made to ASX. Within this announcement, the Company made reference to recent opportunistic enquiries being received regarding the possibility of a corporate transaction. None of the enquiries presented to the Company prior to the H&H proposal contained valuation metrics that were sufficiently compelling enough so as to warrant more extensive negotiations and subsequent presentation to Shareholders.

When the unsolicited approach was made to the Company by H&H, the Board considered a number of factors when evaluating the H&H proposal. Key factors considered included how the proposed transaction compared to the other enquiries that had been received by the Company, recognition that H&H had already invested approximately $720,000 in the Company through its on-market acquisition of its 4.82% interest (as opposed to other enquiries that did not contain any initial investment), and the benefits that H&H could bring to VDM in terms of the additional working capital and expanded business network. The H&H proposal placed a value on the Company that significantly exceeded the indicative values placed on the Company under the earlier enquiries and the then current Share price. Accordingly, the Board engaged in more detailed discussions with H&H that have ultimately led to the proposed Placement.

Notwithstanding the general weakness in the sectors that the Company operates in, the Board is of the view that opportunities exist for companies that have strong balance sheets and industry recognised capabilities. The proposed Placement provides the Company with a better platform so as to take advantage of potential opportunities.

4. Overview of VDM

(a) Overview

VDM is an engineering and construction company that services the mining and resources, transport and civil infrastructure and urban development sectors. VDM provides construction for non-process infrastructure, civil works and urban development, structural, mechanical and piping and consulting engineering services.

VDM's highly skilled engineers develop innovative technical solutions for clients and deliver projects that are cost effective, reliable and sustainable. VDM's project experience ranges from the design and construction of non-process infrastructure in remote regions in Western Australia, through to large civil construction jobs for State and Federal governments in Queensland.

(b) Current Directors

The Board currently comprises the following Directors:

- Mr Michael Perrott AM - Chairman;
- Mr Andrew Broad - Managing Director;
- Mr Michael Fry - Non-executive Director;
- Mr Richard Mickle - Non-executive Director; and
- Mr Barry Nazer - Non-executive Director.

(c) Proforma VDM Balance Sheet as at 31 December 2012

Since its last reporting date, the Company has completed 2 divestment transactions that have had a material impact on the working capital and gross asset position of the Company. In addition, movement in working capital during the same time period has also had a material impact on the available cash balance of the Company.

In order to provide a more representative financial position, the Company has restated its balance sheet as at 31 December 2012 on a proforma basis that reflects the material changes described above.

VDM Group Ltd

Proforma Balance Sheet as at 31 December 2012

	Consolidated	Adjustments	Proforma (1)
	31-Dec-12		31-Dec-12
	$'000		$'000
ASSETS			
Current assets			
Cash and cash equivalents (6)	11,940	(5,174)	6,766
Term deposits (5)	6,653	(497)	6,156
Trade and other receivables (4)	23,508	(2,732)	20,776
Contracts in progress (4)	9,037	5,778	14,815
Inventory	850		850
Development properties	5,563		5,563
Other assets	1,189		1,189
	58,740	(2,625)	56,115
Assets directly associated with the disposal group (2)	10,147	(10,147)	0
Non-current assets classified as held for sale (3)	2,245	(950)	1,295
Total current assets	71,132	(13,722)	57,410
Non-current assets			
Trade and other receivables	256		256
Property, plant and equipment	11,118		11,118
Deferred tax asset	1,048		1,048
Intangible assets and goodwill	719		719
Total non-current assets	13,141	0	13,141
TOTAL ASSETS	84,273	(13,722)	70,551
LIABILITIES			
Current liabilities			
Trade and other payables (4)	40,168	(10,525)	29,643
Current tax liabilities	3,147		3,147
Deferred tax liability	-		0
Interest-bearing loans and other borrowings	731		731
Provisions	6,361		6,361
	50,407	(10,525)	39,882
Liabilities directly associated with the disposal group (2)	5,404	(5,404)	0
Total current liabilities	55,811	(15,929)	39,882
Non-current liabilities			
Interest-bearing loans and other borrowings	526		526
Lease liability	540		540
Provisions	301		301
Total non-current liabilities	1,367	0	1,367
TOTAL LIABILITIES	57,178	(15,929)	41,249
NET ASSETS	27,095	2,207	29,302

Notes to Proforma 31 December 2012 Balance Sheet:

1) Proforma balance sheet at 31 December 2012 restated for material asset and liability movements in the 4 month period to 30 April 2013. The proforma balance sheet does not purport to represent the comprehensive financial statement position of the Company as at 30 April 2013, but is merely intended to highlight to users of this information the impact that material movements in certain assets and liabilities have had since the last reporting date of 31 December 2012.

2) The Company sold all of its shares in Como Engineers Pty Ltd on 10 April 2013. The sale price was $5.45 million pre-transaction costs, with transaction costs of approximately $550,000.

3) In March 2013, the Company sold its Karratha commercial property to an unrelated third party for $3.0 million (excl GST) that had a recognised book value of $950,000.

4) The predominant source of revenue for the Company is the execution of building and civil construction contracts. Under the payment terms of these contracts, there is often a mismatch between the timing of the receipt of proceeds and the timing of payment for employee and supplier obligations. In addition, it often takes several months to fully resolve certain claims and variations on these contracts, resulting in the contractor having to fund the working capital requirements whilst they are resolved. The movement in debtors, work in progress and creditors in the 4 months to 30 April 2013, and the resulting impact on cash, is represented in this proforma adjustment.

5) In the 4 months to 30 April 2013, the amount of funds required to be placed on deposit with Bankwest as security for bank guarantees issued in favour of the Company has reduced by $497,000, thereby moving this amount from restricted cash (term deposits) to un-restricted cash (cash and cash equivalents).

6) Net movement in cash and cash equivalents resulting from the impact of all the changes referred to above.

5. Overview of H&H

(a) General information

(i) H&H Holdings Australia Pty Ltd

H&H (an Australian proprietary company) was established as an investment platform in Australia. The Company's primary role is to act as the overseas expansion vehicle for its parent company, H&H Holdings (a company incorporated in the British Virgin Islands).

H&H is a private investment vehicle and has no association with any Chinese State Owned Enterprises or other Government organisations. H&H is a 100% owned subsidiary of H&H Holdings, which is 100% owned and controlled by Dr Dongyi Hua.

(ii) Management of H&H Holdings Australia Pty Ltd

H&H and its parent company, H&H Holdings, are managed by Dr Dongyi Hua. Dr Hua and Ms Furong Zhang are the current directors of H&H. Details of Dr Hua, the ultimate controller of H&H and H&H Holdings, are set out in section 5(c) below.

(b) Intentions of H&H

This section sets out H&H's intentions regarding the future of VDM if Shareholders approve the Placement and the Placement is implemented, including H&H's intentions in relation to:

- any changes in VDM's business;
- any injections of further capital into VDM;
- the future employment of the present employees of VDM;
- any proposals to transfer any property between VDM and H&H or any person associated with H&H;
- any proposals to redeploy the fixed assets or property of VDM;
- making any significant changes to the financial or dividend policies of VDM;
- the appointment of H&H representatives to the VDM Board; and
- whether VDM remains listed on ASX.

If the Placement is approved and implemented, a H&H representative shall hold the position of Managing Director[3] and a further 2 nominees of H&H will be appointed as Directors. H&H may therefore have indirect influence on the decisions of the Board of VDM. H&H will not be able to unilaterally determine decisions of the Board, both because its nominees will comprise 3 out of 7 Directors of the Board, and because those nominees will in any event have fiduciary and statutory duties to all Shareholders of VDM.

The following statements of intention are based on the information concerning VDM and the circumstances affecting the business of VDM that are known to H&H at the date of this Explanatory Memorandum. Final decisions on the matters which are the subject of the following statements of intention will only be made in light of all material facts and circumstances at the relevant time, after Shareholders approve the Placement and the Placement is implemented. Accordingly, the statements set out in this section 5(b) are statements of current intention only, which may change as new information becomes available or circumstances change.

[3] Subject to that representative (as at the date of this Explanatory Memorandum, intended to be Dr Dongyi Hua) and the Company entering into the MD Service Contract.

Further, the intentions and statements of future conduct set out in this section 5(b) must be read as being subject to:

- the law (including the Corporations Act) and the Listing Rules, including in particular the requirements of the Corporations Act and the Listing Rules in relation to conflicts of interest and 'related party' transactions. H&H and its associated entities will be treated as related parties of VDM if the Placement is implemented; and

- the legal obligations of the VDM Directors at the time, including any nominees of H&H, to act in good faith in the best interests of VDM and for proper purposes, and to have regard to the interests of all Shareholders.

The intentions of H&H's other associated entities set out in this section 5(b) are the same as the intentions of H&H.

(i) Continuation of business

To the extent that H&H will have influence over the conduct of the business at VDM, H&H's current intention is to recommend the following changes to the business of VDM.

Strategy overview

H&H's goal is to build Shareholder wealth by accelerating VDM's current strategy and expanding VDM's capabilities in order to capture a larger portion of the resource value chain. It should be noted that the proposed changes to the strategy of VDM recommended by H&H will be subject to comprehensive review and endorsement by the Board of VDM prior to the changes in strategy being adopted by VDM.

H&H understands that VDM's current strategy is concentrated on simplifying its business towards a focused 'design and construct' model with an emphasis on resource related and civil infrastructure projects.

Additional capital will strengthen VDM's initiatives to attract new contracts and support these contracts. H&H believes that with some additional capital and H&H's strong relationships in engineering and construction, in particular those that are Chinese related, they can accelerate the growth and sustainability of its project pipeline in engineering and construction. In particular, H&H sees the opportunity to leverage VDM's magnetite experience and track record to win new work from Chinese magnetite developers in the future.

In addition to enhancing VDM's current operations, H&H is proposing that in time VDM consider expanding its exposure to the resources value chain through the establishment of 2 new divisions: Procurement Services and Mining.

<u>Procurement Services</u>

H&H plans to establish VDM's Procurement Services capability (e.g. equipment, materials, electrical systems, etc.) through an International Procurement Centre in Shanghai, thereby extending VDM's capabilities and service offering to existing and new customers. This is expected to be achieved through access to capable and cost competitive goods and services in China.

<u>Mining</u>

H&H proposes to leverage VDM's current engineering, and construction capabilities to expand into mining. Under H&H's strategy changes, H&H proposes that VDM will look for opportunities to apply for mining rights or invest directly into mining projects with intentions to take the project through to production or exit at an optimal return for Shareholders.

H&H proposes that VDM will seek to utilise its in-house skills of engineering and construction to enhance value, and over time introduce funding partners.

Benefits of Revised Strategy

H&H believes that the changes to the strategy of VDM that it is promoting shall benefit all Shareholders in the following ways:

- Expansion of VDM's business into Procurement Services and Mining will enhance VDM's value proposition to its clients;
- Enable VDM to better leverage its in-house engineering and construction skills;
- Diversify the revenue base of VDM, thereby reducing the dependency of revenue derived from construction activities that are typically subject to cyclical changes in investment by clients;
- Modify the risk profile of VDM in order to reduce the concentration of risk currently centred around the successful award and execution of construction contracts; and
- Leverage the Procurement Services arm of the business to reduce the cost of delivery of VDM's construction contracts to its client base.

Timing

H&H proposes that the core focus of VDM will continue to be the engineering and construction business, and the growth of this business through the additional funding and ability to access new contracts.

It is expected that the new initiatives put forward by H&H will be reviewed in due course once the leadership transition to the new Managing Director is completed.

Capital and resources

The majority of funds invested by H&H are to be allocated to enabling the Company to pursue new contracts and support these contracts under the normal trading conditions of construction contracting.

The existing VDM business requires additional working capital to execute its existing strategy, enable VDM to realise the full potential on outstanding contractual claims and variations, and ensure that the existing business is positioned to grow. Funds raised from this Placement will also be applied to resolve these matters.

(ii) Injection of further capital

To the extent that H&H will have influence over the conduct of the capital management of VDM, H&H does not intend to propose the injection of further capital into VDM. Further, H&H does not presently intend to increase its Shareholding in VDM. However, should VDM require further capital in the future which was required to be in the form of equity, H&H may seek to participate in such a capital raising to avoid dilution of its 42.1% Shareholding.

(iii) Future employment of employees

To the extent that H&H will have influence over the employment of the present employees of VDM, H&H intends to continue the employment of the present employees of VDM with the following exceptions:

Upon completion of the Placement, Dr Dongyi Hua is to be appointed Managing Director of VDM, and Andrew Broad will step down from this role. H&H's intent is that Mr Broad will remain with the Company in a senior executive role. At the time of printing this Explanatory Memorandum, the future role of Mr Broad within VDM was under discussion.

(iv) Transfers of property

H&H does not intend to propose any transfer of property between VDM and H&H (or any entities associated with H&H).

VDM has an existing portfolio of non-core property assets and a plan to divest and restructure these assets. It is intended that this process will continue.

(v) Redeployment of fixed assets or property

To the extent that H&H will have influence over the deployment of the fixed assets or property of VDM, H&H does not intend to redeploy the fixed assets or property of VDM.

(vi) Changes to financial or dividend policies

To the extent that H&H will have influence over the financial policies of VDM, H&H does not intend to change VDM's existing financial policies. VDM has not paid any dividends since October 2010 as of the date of this Explanatory Memorandum. H&H intends to support the current dividend policy of VDM, being that the payment and amount of dividends in the future is in the sole discretion of the Board and will depend on VDM's earnings, financial condition, financial arrangements, financing requirements for future growth, the competitive environment and any other factors the Directors consider relevant in the circumstances.

H&H would support the payment of dividends to Shareholders in line with market practices and based on the cash requirements of the Company in the future.

(vii) Appointment of Directors

As noted in section 5(c) below, if the Placement is approved and implemented, 3 of H&H's representatives will be appointed as Directors of VDM. While H&H would have the ability through its significant Shareholding to influence changes to the Board if the Placement is approved, H&H has no present intention to seek the appointment of its representatives to a majority of the Board positions while its Shareholding remains at its post-completion level. However, the Share Subscription Agreement provides that if H&H's Shareholding in VDM materially changes, the composition of the Board will be adjusted so that the number of H&H representatives on the Board will be approximately proportionate to H&H's Shareholding in the Company. H&H has not ruled out the possibility that in the future if there is a material change in relevant circumstances, it may seek the appointment or election of persons nominated by it who would constitute a majority of the Board.

(viii) ASX listing

To the extent that H&H will have influence over whether VDM maintains its listing, H&H intends for VDM to maintain its listing, and the quotation of Shares on ASX, provided VDM meets the relevant requirements of listing on ASX. H&H supports VDM to have a liquid free float and continue to be traded on ASX.

(c) Details of H&H Board nominees

If Shareholders approve the Placement and the Placement is implemented, Dr Dongyi Hua, Mr Ming Guo and Mr Xiangyang Ru will be appointed as Directors of VDM.

- **Dr Dongyi Hua** - Dr Hua is the former Vice President of CITIC Pacific and former Executive Chairman and CEO of CITIC Pacific Mining, a position he held from October 2009 until May 2013. He was previously with Beijing-based CITIC Group, which he joined in 2002. Dr Hua has held executive management positions during the past 15 years for construction and resource development projects across Asia, Africa and Latin America in countries such as China, Angola, the Philippines, Pakistan, Brazil and Algeria. He has extensive experience in project, contractor, cost and risk management. Dr Hua holds a Doctorate of Engineering from the China University of Geosciences. Dr Hua is also the Vice President of the Australian China Business Council Western Australia. Dr Hua is the ultimate legal and beneficial owner of H&H.

- **Mr Ming Guo** - Mr Guo is the founder and Chairman of Xuntong Group, based in Shanghai. Xuntong Group was established in 2004 and has since grown into a large, diversified group with its core business covering real estate, telecommunication engineering, civil engineering, large size steel framework, labour services, international trading, plastic pipes, equipment manufacturing, and international resource development. Since establishment, Xuntong Group has expanded to Africa (Angola and Mozambique), Eastern Europe (Russia), Middle East (Iraq) and Oceania (Australia). Mr Guo holds a Bachelor in Business Management from Shananxi Aerospace Staffs & Vocation University.

- **Mr Xiangyang Ru** - Mr Ru has 15 years' experience in senior management roles in multiple diversified businesses. Mr Ru has held positions as General Manager of Shanghai Jiacai Printing Co, Chairman of Henan Xuchuangli Science Development Co and Chairman of Beijing Hengdejunyi Investment Advisory Co. He has extensive experience in business consulting, machinery equipment and financial leasing as well as significant experience in investment management.

(d) FIRB approval

The Foreign Acquisitions and Takeovers Act 1975 (Cth) (**FATA**), administered by the Foreign Investment Review Board (**FIRB**), regulates the acquisition of interests in certain Australian entities where, subject to particular thresholds, the acquisition results in a foreign person acquiring a substantial interest in the Australian entity.

H&H has confirmed it will not require FIRB approval under either FATA, or Australia's foreign investment policy in respect of the Placement.

6. Advantages and Disadvantages of the Placement

(a) Advantages of the Placement

The Directors expect the Placement to deliver material benefits to VDM, including the following:

- **Strengthen the balance sheet:** Strengthening VDM's balance sheet to support ongoing work;

- **Improve market confidence in VDM:** Would have flow on benefits to clients, Shareholders, employees, and suppliers;

- **Enhanced financial platform to accelerate growth:** Provides increased working capital support allowing the business to bid for a greater range of projects, enabling the Company to target new markets and increase revenues;

- **Strategic investor:** The presence of H&H allows the Company to pursue new opportunities, leveraging off the global experience of H&H in the mining and construction sectors;

- **Improve the ability of the Company to renegotiate banking and security facilities:** Provides the Company with greater flexibility to negotiate its financing arrangements including guarantees and general financing facilities;

- **Relatively low cost of capital:** Providing funding to the VDM business at a price per Share that is unlikely to be achieved through any alternative transaction in the short to medium term;

- **Mitigate contract risk:** Enhances the ability of the Company to pursue and defend claims and variations to contracts;

- **Increased market capitalisation and exposure:** An increased market capitalisation which may result in increased media and investor interest in VDM, potentially effecting demand for Shares and the Share price; and

- **Significant market for Shares remains:** 57.9% of VDM's equity will remain tradeable in the market place ensuring a level of liquidity remains to enable Shareholders to enter and leave the stock.

The Directors note that the Independent Expert has opined that the Placement is fair and reasonable to Shareholders not associated with H&H. You are advised to review in detail this report which is contained in Appendix A to this Explanatory Memorandum.

(b) Disadvantages of the Placement

The Directors note that there are a number of risks and disadvantages of the Placement of which you should be aware, namely:

- **Dilution:** Your percentage Shareholding and Voting Power in VDM will be diluted as a significant number of new Shares will be issued to H&H;

- **Discourage potential bidders:** H&H will increase its Voting Power from 4.82% to 42.1%.[4] This may discourage a potential bidder from proposing a control transaction in relation to VDM;

- **Significant influence:** There is the potential for H&H to be put in a position to exercise significant influence on the operations of VDM, including through Board appointments;

- **Reduced prospect of a full offer:** There is a risk that H&H increases its control of VDM from 42.1% (on an undiluted basis) to a higher level without making a full offer to all Shareholders. In this way, existing Shareholders may not take advantage of premiums that generally arise in relation to takeovers;

- **Lower liquidity:** There is a risk that the trading of Shares will be negatively affected by the presence of a party with 42.1% ownership. The stock will have a materially lower free float on a proportional basis, which may reduce liquidity and may potentially impair the market value of Shares;

- **Disagree with Directors:** You may not agree with the assessment of the Directors that the Placement delivers the best outcome to Shareholders; and

- **Disagree with H&H's intentions:** You may not agree with the intentions that H&H has with respect to the business.

7. Corporate governance

(a) Conflicts of interest policy

The Board has adopted a conflicts of interest policy to address circumstances where a Director's interests or other duties may affect their decision making as a Director, or may be affected by a decision of VDM.

The policy essentially re-enforces each Director's legal duties and obligations by establishing a protocol under which each Director is required to disclose certain interests and advise the Board in circumstances where a potential conflict of interest arises. The policy also sets out the procedures to be followed where the Chairman of the Board determines that a Director's interest in a matter is sufficiently material or would result in a conflict of interest occurring.

However, it is intended that as soon as practicable after completion of the Placement, further conflict protocols will be established. Further details are set out in section 8(a)(iii) of this Explanatory Memorandum.

[4] Equivalent to 31.98% on a fully diluted basis – that is, assuming that all Options and Rights to be issued Shares currently on issue are exercised.

(b) Corporate governance and Board independence post completion of the Placement

H&H and its proposed nominees to the Board are required to comply with all applicable laws and the Listing Rules in relation to the future operations of VDM and the Board, including:

- applicable laws or Listing Rules which require Shareholder approval to be obtained in respect of certain transactions (such as related party transactions);
- applicable laws relating to conflicts of interest for Directors and the potential exclusion of conflicted Directors from voting in relation to matters considered by the VDM Board;
- applicable laws relating to the extent of VDM's compliance with the ASX's Corporate Governance Principles and Recommendations; and
- the legal obligations of VDM Directors to act in good faith, in the best interests of VDM, and for the proper purposes, and to have regard to the interests of the Shareholders of VDM as a whole.

In addition, as members of the Board, H&H's nominees will be bound by the conflict of interest policy described in section 7(a).

Further details pertaining to corporate governance are set out in section 8(a)(iii) of this Explanatory Memorandum.

8. Key implications and risks of the Placement

(a) Key implications and risks if the Placement is approved by Shareholders and the Placement proceeds

(i) Voting rights and shares

Should the Placement proceed, VDM will issue 600 million Shares to H&H. This will increase Shares on issue from approximately 934 million to approximately 1,534 million and will change the capital structure of the Company as outlined in section 8(c) of this Explanatory Memorandum. Existing Shareholders (other than H&H) will hold 57.9% of the undiluted issued capital of VDM, although the number of Shares held by current Shareholders will not change. H&H will hold an interest in 42.1% of the undiluted issued share capital of VDM.

(ii) Headquarters

VDM will remain headquartered in Perth.

(iii) Governance

Following the Placement, VDM will have a Board of 7 Directors, 4 of whom will be non-executive Directors who are independent of H&H. H&H will hold 42.1% of the Shares and existing Shareholders (other than H&H) will hold 57.9% on an undiluted basis. In addition, the Board will change to reflect the new ownership structure. Dr Dongyi Hua, the 100% owner and controller of H&H, will be appointed to the Board as Managing Director (subject to the Company and Dr Hua entering into the MD Service Contract), and H&H will have the opportunity to appoint 2 non-executive Directors. This represents a change in the governance dynamic of VDM and there is a risk that the new Shareholder and the Board will pursue interests which differ from those expected by existing Shareholders.

As a mitigant to any perceived risk in relation to the operation of the Board, H&H has agreed to the inclusion of additional corporate governance protocols as follows.

VDM and H&H have agreed that as soon as practicable after completion of the Placement, they will procure that the Board will establish protocols setting out:

- the structures and procedures which will be put in place by the Board to ensure that the consideration by the Board and management of VDM's business and the business of its subsidiaries is undertaken free from any actual or the appearance of any conflict of interest; and

- the requirement for each Director of VDM to declare any interest he or she has in the matter being considered by the Board and appropriate measures to be taken upon that declaration.

These provisions apply in addition to the statutory and common law obligations applying to all VDM Directors. Further information on VDM's corporate governance following the Placement is contained in section 7.

Immediately following completion of the Placement, H&H will be a related party of VDM. In certain circumstances, legislation and the Listing Rules will require that Shareholder approval be obtained for significant transactions between VDM and a related party. Where Shareholder approval is required, the related party and its Associates will be excluded from voting.

(b) Consequences for VDM if Resolution 1 is not approved or the Placement does not otherwise proceed

If Resolution 1 is not approved by the requisite majority of Shareholders, or if the Placement does not proceed as a result of all conditions not having been satisfied or waived by 25 November 2013 (even if Shareholders vote in favour of Resolution 1 by the requisite majority), then:

- the material benefits outlined in respect of the reasons to vote in favour of the Placement (set out in section 6) may not be able to be realised;

- VDM may also need to pursue other funding arrangements, with no guarantee that any such arrangements will be available, or if available, the terms on which such funding may be provided may not be comparable with the terms of the Placement; and

- the Board's composition and the Company's management will not change.

(c) Impact on VDM's capital structure and level of control

The following table outlines the Company's current capital structure and Voting Power of the Company's substantial Shareholders.

	Pre Placement (Undiluted)		**Post Placement (Undiluted)**[5]	
	# of Shares	**%**	**# of Shares**	**%**
H&H Holdings Australia Pty Ltd	45,030,015	4.82%	645,030,015	42.05%
Hunter Hall Investment Management Ltd	127,665,260	13.67%	127,665,260	8.32%
Renaissance Smaller Companies Pty Ltd	48,593,889	5.20%	48,593,889	3.17%
Other Shareholders	712,583,907	76.30%	712,583,907	46.46%
Total	**933,873,071**	**100.00%**	**1,533,873,071**	**100.00%**

[5] These figures do not take into account the issue of Shares upon conversion of any Options or Rights.

9. Independent Expert's Report

The Company engaged BDO Corporate Finance (WA) Pty Ltd to provide an Independent Expert's Report on the Placement. It is intended to provide Shareholders with information that is material to the decision on how to vote on Resolution 1. The Independent Expert has concluded that the transaction is "fair and reasonable" to the Shareholders of the Company not associated with H&H.

The Independent Expert's Report also contains an assessment of the advantages and disadvantages of the Placement. This assessment is designed to assist all Shareholders in reaching their voting decision.

A copy of the Independent Expert's Report is set out in Appendix A to the Explanatory Memorandum. The Directors recommend that the Shareholders read the Independent Expert's Report in its entirety before deciding whether or not to vote in favour of the Placement.

10. Directors' recommendations

(a) Recommendations

Based on the information available, including that contained in this Explanatory Memorandum and the Independent Expert's Report and the advantages and disadvantages outlined, the Directors unanimously recommend that Shareholders vote in favour of Resolution 1, subject to the Independent Expert not changing its view and concluding that the Placement is "not fair and reasonable" prior to the Meeting.

Each Director who holds Shares in VDM (or whose associated entities hold Shares) and is entitled to vote intends to vote those Shares in favour of Resolution 1.

(b) Interests of Directors

Other than as set out below, the Directors do not have any material personal interest in the outcome of Resolution 1 other than their interests arising solely in their capacity as Shareholders of the Company.

Details of the Directors' interests in the Company's securities as at 8 July 2013 are set out in the following table:

	Pre Placement (Undiluted)			Post Placement (Undiluted)			Post Placement (Fully diluted)[6]	
	# of Shares	%	# of Options and Rights	# of Shares	%	# of Options and Rights	# of Shares	%
Mr Michael Perrott AM - Chairman	6,200,000	0.66%	3,100,000	6,200,000	0.40%	3,100,000	9,300,000	0.46%
Mr Andrew Broad - Managing Director	1,200,000	0.13%	12,306,522	1,200,000	0.08%	12,306,522	13,506,522	0.67%
Mr Michael Fry - Non-executive Director	500,000	0.05%	250,000	500,000	0.03%	250,000	750,000	0.04%
Mr Richard Mickle - Non-executive Director	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Mr Barry Nazer - Non-executive Director	1,228,568	0.13%	614,284	1,228,568	0.08%	614,284	1,842,852	0.09%

(c) Interests of H&H nominee Directors

The number of Shares or rights to Shares in VDM in which each of the H&H nominee Directors has a relevant interest as at the date of this Explanatory Memorandum are set out in the table below:

	Pre Placement (Undiluted)		Post Placement (Undiluted)		Post Placement (Fully diluted)	
	# of Shares	%	# of Shares	%	# of Shares	%
Dr Dongyi Hua - Proposed Managing Director	45,030,015	4.82%	645,030,015	42.05%	645,030,015	31.98%
Mr Ming Guo – Proposed Non-executive Director	Nil	Nil	Nil	Nil	Nil	Nil
Mr Xiangyang Ru – Proposed Non-executive Director	Nil	Nil	Nil	Nil	Nil	Nil

[6] Assumes all Options and Rights have been converted to Shares.

Other than as disclosed elsewhere in this Explanatory Memorandum, none of Dr Dongyi Hua, Mr Ming Guo and Mr Xiangyang Ru have:

(a) any associations with H&H, VDM or any of their Associates; or

(b) any interest in the Placement, or any relevant agreements between H&H and VDM (or any of their Associates) that are conditional on (or directly or indirectly dependent on) Shareholders' approval of the Placement.

11. Additional information relating to Resolution 1

(a) Regulatory requirements

The Corporations Act sets out a number of regulatory requirements that must be satisfied in relation to the issue of Shares under the Placement the subject of Resolution 1.

Pursuant to section 606 of the Corporations Act, a person must not acquire a relevant interest in issued voting shares of a listed company if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction, that person's or someone else's Voting Power in the company increases:

(a) from 20% or below to more than 20%; or

(b) from a starting point that is above 20% and below 90%.

The Voting Power of a person in a company is determined in accordance with section 610 of the Corporations Act. The calculation of a person's Voting Power in a company involves determining the voting shares in the company in which the person and the person's Associates have a relevant interest.

A person (**second person**) will be an 'Associate' of the other person (**first person**) if:

(a) the first person is a body corporate and the second person is:

(i) a body corporate the first person controls;

(ii) a body corporate that controls the first person; or

(iii) a body corporate that is controlled by an entity that controls the person;

(b) the second person has entered or proposed to enter into a relevant agreement with the first person for the purpose of controlling or influencing the composition of the company's board or the conduct of the company's affairs; and

(c) the second person is a person with whom the first person is acting or proposed to act, in concert in relation to the company's affairs.

A person has a relevant interest in securities if they:

(a) are the holder of the securities;

(b) have the power to exercise, or control the exercise of, a right to vote attached to the securities; or

(c) have power to dispose of, or control the exercise of a power to dispose of, the securities.

It does not matter how remote the relevant interest is or how it arises. If 2 or more people can jointly exercise one of these powers, each of them is taken to have that power.

Section 611 of the Corporations Act provides that certain acquisitions of relevant interests in a company's voting shares are exempt from the takeover provisions prohibition in section 606(1), including acquisitions approved previously by a resolution passed at a general meeting of the company in which the acquisition is made (item 7 of section 611 of the Corporations Act).

Shareholder approval under item 7 of section 611 of the Corporations Act is required for Resolution 1.

(b) Application of Listing Rule 7.1

Listing Rule 7.1 provides that a company must not, subject to certain exceptions, issue during any 12 month period any equity securities or other securities with rights of conversion to equity (such as an option) if the number of those securities exceeds 15% of the total ordinary securities on issue at the commencement of that 12 month period.

One circumstance where an issue is not taken into account in the calculation of this 15% threshold is where the issue has the prior approval of shareholders in a general meeting pursuant to item 7 of section 611 of the Corporations Act (see Listing Rule 7.2 exception 16). The proposed issue of Shares under the Placement is being approved under this section and accordingly the exception applies in relation to those issues.

(c) Terms of Shares to be issued

Each of the Shares will rank pari passu with all other Shares.

(d) Timing

If Shareholders approve Resolution 1, the issue of the Shares under the Placement will take place within 3 Business Days of the Meeting, or such other date as the Company and H&H agree in writing.

(e) Specific information required by item 7 section 611 of the Corporations Act and ASIC Regulatory Guide 74

The following information is required to be provided to Shareholders under ASIC Regulatory Guide 74 and the Corporations Act in respect of obtaining approval pursuant to item 7 of section 611 of the Corporations Act.

Shareholders are also referred to the Independent Expert's Report set out in Appendix A to this Explanatory Memorandum.

(a) An outline of the Placement and explanation of the reasons for the Placement is discussed above in sections 2 and 3 of this Explanatory Memorandum.

(b) The identity of the persons who will hold a relevant interest in the Shares to be issued:

If the Placement is approved and implemented, H&H will have a Relevant Interest in 645,030,015 Shares as a result of being the registered holder of those shares.

H&H Holdings and Dr Dongyi Hua (**H&H Controllers**) will have a Relevant Interest in any Shares that H&H has a Relevant Interest in as a result of controlling H&H (directly or indirectly) and the operation of section 608(3) of the Corporations Act. Neither H&H, H&H Holdings nor Dr Hua have a Relevant Interest in any Shares in VDM other than those held by H&H.

H&H Holdings and Dr Hua are the only Associates of H&H.

(c) Full particulars (including the number and percentage) of the Shares to which H&H will be entitled immediately before and after the Placement and the maximum extent of the increase in H&H's Voting Power in the Company (including their Associates) as a result of the Placement:

At the date of this notice the number of Shares held by H&H is 45,030,015 which is equivalent to Voting Power of 4.82%.

If the Placement is approved and implemented the number of Shares held by H&H will increase to 645,030,015 which equates to a total increase in Voting Power from 4.82% in the Company to 42.1%.[7]

By virtue of their control of H&H (directly or indirectly) and the operation of section 608(3) of the Corporations Act, the H&H Controllers have a Relevant Interest in H&H's existing shareholding of 45,030,015 Shares, and will also have a Relevant Interest in the 645,030,015 Shares which H&H will hold after completion of the Placement. As such, the issue of the Placement Shares will also increase the total Voting Power of the H&H Controllers in VDM from 4.82% to 42.1%.[8]

(d) The identity, associations (with H&H and any of its Associates) and qualifications of any person who it is intended will become a Director if Shareholders approve the Placement:

See sections 5(c) and 11(e)(b) of this Explanatory Memorandum.

Dr Dongyi Hua will become the Managing Director of VDM if the Shareholders approve the Placement. Dr Hua is the ultimate legal and beneficial owner and controller of H&H. A summary of the material terms of the proposed MD Service Contract (which it is intended be entered into by the Company and Dr Hua, and which is substantially similar to the current Managing Director's executive service contract) is set out in Schedule B to this Explanatory Memorandum.

If Shareholders approve the Placement, Mr Ming Guo and Mr Xiangyang Ru will also be appointed as Directors of VDM.

Further details in relation to Dr Hua and Mr Guo and Mr Ru are set out in section 5(c).

(e) The interest of any Director in the Placement or any relevant agreement:

None of the Directors have a material interest in the outcome of Resolution 1.

(f) H&H's intentions regarding the future of the Company if Shareholders approve the Placement are set out in section 5(b).

(g) Please refer to section 10 for the recommendations of the Directors.

(h) Details of the terms of any other relevant agreement between the acquirer and the target entity or vendor (or any of their Associates) that is conditional on (or directly or indirectly depends on) members' approval of the proposed acquisition:

The material terms of the Share Subscription Agreement are set out in Schedule A. A summary of the material terms of the proposed MD Service Contract (which it is intended be entered into by the Company and Dr Dongyi Hua) is set out in Schedule B to this Explanatory Memorandum.

[7] Equivalent to 31.98% on a fully diluted basis – that is, assuming that all Options and Rights to be issued Shares currently on issue are exercised.
[8] Equivalent to 31.98% on a fully diluted basis – that is, assuming that all Options and Rights to be issued Shares currently on issue are exercised.

(i) Further details of the Placement are set out throughout this Explanatory Memorandum. Shareholders are also referred to the Independent Expert's Report set out in Appendix A, which provides an analysis of the Placement.

(f) Voting exclusion

For the purposes of item 7 of section 611 of the Corporations Act, and for all other purposes, the Company will disregard any votes cast on Resolution 1 by H&H and any of its Associates.

However, the Company will not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form; or
- it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

12. Glossary

For the purposes of this Notice of Extraordinary General Meeting and the Explanatory Memorandum, the following definitions apply:

"Associate" has the meaning given to that term by Division 2 of Part 1 of the Corporations Act;

"ASX" means ASX Limited ABN 98 008 624 691 and, where the context permits, the Australian Securities Exchange operated by ASX Limited;

"Board" means the board of Directors of the Company;

"Business Day" means a day (other than a Saturday or Sunday) on which trading banks in Perth are open for ordinary business;

"Company" or **"VDM"** means VDM Group Limited ABN 95 109 829 334, and where the context permits, wholly owned subsidiaries of the parent;

"Corporations Act" means the Corporations Act 2001 (Cth);

"Director" means a Director of the Company from time to time;

"Escrow Deed" means the escrow deed entered into between VDM, H&H and Minter Ellison, Lawyers dated 28 May 2013;

"Explanatory Memorandum" means the explanatory memorandum accompanying this Notice;

"Extraordinary General Meeting" or **"Meeting"** means the general meeting of Shareholders of the Company convened by this Notice;

"H&H" means H&H Holdings Australia Pty Ltd;

"H&H Controllers" means H&H Holdings and Dr Dongyi Hua;

"H&H Holdings" means H&H Holdings Group Limited (a company incorporated in the British Virgin Islands);

"Independent Expert" means BDO Corporate Finance (WA) Pty Ltd;

"Independent Expert's Report" means the independent expert's report prepared by the Independent Expert annexed to this notice as Appendix A;

"Listing Rules" means the Listing Rules of ASX;

"Managing Director" means the managing director of the Company, from time to time who, as at the date of this Notice, is Andrew Broad;

"MD Service Contract" means the contract intended to be entered into between the Company and Dr Dongyi Hua on or about the date of completion of the Placement, being substantially similar to the current Managing Director's executive service contract;

"Notice" or **"Notice of Extraordinary General Meeting"** means this notice of Extraordinary General Meeting;

"Placement" means the $15 million raised from the issue of the Subscription Shares to H&H;

"Proxy Form" means the proxy form attached to this Notice;

"Relevant Interest" has the meaning given by section 608 of the Corporations Act;

"Resolution" means a resolution contained in this Notice;

"Share" means an ordinary fully paid share in the capital of the Company;

"Shareholder" means a holder of Shares;

"Shareholding" means a holding of Shares;

"Share Registrar" means Computershare Investor Services Pty Limited ABN 48 078 279 277;

"Share Subscription Agreement" means the agreement entered into between VDM and H&H in respect of the Placement dated 28 May 2013;

"Subscription Shares" means 600 million Shares;

"Voting Power" has the meaning given by section 610 of the Corporations Act; and

"$" means Australian dollars.

Schedule A - Material terms of Share Subscription Agreement

The Share Subscription Agreement was entered into by VDM and H&H on 28 May 2013.

Subscription

Pursuant to the Share Subscription Agreement, H&H agrees to pay $15 million to VDM, in consideration for VDM issuing 600 million Shares to H&H, in accordance with the terms and subject to the conditions set out in the Share Subscription Agreement.

Conditions

Completion is conditional on the satisfaction or, where permitted, waiver of each of the following conditions precedent:

- $15 million having been paid by H&H into an escrow account in accordance with the Escrow Deed entered into between VDM, H&H and Minter Ellison, Lawyers on 28 May 2013;
- no material adverse change in respect of VDM having occurred;
- VDM obtaining the approval of Shareholders at the Meeting to the Placement in accordance with the Corporations Act and the Listing Rules;
- H&H having provided confirmation to VDM that the warranties it has given VDM pursuant to the Share Subscription Agreement remain true and accurate in all material respects and are not misleading by omission; and
- VDM being able to issue a cleansing statement.

Exclusivity

The Share Subscription Agreement contains customary exclusivity provisions which apply during the exclusivity period (being the period from 28 May 2013 and ending on the earlier of the end of the Meeting, the termination of the Share Subscription Agreement, or 25 November 2013) (**Exclusivity Period**).

No shop restriction

During the Exclusivity Period, VDM must ensure that neither it nor any of its Representatives directly or indirectly solicits, invites, facilitates or encourages any person, or communicates any intention to do any of these things, with a view to obtaining any offer or proposal from any person in relation to a Competing Proposal (as defined in the Share Subscription Agreement).

No talk restriction

During the Exclusivity Period, VDM must ensure that neither it nor any of its representatives negotiates or enters into, continues or participates in negotiations or discussions with any other person regarding a Competing Proposal or which may reasonably be expected to lead to a Competing Proposal, even if:

- that person's Competing Proposal was not directly or indirectly solicited, initiated, or encouraged by VDM or any of its representatives; or
- that person has publicly announced their Competing Proposal.

No due diligence

During the Exclusivity Period, VDM must not without H&H's prior written consent:

- solicit, invite, facilitate or encourage any party (other than H&H) to undertake due diligence investigations on VDM where to do so would involve a breach of the Share Subscription Agreement; or
- make available to any person (other than to H&H) or permit any such person to receive any non-public information relating to VDM. Where VDM provides any such information to a person (where it is permitted to do so), it must give H&H a copy of that information at the same time.

Notification of approaches

During the Exclusivity Period, VDM must promptly notify H&H of:

- any approach, inquiry or proposal to, and any attempt or any intention on the part of any person to initiate or continue any negotiations or discussions with VDM or any of its representatives with respect to, or that could reasonably be expected to lead to, any Competing Proposal, whether unsolicited or otherwise;
- any request for information relating to VDM or any of its businesses or operations or any request for access to their books or records, which VDM has reasonable grounds to suspect may relate to a current or future Competing Proposal; and
- any provision by VDM or any of its representatives of any information relating to VDM or any of their businesses or operations to any person in connection with or for the purposes of a current or future Competing Proposal.

Exceptions

These restrictions do not apply to the extent that they restrict the Board from taking any action in respect of a bona fide Competing Proposal which was not encouraged, solicited, invited, facilitated or initiated by VDM in contravention of these provisions provided that the Board has determined in good faith and acting reasonably, after having consulted with and received written advice from its external legal and financial advisers (including senior counsel with relevant expertise), that failing to respond to that Competing Proposal would constitute a breach of the Directors' fiduciary or statutory obligations.

Board representation

Upon completion of the Placement and subject to the Company and Dr Dongyi Hua having entered into the MD Service Contract, Dr Hua is to be appointed as Managing Director of the Company. H&H will also have the ability to nominate 2 non-executive Directors to the Board. Following completion, it is intended that the Board shall comprise 7 members, with at least 4 Directors who are independent of H&H while H&H's Shareholding in the Company remains at its post-completion level. However, if H&H's Shareholding in VDM materially changes, the Board composition will be adjusted so that the number of H&H Board representatives will be approximately proportionate to H&H's Shareholding in VDM.

Completion

Completion is to occur no later than 3 Business Days after the last of the conditions is satisfied or waived, or such other date agreed between VDM and H&H[9]. If all of the conditions have been satisfied or waived by the Meeting date, then completion is scheduled to occur on Wednesday 21 August 2013. Upon completion, H&H will subscribe for, and VDM will issue, the Subscription Shares.

If any of the conditions have not been satisfied or waived by 25 November 2013, either VDM or H&H may

[9] This is to provide administrative flexibility to H&H. The Company expects the Placement will be completed within 3 Business Days after the date of the Meeting.

terminate the Share Subscription Agreement and the Subscription Shares will not be issued. Accordingly, there is a risk that the Placement may not proceed in accordance with the anticipated timetable or may not proceed at all, even if Shareholders vote in favour of Resolution 1 by the requisite majority, in circumstances where all other conditions are not satisfied or waived.

Warranties

VDM and H&H have given a number of mutual warranties including as to capacity.

H&H has also given further representations and warranties to VDM, including that no regulatory approvals are required in respect of the Placement, and that Dr Dongyi Hua directly or indirectly legally and beneficially owns and controls H&H, and no person has any right that could cause that not to be the case.

VDM has also given further representations and warranties to H&H, including as to VDM's compliance with its continuous disclosure obligations under the Corporations Act and the Listing Rules.

Schedule B - Material terms of the proposed MD Service Contract

Under the Share Subscription Agreement, VDM and Dr Dongyi Hua must use all reasonable endeavours to agree the terms of the MD Service Contract on terms and conditions substantially similar to those in place for the Company's current Managing Director (unless modified by mutual agreement, and where required, approved by Shareholders). The terms of the MD Service Contract have not be finalised as at the date of this Explanatory Memorandum. A summary of the material terms of the proposed MD Service Contract (which is currently intended to be entered into by the Company and Dr Hua and subject to negotiation) are set out below.

Term

Ongoing permanent contract.

Fixed Remuneration

Total Fixed Remuneration (**TFR**) of $625,000 per annum, inclusive of superannuation. This represents 40% as a proportion of total maximum remuneration. This amount is reviewable at the Board's discretion each year.

Short Term Incentives

Cash bonus subject to the achievement of key performance indicators relating to profit achievement, safety and organisational management. The maximum short term incentive (**STI**) opportunity is 75% of TFR per annum (pro-rata). This represents 30% as a proportion of total maximum remuneration.

Long Term Incentives

Offer of performance rights subject to VDM's total Shareholder return performance relative to the ASX 200 Industrial Index. The maximum long term incentive (**LTI**) opportunity is 75% of TFR per annum (pro-rata). This represents 30% as a proportion of total maximum remuneration.

Termination

Dr Dongyi Hua may terminate his employment at any time by giving 3 months' notice in writing or such shorter period of notice as agreed to in writing with VDM.

VDM may terminate the employment of Dr Hua by giving 6 months' notice in writing or payment of 6 month's remuneration in lieu of notice (or a combination of notice and payment in lieu of notice) plus any applicable pro rata STIs and/or LTIs.

There is no notice period for termination for serious misconduct.

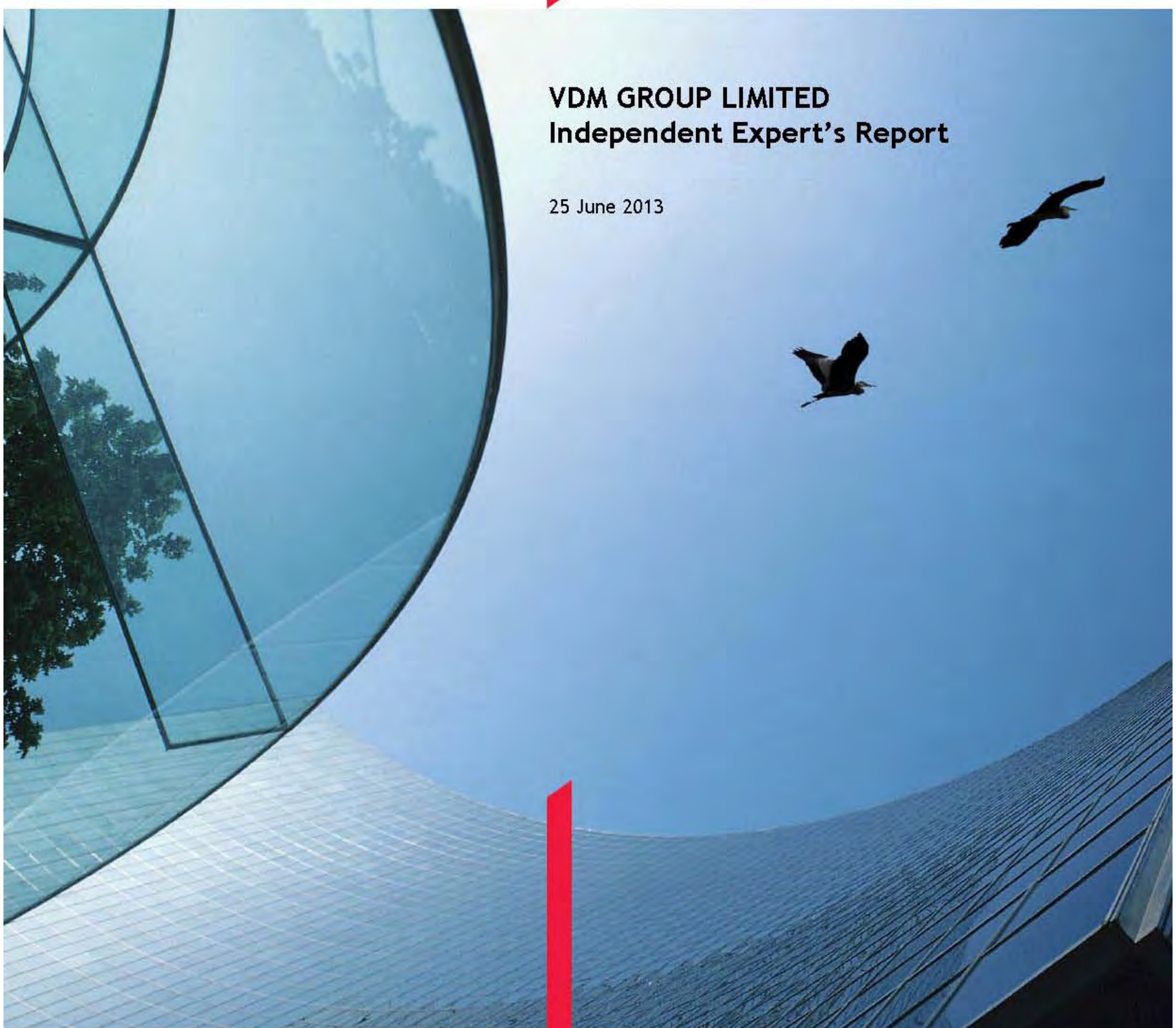
Following termination, Dr Hua will be restrained for a period of 6 months from:

- soliciting or competing for the custom of, or accepting business from, any person who was a customer of the Company at any time during the 6 months immediately preceding his termination of employment with the Company for a business that is the same or similar to the business of the Company;

- soliciting or endeavouring to obtain the services of any professional person who was an employee, consultant or contractor of the Company at any time during the 6 months immediately preceding his termination of employment with the Company; or

- engaging in or associating with a business competing with the business of the Company.

Appendix A



BDO

Financial Services Guide

25 June 2013

BDO Corporate Finance (WA) Pty Ltd ABN 27 124 031 045 ("**we**" or "**us**" or "**ours**" as appropriate) has been engaged by VDM Group Limited ("VDM" or "the Company") to provide an independent expert's report on the proposal to issue 600 million shares at a price of 2.5 cents per share to H&H Holdings Australia Pty Ltd to raise $15 million. You will be provided with a copy of our report as a retail client because you are a shareholder of VDM.

Financial Services Guide
In the above circumstances we are required to issue to you, as a retail client, a Financial Services Guide ("**FSG**"). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- Who we are and how we can be contacted;
- The services we are authorised to provide under our Australian Financial Services Licence, Licence No. 316158;
- Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice;
- Any relevant associations or relationships we have; and
- Our internal and external complaints handling procedures and how you may access them.

Information about us
BDO Corporate Finance (WA) Pty Ltd is a member firm of the BDO network in Australia, a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International). The financial product advice in our report is provided by BDO Corporate Finance (WA) Pty Ltd and not by BDO or its related entities. BDO and its related entities provide services primarily in the areas of audit, tax, consulting and financial advisory services.

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and BDO (and its related entities) might from time to time provide professional services to financial product issuers in the ordinary course of business.

Financial services we are licensed to provide
We hold an Australian Financial Services Licence that authorises us to provide general financial product advice for securities to retail and wholesale clients.

When we provide the authorised financial services we are engaged to provide expert reports in connection with the financial product of another person. Our reports indicate who has engaged us and the nature of the report we have been engaged to provide. When we provide the authorised services we are not acting for you.

General Financial Product Advice
We only provide general financial product advice, not personal financial product advice. Our report does not take into account your personal objectives, financial situation or needs. You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice.

Financial Services Guide

Page 2

Fees, commissions and other benefits that we may receive

We charge fees for providing reports, including this report. These fees are negotiated and agreed with the person who engages us to provide the report. Fees are agreed on an hourly basis or as a fixed amount depending on the terms of the agreement. The fee payable to BDO Corporate Finance (WA) Pty Ltd for this engagement is approximately $40,000.

Except for the fees referred to above, neither BDO, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

Other Assignments - We valued the performance rights intended to be issued following the AGM in May 2012 for a fee of $2,000.

Remuneration or other benefits received by our employees

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report. We have received a fee from VDM for our professional services in providing this report. That fee is not linked in any way with our opinion as expressed in this report.

Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Complaints resolution

Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing addressed to The Complaints Officer, BDO Corporate Finance (WA) Pty Ltd, PO Box 700 West Perth WA 6872.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Scheme

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service ("**FOS**"). FOS is an independent organisation that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial service industry. FOS will be able to advise you as to whether or not they can be of assistance in this matter. Our FOS Membership Number is 12561. Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly via the details set out below.

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001
Toll free: 1300 78 08 08
Facsimile: (03) 9613 6399
Email: info@fos.org.au

Contact details

You may contact us using the details set out on page 1 of the accompanying report.

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PO Box 700 West Perth WA 6872
Australia

25 June 2013

The Directors
VDM Group Limited
28 Troode Street
West Perth, WA 6005

Dear Sirs

INDEPENDENT EXPERT'S REPORT

1. Introduction

On 29 May 2013, VDM Group Limited ("**VDM**" or "**the Company**") announced that the Company had entered into a binding share subscription agreement under which H&H Holdings Australia Pty Ltd ("**H&H**") agreed to subscribe for 600 million new fully paid ordinary VDM shares ("**New Shares**") at 2.5 cents per share to raise $15 million ("**the Placement**"). Following the issue of the New Shares, H&H will hold approximately 42% of the issued share capital of VDM.

The Placement, which will result in H&H holding an interest in VDM in excess of 20%, is subject to shareholders' approval which will be sought under item 7 section 611 of the Corporations Act 2001 ("**the Act**").

2. Summary and Opinion

2.1 Purpose of the report

The directors of VDM have requested that BDO Corporate Finance (WA) Pty Ltd ("**BDO**") prepare an independent expert's report ("**our Report**") to express an opinion as to whether or not the Placement is fair and reasonable to the non associated shareholders of VDM ("**Shareholders**").

Our Report is prepared pursuant to section 611 of the Corporations Act and is to be included in the Explanatory Memorandum for VDM in order to assist the Shareholders in their decision whether to approve the Placement.

2.2 Approach

Our Report has been prepared having regard to Australian Securities and Investments Commission ("**ASIC**") Regulatory Guide 111 ("**RG 111**"), 'Content of Expert's Reports' and Regulatory Guide 112 ("**RG 112**") 'Independence of Experts'.

In arriving at our opinion, we have assessed the terms of the Placement as outlined in the body of this report. We have considered:

- How the value of a VDM share prior to the Placement compares to the consideration of 2.5 cents per New Share to be received from H&H;
- The likelihood of a superior alternative offer being available to VDM;
- Other factors which we consider to be relevant to the Shareholders in their assessment of the Placement; and
- The position of Shareholders should the Placement not proceed.

2.3 Opinion

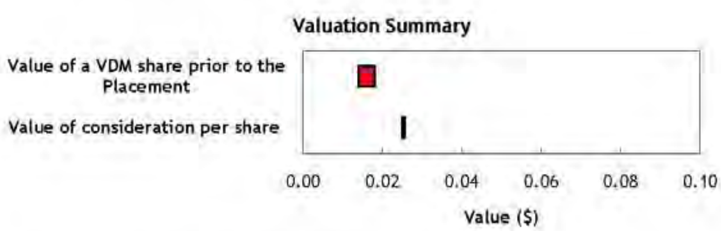
We have considered the terms of the Placement as outlined in the body of this report and have concluded that the Placement is fair and reasonable to Shareholders.

2.4 Fairness

In Section 12 we determined that the Placement consideration compares to the consideration of 2.5 cents per New Share to be received from H&H as detailed hereunder.

	Section	Low $	Preferred $	High $
Value of a VDM share	10	0.014	0.016	0.018
Value of the Placement consideration	11	0.025	0.025	0.025

The above valuation ranges are graphically presented below:



The above pricing indicates that the Placement is fair for Shareholders.

2.5 Reasonableness

We have considered the analysis in Section 13 of this report, in terms of both

- advantages and disadvantages of the Placement; and
- other considerations, including the position of Shareholders if the Placement does not proceed and the consequences of not approving the Placement.

In our opinion, the position of Shareholders if the Placement is approved is more advantageous than the position if the Placement is not approved. Accordingly, in the absence of any other relevant information and/or a superior proposal we believe that the Placement is reasonable for Shareholders.

The respective advantages and disadvantages considered are summarised below:

ADVANTAGES AND DISADVANTAGES			
Section	Advantages	Section	Disadvantages
13.1.1	The Placement is fair	13.2.1	Dilution of existing Shareholders' interests
13.1.2	The Placement will provide increased working capital to support VDM in operating its business, including the ability for the Company to execute current construction projects, undertake additional projects and increase revenues	13.2.2	Decreases the likelihood of a takeover offer
13.1.3	The Placement will strengthen the balance sheet of VDM, better positioning it for further growth in pursuing additional engineering and construction contracts	13.2.3	Potential lower liquidity of shares
13.1.4	The additional cash is likely to improve the Company's ability to renegotiate banking facilities		
13.1.5	As a strategic investor, H&H may provide opportunities for leveraging off global experience and relationships		

Other key matters we have considered include:

Section	Description
13.3.1	We are unaware of any alternative proposal that might offer the Shareholders of VDM a premium over the values ascribed to that resulting from the Placement
13.3.2	If the Placement is approved H&H will hold approximately 42% of VDM and will make up 42.9% of the Board. H&H will be able to significantly influence the operations of the Company, however it will not be able to exercise a similar level of control as if it held 100% of VDM
13.3.3	Potential decline in the share price of VDM
13.3.4	Material uncertainty exists around the outcome of a number of contingent liabilities and litigation matters which may have a significant impact on VDM's business depending on their outcome individually and collectively
13.3.5	The risk profile of Shareholders' investment in VDM's future business may change if H&H's plans to introduce new business activities in procurement services and mining materialise.

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3. Scope of the Report

3.1 Purpose of the Report

Section 606 of the Corporations Act Regulations ("**the Act**") expressly prohibits the acquisition of shares by a party if that acquisition will result in that person (or someone else) holding an interest in 20% or more of the issued shares of a public company, unless a full takeover offer is made to all shareholders.

Following the Placement, H&H will hold approximately 42% of the issued share capital of VDM.

Section 611 permits such an acquisition if the shareholders of that entity have agreed to the issue of such shares. This agreement must be by resolution passed at a general meeting at which no votes are cast in favour of the resolution by any party who is associated with the party acquiring the shares, or by the party acquiring the shares. Section 611 states that shareholders of the company must be given all information that is material to the decision on how to vote at the meeting.

Regulatory Guide 74 issued by ASIC deals with "Acquisitions Agreed to by Shareholders". It states that the obligation to supply shareholders with all information that is material can be satisfied by the non-associated directors of VDM, by either:

- undertaking a detailed examination of the Placement themselves, if they consider that they have sufficient expertise; or
- by commissioning an Independent Expert's Report.

The directors of VDM have commissioned this Independent Expert's Report to satisfy this obligation.

3.2 Regulatory guidance

Neither the Listing Rules nor the Corporations Act defines the meaning of "fair and reasonable". In determining whether the Placement is fair and reasonable, we have had regard to the views expressed by ASIC in RG 111. This regulatory guide provides guidance as to what matters an independent expert should consider to assist security holders to make informed decisions about transactions.

This regulatory guide suggests that where the transaction is a control transaction, the expert should focus on the substance of the control transaction rather than the legal mechanism to affect it. RG 111 suggests that where a transaction is a control transaction, it should be analysed on a basis consistent with a takeover bid.

In our opinion, the Placement is a control transaction as defined by RG 111 and we have therefore assessed the Placement as a control transaction to consider whether, in our opinion, it is fair and reasonable to Shareholders.

3.3 Adopted basis of evaluation

RG 111 states that a transaction is fair if the value of the offer price or consideration is greater than the value of the securities subject of the offer. This comparison should be made assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing, but not anxious, seller acting at arm's length. When considering the value of the securities subject of the offer in a control transaction the expert should consider this value inclusive of a control premium. Further to this, RG 111 states that a transaction is reasonable if it is fair. It might also be reasonable if despite being 'not fair' the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid.

Having regard to the above, BDO has completed this comparison in two parts:

- A comparison between the value of a VDM share prior to the Placement and the Placement consideration for each New Share (fairness - see Section 12 "Is the Placement Fair?"); and
- An investigation into other significant factors to which Shareholders might give consideration, prior to approving the resolution, after reference to the value derived above (reasonableness - see Section 13 "Is the Placement Reasonable?").

This assignment is a Valuation Engagement as defined by Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services' ("**APES 225**").

A Valuation Engagement is defined by APES 225 as follows:

"an Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time."

This Valuation Engagement has been undertaken in accordance with the requirements set out in APES 225.

4. Outline of the Placement

On 29 May 2013, VDM announced that the Company had entered into a binding share subscription agreement under which H&H agreed to subscribe for 600 million new fully paid ordinary VDM shares at 2.5 cents per share to raise $15 million. H&H is an entity controlled by Dr Dongyi Hua. Following the issue of the New Shares, H&H and is associated entities will hold approximately 42% of the issued share capital of VDM.

Name	Number of Ordinary Shares Held	Percentage of Issued Shares (%)	Placement Shares	Number of Ordinary Shares post Placement	Percentage of Issued Shares (%)
Non-associated shareholders	888,843,056	95.18%	-	888,843,056	57.95%
H&H Holdings Group Limited	45,030,015	4.82%	600,000,000	645,030,015	42.05%
Total ordinary shares	**933,873,071**	**100.00%**		**1,533,873,071**	**100.00%**

Following the Placement, Dr Hua will be appointed to the Board as Managing Director along with two H&H nominees in a non-executive capacity. VDM will retain four independent non-executive directors on the Board. Together with Dr Hua and the two H&H nominees, the VDM Board will comprise 7 members. Dr Hua will also enter into an Executive Services Agreement with the Company in conjunction with his appointment to the Board as Managing Director.

Should the Placement be approved by shareholders, the current Managing Director, Mr Andrew Broad, will step down from this role following completion of the Placement and will continue to provide support to the Company during a transitional period.

The Placement is conditional on the following:

- Shareholders' approval;
- No material adverse change arising between the date of the binding share subscription agreement and the completion date;
- None of the following events occur prior to completion of the Placement:
  - ASIC Issued a written determination under section 708A(2) of the Act
  - The shares ceased being in a class of securities that were quoted securities at all times in the 3 months before completion
  - Trading in the shares on the ASX was suspended for more than a total of five days during the period of twelve months prior to completion of the Placement
  - An exception by regulations from all or specified disclosing entity provisions under section 111AS of the Act
  - An exception by ASIC from all or specified disclosing entity provisions under section 111AT of the Act
- Both VDM and H&H must use all reasonable endeavours to ensure the conditions are met, with both parties required to co-operate and comply with all reasonable requests from the other party.

VDM has and will incur advisory costs and fees, internal costs and out of pocket expenses incurred in structuring the Placement. If the Placement does not occur as a result of the H&H breaching its obligations, H&H will pay VDM a reimbursement fee in full satisfaction of any costs incurred as a result of the Placement.

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5. Profile of VDM

5.1 History

VDM is an Australian engineering and construction company that services the mining and resources, transport and civil infrastructure and urban development sectors. The original business of VDM was established in 1978 as Applied Design Pty Ltd, which grew steadily before a period of rapid expansion which began in 2004. VDM acquired two construction companies in Western Australia in that year, followed by further acquisitions of several Western Australian-based and Queensland-based engineering consultancies after listing on the Australian Securities Exchange ("**ASX**") in 2006.

Major events of the Company's history are summarised in the following table.

Year	Events
2007	On 6 July 2007, VDM acquired a 100% interest in Como Engineers Pty Ltd for $13.3 million, made up of $6.7 million in cash and the balance in 2,392,782 VDM shares; with an additional 265,865 shares issued as part of the Como Engineers Performance Rights Plan.
	On 1 October 2007, the Company acquired a 100% interest in a business trading as Malavoca under the company VDM Earthmoving Pty Ltd for a total consideration of $49.6 million, made up of $17.7 million in cash and 12,000,000 VDM shares, and a further contingent consideration of $0.4 million.
	On 1 November 2007, VDM acquired a 100% interest in Bellero Constructions Pty Ltd for $26.9 million, made up of $12.4 million in cash as 4,970,678 VDM shares, and a further contingent consideration of $0.3 million.
	On 2 November 2007, the Company acquired a 100% interest in Kayano Nominees Pty Ltd trading as Rocktec Contracting, for a total consideration of $16.7 million, made up of $7.5 million in cash and 3,012,312 VDM shares, valued at $8.6 million, and a further contingent consideration of $0.6 million.
	On 16 November 2007, VDM issued 2,253,500 shares at $2.50 per share, to raise $5,633,750 pursuant to a share purchase plan.
2008	On 31 January 2008, the Company acquired the remaining 50% interest in Van Der Meer Consulting Vietnam Co Ltd, which it paid a total of $40,000 in cash.
	On 31 January 2008, the Company also offered all senior employees the right to participate in a long term incentive share option scheme to reward senior employees in a manner that aligns remuneration with the creation of shareholder wealth. 1,710,000 options were taken up at an exercise price of $2.25 per share.
	On 4 July 2008, VDM acquired a 100% interest in BCA Consultants Pty Ltd for $5.145 million, made up of $3.281 million in cash and 1,312,900 VDM shares valued at approximately $1.42 per share.

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Year	Events
2009	Rocktec (in joint venture) secured a $241 million project at Cape Preston for Sino Iron late in the 2009 financial year. VDM obtained a bank waiver for certain breaches of the Company's loan covenants and bank facilities were renegotiated by November 2009. On 23 October 2009, VDM announced a capital raising of $35 million via two placements and an entitlements offer where (i) 10 million shares were allotted at $0.50 per share on 28 October 2009 (ii) 60,075,758 shares were allotted at $0.42 per share on 30 November 2009 (iii) 10 million shares were allotted at $0.475 per share on 15 December 2009. Effective 1 July 2009, VDM acquired the remaining 55% shareholding of Anagan Pty Ltd for no consideration with the fair value of the identifiable assets and liabilities of $0.2 million net liability.
2010	VDM acquired the remaining 25% minority interest in Cape Crushing & Earthmoving Contractors Pty Ltd with effective from 1 January 2010 for $2.5 million, made up of $2 million in cash and 1,052,632 VDM shares at $0.475 per share. VDM sold the surplus business assets of Civmec Construction and Engineering Pty Ltd for $2.3 million as part of its restructuring and consolidation exercise, including the retirement of $1.5 million in interest bearing debt.
2011	VDM accepted an offer of $11.82 million for the sale of its Osborne Park premises in September 2011. On 24 June 2011, VDM announced its intention to raise up to $52.2 million via a 5 for 1 entitlements rights issue priced at $0.05 per new share. VDM completed the capital raising in October 2011 and eventually raised $36.2 million. Simultaneous to the capital raising process, VDM also undertook a strategic review of the Company which determined that the business should focus on its core engineering, design and construct strengths in two primary geographic markets, namely Western Australia and Queensland. On 23 December 2011, VDM announced that it had entered into a heads of agreement to sell Cape Crushing & Earthmoving Contractors Pty Ltd as it was a business that did not fit with the Company's core strengths of design and construct of civil and process infrastructure.

Year	Events
2012	Chief Executive Officer Andrew Broad was appointed to the Board of Directors as Managing Director on 16 January 2012 following his appointment as Chief Executive Officer ten months previous. Neil Barker was appointed as Company Secretary following the resignation of Nevenka Jackson as Company Secretary on 15 February 2012. On 20 March 2012, the Company announced that David Coyne was appointed Chief Financial Officer of VDM replacing Neil Barker as interim CFO. VDM announced the completion of the sale of Cape Crushing and Earthmoving Contractors (Cape) to CFC Group on 19 April 2012 for a total consideration of $45.85 million. VDM divested its interest in its Northern Territory consulting business as part of a management buy-out by the incumbent management. It also divested certain assets and liabilities in its New South Wales and Victorian consulting businesses to the incumbent management. This resulted in VDM exiting these states. Refocussed the business in October 2012 with a strategy to simplify the business to a construction focus and reduce operating costs and engaged Azure Capital to assist VDM in the evaluation corporate opportunities which had arisen.
2013	On 13 March 2013, VDM signed a binding agreement to sell Como Engineers and completed this divestment on 10 April 2013. On 29 May 2013, VDM announced that the Company had entered into a binding share subscription agreement under which H&H had agreed to subscribe for 600 million new fully paid ordinary VDM shares at 2.5 cents per share to raise $15 million.

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5.2 Historical Balance Sheet

Statement of Financial Position	Reviewed as at 31-Dec-12 $'000	Audited as at 30-Jun-12 $'000	Audited as at 30-Jun-11 $'000
CURRENT ASSETS			
Cash and cash equivalents	11,940	10,029	-
Term deposits	6,653	13,568	-
Trade and other receivables	23,508	48,736	46,852
Contracts in progress	9,037	19,656	25,822
Inventory	850	952	4,851
Income tax receivable	-	-	4,825
Development properties	5,563	5,529	6,517
Assets associated with the disposal group	10,147	-	-
Non-current assets classified as held for sale	2,245	1,295	13,011
Other assets	1,189	2,342	2,697
TOTAL CURRENT ASSETS	71,132	102,107	104,575
NON-CURRENT ASSETS			
Trade and other receivables	256	-	-
Property, plant and equipment	11,118	12,847	62,918
Deferred tax assets	1,048	16,156	7,804
Intangible assets and goodwill	719	23,154	45,917
TOTAL NON-CURRENT ASSETS	13,141	52,157	116,639
TOTAL ASSETS	84,273	154,264	221,214
CURRENT LIABILITIES			
Trade and other payables	40,168	54,460	63,366
Current tax liabilities	3,147	3,145	-
Deferred tax liability	-	918	-
Interest bearing loans and borrowings	731	2,468	25,590
Provisions	6,361	5,501	7,075
Liabilities associated with the disposal group	5,404	-	-
TOTAL CURRENT LIABILITIES	55,811	66,492	96,031
NON-CURRENT LIABILITIES			
Interest bearing loans and other borrowings	526	128	16,883
Lease liability	540	-	-
Provisions	301	495	540
TOTAL NON-CURRENT LIABILITIES	1,367	623	17,423
TOTAL LIABILITIES	57,178	67,115	113,454
NET ASSETS	27,095	87,149	107,760
EQUITY			
Contributed equity	248,612	248,612	214,112
Reserves	977	967	1,266
Accumulated losses	(222,494)	(162,430)	(107,618)
TOTAL EQUITY	27,095	87,149	107,760

Source: Annual report for the financial years ended 30 June 2011 and 30 June 2012 and reviewed accounts for the half year to 31 December 2012

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Net assets decreased from $107.76 million at 30 June 2011 to $27.10 million at 31 December 2012. This was the result of a $136.94 million decrease in total assets against a substantially lower decrease in total liabilities of $40.22 million.

The disposal of the Cape Crushing business unit in April 2012 accounted for a significant portion of the decrease in net assets between 30 June 2011 and 30 June 2012. The disposal resulted in a $58.55 million reduction in assets, a $12.70 million reduction in liabilities and a $22.14 million decrease in goodwill between June 2011 and June 2012. At 31 December 2012, property, plant and equipment had remained relatively stable whilst goodwill decreased a further $22.44 million. Of this, approximately $18.51 million related to the impairment of goodwill on VDM's Eastern and Western operations in view of the volatility in the resources markets in which VDM predominantly operates.

Accounts receivable and contracts in progress have more than halved from $48.74 million as at 30 June 2012 to $23.51 million as at 31 December 2012, and $19.67 million as at 30 June 2012 to $9.04 million as at 31 December 2012 respectively. This is primarily due to the non-recognition of any revenue from claims and variations that were subject to ongoing negotiations with some of its clients on some of its construction projects. It was considered that such negotiations were not yet sufficiently progressed to meet the revenue recognition criteria in accordance with Australian Accounting Standards Board 111 'Construction Contracts' ("**AASB 111**"). This had a negative impact on revenue of approximately $10 million.

Term deposits are not available for immediate use as they are held as security for the surety instruments issued in favour of VDM. The term deposits balance increased from nil in 2011 to $13.57 million at 30 June 2012 before decreasing to $6.65 million at 31 December 2012. As at 30 June 2011, VDM was funding its working capital primarily through debt and operating cash flows.

Assets and liabilities held with the disposal group relate to Como Engineering which was sold by VDM for $5.45 million to Richard Ladyman and Associates.

The main movements in liabilities relate to interest bearing loans and other borrowings and trade and other payables. Over the period from 1 July 2011 to 31 December 2012, VDM retired the majority of its debt, with interest bearing loans and borrowings decreasing from $42.47 million as at 30 June 2011 to $1.26 million as at 31 December 2012. The funds used to repay the borrowings have been generated largely from the disposal of subsidiaries and fixed assets as well as its capital raising activities.

Trade and other payables decreased from $63.37 million as at 30 June 2011 to $40.17 million as at 31 December 2012. This decrease is in line with the decrease in operations which saw revenue fall over the same period.

Contributed equity increased $34.50 million following the issue of shares in the financial year ended 30 June 2012 which raised $33.731 million (after transaction costs). These funds were used to continue funding operations and to repay loans. The surplus funds from the sale of business units and issue of capital between 30 June 2011 and 31 December 2012 resulted in positive net cash balances as at 30 June 2012 and 31 December 2012. At 30 June 2012, VDM had minimal commercial bank debt, with all commercial bank debts settled by 31 December 2012.

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5.3 Historical Statement of Comprehensive Income

Statement of Comprehensive Income	Reviewed Half year 31-Dec-12 $'000	Audited Year ended 30-Jun-12 $'000	Audited Year ended 30-Jun-11 $'000
Revenue			
Rendering of services	126,221	271,792	264,987
Other revenue	597	1,063	1,768
Total revenue	126,818	272,855	266,755
Cost of services	(144,112)	(277,147)	(288,385)
Gross profit (loss)	(17,294)	(4,292)	(21,630)
Operating expenses			
Administration expenses	(6,750)	(16,561)	(16,068)
Financing costs	(77)	(803)	(1,582)
Impairment charge	(18,507)	(3,161)	(24,825)
Equity based payments	(10)	(329)	27
Loss from continuing operations before income tax	(42,638)	(25,146)	(64,078)
Income tax benefit (expense)	(14,210)	1,831	19,176
Loss from continuing operations after income tax	**(56,848)**	**(23,315)**	**(44,902)**
(Loss)/profit from discontinued operations	(3,216)	(31,497)	9,378
Total comprehensive loss for the year	**(60,064)**	**(54,812)**	**(35,524)**

Source: Annual report for the financial years ended 30 June 2011 and 30 June 2012 and reviewed accounts for the half year to 31 December 2012

Revenue remained stable over the financial year between 30 June 2011 and 30 June 2012. However, annualised revenue for the year ended 30 June 2013 is approximately $252.44 million, a $19.35 million decrease from 2012. This is partly attributable to the loss in revenue resulting from the disposal of the Cape Crushing business unit in April 2012 and a general decline in contract revenue over the period.

Costs of service increased as a percentage of revenue from 108% for the financial year ended 30 June 2011 to 114% for the half year to 31 December 2012. Lower revenues and higher costs of service resulted in the gross profit for the half year to 31 December 2012 declining approximately $30.30 million (on an annualised basis) compared to the financial year ended 30 June 2012.

Administration expenses for the half year ended 31 December 2012 remained slightly lower than previous years, due to the scaling back of operations in the half year to 31 December 2012.

Financing costs declined from $1.58 million in the financial year ended 30 June 2011 to $0.15 million (annualised) for the half year ended 31 December 2012 in line with the significant reduction in loans and borrowings over the same period.

Impairment for the half year ended 31 December 2012 was $18.51 million which related to the impairment of goodwill on VDM's Eastern and Western operations in view of the volatility in the resources markets in which VDM predominantly operates.

In 2012, VDM disposed of one of its wholly owned business unit, Cape Crushing, for $45.85 million. This resulted in the recognition of a $31.50 million loss from discontinued operations at 30 June 2012. For the half year ended 31 December 2012, the loss of $3.22 million related to the sale of Como for $5.45 million.

BDO

5.4 Capital Structure

The share structure of VDM as at 5 June 2013 is outlined below:

	Number
Total ordinary shares on issue	933,873,071
Top 20 shareholders	378,761,102
Top 20 shareholders - % of shares on issue	40.56%

Source: Thomson Reuters Share Register Analysis

The range of shares held in VDM as at 31 May 2013 is as follows:

Range of Shares Held	No. of Ordinary Shareholders	No. of Ordinary Shares	%Issued Capital
1 - 1,000	623	241,380	0.03
1,001 - 5,000	905	2,578,647	0.28
5,001 - 10,000	519	4,064,503	0.43
10,001 - 100,000	1,631	67,617,310	7.24
100,001 - and over	941	859,371,231	92.02
TOTAL	**4,619**	**933,873,071**	**100.00**

Source: VDM's share register

The ordinary shares held by the most significant shareholders as at 5 June 2013 are detailed below:

Name	Number of Ordinary Shares Held	Percentage of Issued Shares (%)
Hunter Hall Investment Management Ltd	127,665,260	13.67%
Renaissance Smaller Companies Pty Ltd	48,593,889	5.20%
H & H Holdings Group Limited	45,030,015	4.82%
Jury Wowk & Glenn Molloy	31,427,596	3.37%
Subtotal	252,716,760	27.06%
Others	681,156,311	72.94%
Total ordinary shares on Issue	**933,873,071**	**100.00%**

Source: Thomson Reuters Share Register Analysis

The options on issue at 31 May 2013 are set out in the table below:

Current Options on Issue	Number	Cash raised if exercised ($)
Options exercisable at $0.05, expiring on 30 November 2013	464,992,686	23,249,634

Source: VDM's option register

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The range of options held in VDM at 31 May 2013 is as follows:

Range of Options Held	Number of Optionholders	Number of Options	Percentage of Issued Options (%)
1 - 1,000	855	397,377	0.09%
1,001 - 5,000	1,176	3,286,036	0.71%
5,001 - 10,000	534	4,140,856	0.89%
10,001 - 100,000	1,265	46,092,891	9.91%
100,001 - and over	510	411,075,526	88.40%
TOTAL	**4,340**	**464,992,686**	**100.00%**

Source: VDM's option register

In addition to the number of shares and options outstanding, VDM also had 17,826,087 performance rights on issue as at 31 May 2013.

6. Profile of H&H

6.1 Background

H&H is an Australian proprietary company that was established as an investment platform in Australia, and is 100% owned and controlled by Dr Dongyi Hua. The primary role of H&H is to act as the overseas expansion vehicle for its parent company, H&H Holdings Group Limited, an entity incorporated in the British Virgin Islands.

H&H Holdings Group Limited is also managed by Dr Dongyi Hua. Dr Hua is the former Vice President of CITIC Pacific and former Executive Chairman and Chief Executive Officer of CITIC Pacific Mining, a position which he held from October 2009 to May 2013. Dr Hua joined the Beijing-based CITIC Group in 2002 and previously held executive management positions during the past 15 years for construction and resource development projects across Asia, Africa and Latin America.

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7. Economic analysis

Information becoming available in June 2013 is consistent with global growth running a bit below average this year, with reasonable prospects of a pick-up next year. Commodity prices have declined from their peaks but, overall, remain at high levels by historical standards. Inflation has generally moderated over recent months and monetary policy has been eased further in a number of countries.

Financial conditions internationally are very accommodative. Despite the recent rise in sovereign bond yields, funding conditions for sovereigns, well-rated corporates and most financial institutions remain very favourable.

In Australia, growth over the past year has been a bit below trend. The outlook published by the Reserve Bank of Australia last month is for a similar performance in the near term and recent data are consistent with this. The unemployment rate has edged higher over the past year and growth in labour costs has moderated. Inflation has been consistent with the medium-term target and is expected to remain so over the next one to two years.

The easing in monetary policy over the past 18 months has supported interest-sensitive areas of spending and has been reflected in portfolio shifts by savers and higher asset values. Further effects can be expected over time. The pace of borrowing has thus far remained relatively subdued, though recently there have been some signs of increased demand for finance by households. The exchange rate has experienced a depreciating trend, although it remains high considering the decline in export prices that has taken place over the past year and a half.

The Reserve Bank of Australia considers that the easier financial conditions now in place will contribute to a strengthening of growth over time, consistent with achieving the inflation target. The Reserve Bank also judged that the inflation outlook, as currently assessed, may provide some scope for further monetary policy easing, should that be required to support demand.

Source: www.rba.gov.au *Statement by Glenn Stevens, Governor: Monetary Policy Decision 4 June 2013*

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8. Industry analysis

The Australian construction sector is largely broken into three areas; construction for the mining industry, public sector construction (for example rail and roads) and other non-residential construction. The strength and size of Australia's mining sector means a large portion of construction revenue has been derived from mining investment.

Revenue growth in the industry over the period 2008 - 2013 was 8.3% (annualised), however this trend already appears to have slowed with revenue in FY13 expected to be approximately $68.5 billion, a 4.9% decrease from FY12. Revenue in the industry for the period 2013 - 2018 is expected to continue to fall at an annualised rate of 4.3% as investment in mining and energy projects decrease in light of weaker commodity prices, unfavourable exchange rates, the slowdown of growth in China and the increasing uncertainty generated by the Eurozone debt crisis.

The major driver of growth in the industry is capital expenditure in the mining and oil & gas sectors. However, with a number of high profile projects recently being abandoned, postponed or recently completed, activity in the mining industry is slowing. Analysts forecast a 15% decrease in mining sector activity in the 2013 financial year which will have a direct impact on growth in the construction industry.

Capital expenditure commitments in the public sector also provide a source of growth for the industry. Expenditure from the public sector usually centres on road, rail and harbour infrastructure, urban development, hospitals and education. The 2013/14 federal budget contains commitments for public sector infrastructure spending of $24 billion which will help reduce the impact of slowing investment in the mining sector.

Public sector spending is largely driven by population growth. As the population grows, demand for infrastructure such as roads, schools and hospitals increases, thereby opening opportunities for construction contracts to be won.

Politics also has an impact on growth in the industry with a significant amount of revenue being generated for the industry after the announcement of the National Broadband Network and the announcement of the carbon tax. The introduction of the carbon tax saw a shift in demand from 'dirty' energy sources such as coal to 'cleaner' sources such as gas. This saw investment in gas pipelines and other infrastructure increase. However with the election in September 2013, there is the potential for growth in these areas in the event that the coalition delivers on its promise to repeal the carbon tax and amend the rollout of the National Broadband Network.

Looking forward, the level of revenue generated from the mining industry will decrease but revenue will still be generated from record investment in telecommunications infrastructure (the National Broadband Network), other public sector spending pledged in the 2013/14 federal budget ($24 billion), increased demand for investment in 'greener' energy sources such as hydroelectric and wind and the continued investment in infrastructure to recycle water (e.g. desalination plants).

Annual revenues are expected to fall in the five year period to 2018 by 4.3% (annualised) which will lead to an anticipated 11% decline in employment numbers within the industry.

Source: IBIS World Industry Report

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9. Valuation approach adopted

There are a number of methodologies which can be used to value a business or the shares in a company. The principal methodologies which can be used are as follows:

- Capitalisation of future maintainable earnings ("**FME**")
- Discounted cash flow ("**DCF**")
- Quoted market price basis ("**QMP**")
- Net asset value ("**NAV**")
- Market based assessment

A summary of each of these methodologies is outlined in Appendix 2.

Different methodologies are appropriate in valuing particular companies, based on the individual circumstances of that company and available information. In our assessment of the value of VDM shares, we have chosen to employ the NAV and QMP methodologies.

We have chosen these methodologies for the following reasons:

- There is a lack of reliable long term forecasts available for a DCF approach to be undertaken as VDM's contracts are typically short term contracts of approximately three to six months
- The FME approach is not appropriate as the Company has been operating at a loss in the recent previous two and current financial years, meaning that we do not have reasonable grounds on which to base and forecast future maintainable earnings figure
- VDM has made a number of asset disposals over the past three years, undertaken a strategic review to re-focus its business and has had irregular profitability over the past five years
- In accordance with VDM's half year report for the period to 31 December 2012, there may be material uncertainty whether VDM will continue as going concern if it does not achieve:
  - the results from its current business strategy to provide additional working capital for its business, which includes the divestment of non-core property and business assets, and recovery of amounts claimed from clients on construction contracts that VDM expects to be realised over the course of the next 12 months
  - the expected forecast cash flow from existing projects and anticipated new contract works.
- Based on the above, we consider the NAV methodology to be an appropriate valuation approach to be undertaken
- However, it should be noted that asset based methods ignore the possibility that the entity's value could exceed the realisable value of its assets as they do not recognise the value of intangible assets such as management, intellectual property and goodwill. This is particularly significant if the growth potential of a company is substantial
- Alternatively, if the company is making losses and earnings are deteriorating, asset based methods ignore the deteriorating financial performance of a company, which may result in the entity's value trading below the realisable value of its assets
- The QMP basis is a relevant methodology to consider as VDM's shares are listed on the ASX. This means there is a regulated and observable market where VDM's shares can be traded. However, in order for the QMP methodology to be considered appropriate, the company's shares should be liquid and the market should be fully informed as to VDM's activities. We have considered these factors in section 10.2.

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10. Valuation of VDM

10.1 Net Asset Valuation of VDM

In arriving at our preferred net asset values, we made the following adjustments to VDM's balance sheet as at 31 December 2012.

Statement of Financial Position	Note	Reviewed as at 31-Dec-12 $'000	Adjustments $'000	Preferred Net Asset Value $'000
CURRENT ASSETS				
Cash and cash equivalents	a	11,940	(5,174)	6,766
Term deposits	b	6,653	(497)	6,156
Trade and other receivables	c	23,508	(2,732)	20,776
Contracts in progress	d	9,037	5,778	14,815
Inventory	e	850	-	850
Development properties	f	5,563	368	5,931
Other assets	g	1,189	-	1,189
Assets associated with the disposal group	h	10,147	(10,147)	-
Non-current assets classified as held for sale	i	2,245	(1,150)	1,095
TOTAL CURRENT ASSETS		71,132	(13,554)	57,578
NON-CURRENT ASSETS				
Trade and other receivables		256	-	256
Property, plant and equipment	j	11,118	2,264	13,382
Deferred tax assets	k	1,048	-	1,048
Intangible assets and goodwill		719	-	719
TOTAL NON-CURRENT ASSETS		13,141	2,264	15,405
TOTAL ASSETS		84,273	(11,290)	72,983
CURRENT LIABILITIES				
Trade and other payables	l	40,168	(10,525)	29,643
Current tax liabilities	k	3,147	-	3,147
Interest bearing loans and borrowings		731	-	731
Provisions		6,361	-	6,361
Liabilities associated with the disposal group	h	5,404	(5,404)	-
TOTAL CURRENT LIABILITIES		55,811	(15,929)	39,882
NON-CURRENT LIABILITIES				
Interest bearing loans and other borrowings		526	-	526
Lease liability		540	-	540
Provisions		301	-	301
TOTAL NON-CURRENT LIABILITIES		1,367	-	1,367
TOTAL LIABILITIES		57,178	(15,929)	41,249
NET ASSETS		27,095	4,639	31,734
Number of shares on issue (pre transaction)		933,873		933,873
Net asset value per share				**$ 0.034**

Source: VDM's management, financial accounts and BDO analysis

The value of VDM assets on a going concern basis is reflected in our valuation below:

Statement of Financial Position	Note	Low $'000	Preferred $'000	High $'000
CURRENT ASSETS				
Cash and cash equivalents		6,766	6,766	6,766
Term deposits		6,156	6,156	6,156
Trade and other receivables		20,776	20,776	20,776
Contracts in progress		14,815	14,815	14,815
Inventory		850	850	850
Development properties	f	5,831	5,931	6,031
Other assets		1,189	1,189	1,189
Non-current assets classified as held for sale	i	995	1,095	1,195
TOTAL CURRENT ASSETS		57,378	57,578	57,778
NON-CURRENT ASSETS				
Trade and other receivables		256	256	256
Property, plant and equipment	j	11,118	13,382	15,646
Deferred tax assets		1,048	1,048	1,048
Intangible assets and goodwill		719	719	719
TOTAL NON-CURRENT ASSETS		13,141	15,405	17,669
TOTAL ASSETS		70,519	72,983	75,447
CURRENT LIABILITIES				
Trade and other payables		29,643	29,643	29,643
Current tax liabilities		3,147	3,147	3,147
Interest bearing loans and borrowings		731	731	731
Provisions		6,361	6,361	6,361
TOTAL CURRENT LIABILITIES		39,882	39,882	39,882
NON-CURRENT LIABILITIES				
Interest bearing loans and other borrowings		526	526	526
Lease liability		540	540	540
Provisions		301	301	301
TOTAL NON-CURRENT LIABILITIES		1,367	1,367	1,367
TOTAL LIABILITIES		41,249	41,249	41,249
NET ASSETS		29,270	31,734	34,198
Number of shares on issue (pre transaction)		933,873	933,873	933,873
Net asset value per share		**$0.031**	**$0.034**	**$0.037**

Source: VDM's management, financial accounts and BDO analysis

The following adjustments were made to the net assets of VDM as at 31 December 2012 in arriving at our valuation. The table above indicates the net asset value of a VDM share is between $0.031 and $0.037 with a preferred value of $0.034.

Note a: Cash and cash equivalents

The cash held by VDM is used for working capital purposes. This portion of cash is not encumbered. The adjusted cash balance is based on VDM's bank balance as at 30 April 2013. The adjustments made to cash and cash equivalents include:

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- Cash received from the sale of Como Engineers Pty Limited (**"Como Engineers"**)
- Cash received from the sale of a property at 2488 Pemberton Way, Karratha (**"Karratha Property"**)
- Reduction in security held as surety for guarantees issued on behalf of VDM
- Change in cash balance as a result of the change in working capital.

	Subsection Reference	Balance $'000
Cash received from the sale of Como Engineers	(i)	4,900
Cash received from the sale of Karratha Property	(ii)	3,000
Reduction in security held as surety	(iii)	497
Change in cash balance as results of the change in working capital	(iv)	(13,571)
Adjustment to cash and cash equivalent		**(5,174)**

Source: VDM's management, financial accounts and BDO analysis

(i) Cash obtained from the sale of Como Engineers

VDM entered into a non-binding sale agreement with Richard Ladyman and Associates to sell all the issued share capital of Como Engineers for $5.45 million. A binding share sale agreement was signed on 13 March 2013 and the transaction was completed on 10 April 2013. The net proceeds received by VDM from the sale of Como Engineers were $4.9 million after deducting transaction costs of approximately $0.55 million.

(ii) Cash obtained from the sale of Karratha Property

VDM accepted an offer of $3 million on 17 January 2013 for the sale of freehold land and buildings classified as a non-current asset held for sale at 31 December 2012, which was in relation to the Company's Karratha Property. The sale was completed on 15 March 2013 and the net proceeds received by VDM from the sale of Karratha yard were $3 million as transaction costs were not material.

(iii) Reduction in security held as surety

There was a reduction in security held as surety for the guarantees issued on behalf of VDM of $0.497 million between 31 December 2012 and 30 April 2013. As a result, $0.497 million was transferred from term deposits into cash and cash equivalent balance. This is similarly described in Note b.

(iv) Change in cash balance as a result of the change in working capital

The change in cash balance as a result of the change in working capital between 31 December 2012 and 30 April 2013 is detailed as follows:

	Reference	Balance $'000
Reduction in trade and other receivables	Note c	2,732
Increase in contracts in progress	Note d	(5,778)
Reduction in trade and other payables	Note l	(10,525)
Reduction in cash		**(13,571)**

Source: VDM's management, financial accounts and BDO analysis

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Note b: Term deposits

VDM is required to place on deposit amounts for the surety instruments issued in favour of VDM. The cash placed on deposit is not available for immediate use and has therefore been placed as term deposits.

There was a reduction in security held as surety for the surety instruments issued on behalf of VDM of $0.497 million between 31 December 2012 and 30 April 2013. As a result, $0.497 million was transferred from term deposits into cash and cash equivalent balance. Accordingly, term deposits decreased from $6.65 million at 31 December 2012 to $6.16 million at 30 April 2013. The adjusted term deposits are confirmed by VDM's term deposit balance as at 30 April 2013.

Note c: Trade and other receivables

The trade and other receivables balance of $23.508 million at 31 December 2012 comprise:

- External trade debtors
- Loan receivables from external parties
- Retentions and bonds
- Other debtors
- Loans to related parties

External trade debtors account for $18.741 million, net of provision for doubtful debts of $3.846 million as at 31 December 2012.

Trade and other receivables balance as at 30 April 2013 stood at $20.776 million, of which, external trade debtors accounted for $17.59 million after taking into account provision for doubtful debts of $3.489 million. This represents a reduction of $2.732 million in trade and other receivables between 31 December 2012 and 30 April 2013.

Management provided an aged debtors listing as at 30 April 2013 indicating that 73% of debtors are aged between 0 and 30 days and 2% between 30 days and 60 days. This is consistent with VDM's credit terms which are predominantly 30 or 45 days. VDM has approximately $5.22 million trade receivables aged greater than 60 days of which $1.03 million is personally guaranteed. The majority of the remaining trade receivables aged greater than 60 days relate to VDM's consulting clients. Whilst payment terms for VDM's consulting clients exceed the standard 30 or 45 day terms as payment is often contingent upon achievement of future milestones, varying provisions have been made on these debts.

The basis for the provisioning of VDM's trade and other receivables has been reviewed by its auditors as at 31 December 2012. Therefore, we have no reason to consider that the net recoverability of VDM's trade and other receivables is materially different from their market value.

Note d: Contracts-in-progress

Contracts-in-progress represents the difference between recognised revenue and the cumulative claims made. As at 31 December 2012, recognised revenue is based on the estimated revenue for each contract in progress including approved and unapproved contract variations. Revenue is recognised in accordance with AASB 111. An adjustment of $5.778 million was made to reflect the movements in the value of contracts-in-progress since 31 December 2012.

BDO

Note e: Inventory

Inventory relates to tools, parts and equipment on hand and is valued at cost. Management has confirmed that there has been no material movement in inventory since 31 December 2012. No independent valuation was carried out to revalue this inventory to indicate if their value is above cost. In the absence of further information, we have no reason to consider that the book value of inventory is materially different from its fair market value.

Note f: Development properties

The carrying value of VDM's development properties was $5.563 million as at 31 December 2012 and the management of VDM has confirmed that there has been no major movements in development properties since 31 December 2012.

We have been provided with information - including sale contracts and independent property valuations - which supports the carrying value of the development properties except for some minor properties which may be subject to impairment.

Based on the information provided by VDM's management, we have adjusted the values of the Company's development properties for their fair market values as follows.

Development properties	Low value $'000	Preferred value $'000	High value $'000
Development properties as at 31 December 2012	5,563	5,563	5,563
Adjusted fair market value of development properties	5,831	5,931	6,031
Adjustments to development properties	**268**	**368**	**468**

Source: VDM's financial accounts, VDM's management and BDO analysis

Note g: Other assets

Other assets comprise mostly prepayments and VDM's management has confirmed that there have been no material movements of other assets since 31 December 2012.

Note h: Assets and liabilities directly associated with the disposal group

VDM completed the sale of Como Engineers for $5.45 million on 10 April 2013. The values of the assets and liabilities of Como Engineers were $10.147 million and $5.404 million respectively as at 31 December 2012. These have been adjusted to nil values following the sale of Como Engineers post 31 December 2012.

Note i: Non-current assets classified as held for sale

Non-current assets held for sale as at 31 December 2012 related to an apartment in Mandurah (**"Mandurah Apartment"**) and the Karratha Property. The value of the Mandurah Apartment was appraised on 7 February 2012 at a value range of between $1.2 million and $1.25 million. An independent property valuation has recently been commissioned but this will not be completed prior to the issue of our Report. At 31 December 2012, the Mandurah Apartment had a carrying value of $1.295 million. Based on anecdotal evidence of comparable and values in the area that VDM's management has advised us on, we expect an impairment of between $0.1 million and $0.3 million. Accordingly, we have adjusted the fair market value of the Mandurah Apartment to reflect this range.

VDM sold the Karratha Property at a sale price of $3 million, which had a carrying book value of $0.95 million as at 31 December 2012. Non-current assets classified as held for sale was therefore reduced by $0.95 million to reflect the sale of the Karratha Property post 31 December 2012.

Note j: Property, plant and equipment

Property, plant and equipment were carried at $11.118 million as at 31 December 2012. VDM's management confirmed that there was no material movement in property, plant and equipment since 31 December 2012 other than the disposal of its leasehold improvements of approximately $2 million at 28 Troode Street when it moved out of the building at the end of May 2013. However, this had no material impact on the net assets of the Company.

VDM provided information on the history of plant and equipment disposals between July 2012 and April 2013 which totalled over 220 transactions. We performed an analysis of the transactions based on the multiple of proceeds received over the written down values of each plant and equipment sold ("**Disposal Multiple**") by category and over time. Our analysis shows that:

- The monthly Disposal Multiples ranged from 0.4 times to 10.9 times between July 2012 and April 2013
- The average Disposal Multiple over 220 transactions was approximately 2.3 times
- The average Disposal Multiple for major categories of plant and equipment was 2.0 times.

We have also considered the following matters in the context of the above analysis:

- VDM was able to be selective in the timing of the plant and equipment disposals to achieve the best possible prices for these assets in the past
- The more recent outlook and uncertainty in the mining industry is likely to decrease the likelihood of achieving a similar Disposal Multiple in the future, which may result in a reduction in the Disposal Multiple that may be achieved.

Based on our analysis and considerations above, we applied a Disposal Multiple of between 1.0 time and 1.5 times to plant and equipment (excluding property which consisted of primarily the fit-out at 28 Troode Street) as follows:

Plant and Equipment	Low value $'000	Preferred value $'000	High value $'000
Plant and Equipment	11,118	11,118	11,118
Less: Fit-out at 28 Troode Street	2,062	2,062	2,062
Plant and Equipment excluding fit-out	9,056	9,056	9,056
Disposal Multiple	1.00	1.25	1.50
Fair market value	**9,056**	**11,320**	**13,584**
Add back: Fit-out at 28 Troode Street	2,062	2,062	2,062
Adjusted Plant and Equipment	**11,118**	**13,382**	**15,646**

Source: VDM's management and BDO analysis

Note k: Deferred tax asset and current tax liabilities

Deferred tax assets represent a net figure of deferred tax assets less deferred tax liabilities. Deferred tax assets represent temporary differences and the value of carried forward losses as at 30 June 2012.

However, having conducted a carrying value assessment - in which the probability of whether the carried forward losses will be utilised against future assessable taxable profits was assessed - the majority (other than $1 million) of the value of these carried forward losses was de-recognised as at 31 December 2012.

Tax assessments on the rights to future income liability relates to the refund that VDM will need to make as a result of the change in legislation on the immediate deduction claimable based on legislation enacted on 12 May 2010. At that time, VDM received a tax refund of $3.867 million but the legislation was subsequently changed to remove this right, and as a result, the Company may have to repay the full value of the refund.

Note l: Trade and other payables

Trade payables arise from VDM subcontracting certain work packages on construction contracts such as electrical, hydraulic, asphalting, civil works and some concrete works.

Trade and other payables balance as at 30 April 2013 stood at $29.643 million. This represents a reduction of $10.525 million in trade and other payables between 31 December 2012 and 30 April 2013.

Management provided the aged creditors listing as at 30 April 2013. The majority of trade payables were current or aged 30+ days, in line with creditors' terms of 30 days to 60 days.

10.2 Quoted Market Prices for VDM Securities

To provide a comparison to the valuation of VDM in Section 10.1, we have also assessed the quoted market price for a VDM share.

The quoted market value of a company's shares is reflective of a minority interest. A minority interest is an interest in a company that is not significant enough for the holder to have an individual influence in the operations and value of that company.

RG 111.11 suggests that when considering the value of a company's shares for the purposes of approval under Item 7 of s611 the expert should consider a premium for control. An acquirer could be expected to pay a premium for control due to the advantages they will receive should they obtain 100% control of another company. These advantages include the following:

- control over decision making and strategic direction;
- access to underlying cash flows;
- control over dividend policies; and
- access to potential tax losses.

Whilst H&H will not be obtaining 100% of VDM, RG 111 states that the expert should calculate the value of a target's shares as if 100% control were being obtained. RG 111.13 states that the expert can then consider an acquirer's practical level of control when considering reasonableness. Reasonableness has been considered in Section 13.

Therefore, our calculation of the quoted market price of a VDM share including a premium for control has been prepared in two parts. The first part is to calculate the quoted market price on a minority interest basis. The second part is to add a premium for control to the minority interest value to arrive at a quoted market price value that includes a premium for control.

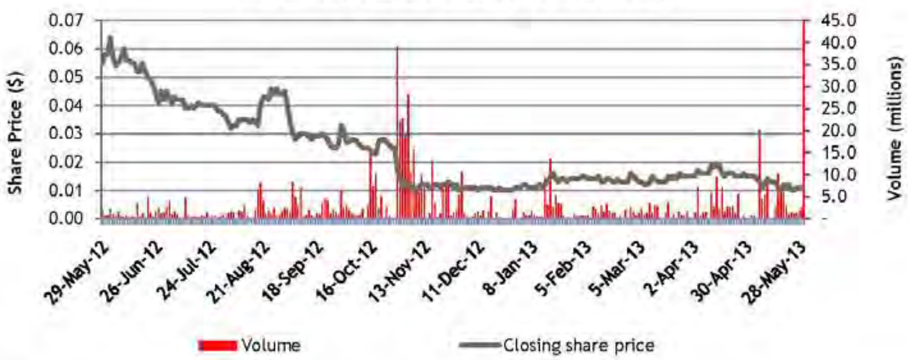
BDO

Minority interest value

Our analysis of the quoted market price of a VDM share is based on the pricing prior to the announcement of the Placement. This is because the value of a VDM share after the announcement may include the effects of any change in value as a result of the Placement. However, we have considered the value of a VDM share following the announcement when we have considered reasonableness in Section 13.

Information on the Placement was announced to the market on 29 May 2013. Therefore, the following chart provides a summary of the share price movement over the 12 months to 28 May 2013 which was the last trading day prior to the announcement.

VDM share price and trading volume history



Source: Bloomberg

The daily price of VDM shares from 29 May 2012 to 28 May 2013 has ranged from a low of $0.010 on 22 May 2013 to a high of $0.064 on 31 May 2012.

During this period a number of announcements were made to the market. The key announcements are set out below:

Date	Announcement	Closing Share Price Following Announcement $ (movement)	Closing Share Price Three Days After Announcement $ (movement)
10/04/2013	Sale of Como Engineers Complete	0.019 (▲ 19%)	0.019 (-)
13/03/2013	Binding Agreement Signed to Sell Como Engineers	0.013 (▼ 7%)	0.013 (-)
5/03/2013	VDM Company Update	0.013 (-)	0.013 (-)
28/02/2013	Appendix 4D & Half Yearly Report and Accounts	0.015 (▼ 6%)	0.013 (▼ 13%)
28/02/2013	Intent to divest Como Engineers	0.015 (▼ 6%)	0.013 (▼ 13%)
13/02/2013	VDM Company Update	0.013 (-)	0.013 (-)
5/11/2012	Response to ASX Query	0.011 (▼ 8%)	0.011 (-)
29/10/2012	VDM Company Update	0.017 (▼ 32%)	0.013 (▼ 24%)
29/10/2012	Notice of Annual General Meeting/Proxy Form	0.017 (▼ 32%)	0.013 (▼ 24%)

Date	Announcement	Closing Share Price Following Announcement $ (movement)	Closing Share Price Three Days After Announcement $ (movement)
26/10/2012	Trading Halt Request	0.025 (-)	0.017 (▼32%)
26/10/2012	Trading Halt	0.025 (-)	0.017 (▼32%)
28/09/2012	VDM awarded $56 million of new works	0.033 (▲27%)	0.031 (▼6%)
11/09/2012	VDM Investor Update	0.030 (-)	0.029 (▼3%)
27/06/2012	VDM awarded $27 million in new contracts	0.045 (▲10%)	0.043 (▼4%)
21/06/2012	Second Half Earnings Guidance	0.049 (▼2%)	0.044 (▼10%)
1/06/2012	Update on Second Half Financial Position	0.057 (▼11%)	0.054 (▼5%)

Source: Bloomberg and BDO analysis

On 10 April 2013, VDM completed the sale of the Como Engineering business. Gross proceeds from the sale were $5.45 million with the terms of sale previously announced to the market. Following this announcement, the share price of VDM increased 19%. We consider this an unexplained movement considering the divestment was announced on 28 February 2013 as outlined below.

On 28 February 2013 VDM announced its intention to divest its Como Engineers business. The market viewed this negatively with the share price of VDM decreasing 6% following the announcement and a further 13% in the following three days.

On 29 October 2012 VDM provided the market with an update of its forecast earnings for the first half of FY2013. In October 2012, VDM forecast a loss before tax of between $7 million and $9 million. However this forecast was revised to a likely loss of approximately $23 million. The revised estimate was mainly caused by the inclusion of an additional provision for unapproved variations of $12 million. The market viewed this negatively with the share price decreasing 32% following this announcement and a further 24% in the following three days.

On 28 September 2012 VDM announced that it had recently obtained new contracts to the value of $56 million, including $42 million in two new contracts from the Queensland Department of Transport and Main Roads. Following this announcement the share price of VDM increased 27%.

On 27 June 2012 VDM announced that it had secured a $17 million contract with Rio Tinto, with VDM's western operations also awarded contracts to the value of $10 million from Western Power and CBH. The market viewed this positively with the share price increasing 10% following the announcement.

On 21 June 2012 VDM announced that the estimated cost to complete its scope of work on a construction contract had increased, with the resulting loss not recoverable. VDM announced that it is likely to record a loss from continuing operations before tax of approximately $5 million for the second half of the 2012 financial year. The share price of VDM decreased 2% following this announcement with a further 10% decrease in the three days following the announcement.

On 1 June 2012 VDM announced to the market that it expected to incur a pre-tax loss of $2.9 million on the sale of its Cape Crushing business. The market viewed this negatively with the share price of VDM decreasing 11% on the day of the announcement and a further 5% in the following three days.

To provide further analysis of the market prices for a VDM share, we have also considered the weighted average market price for 10, 30, 60 and 90 day periods to 28 May 2013.

	28-May-2013	10 Days	30 Days	60 Days	90 Days
Closing Price	$0.011				
Weighted Average		$0.011	$0.013	$0.014	$0.014

Source: Bloomberg and BDO analysis

The above weighted average prices are prior to the date of the announcement of the Placement, to avoid the influence of any increase in price of VDM shares that has occurred since the Placement was announced.

An analysis of the volume of trading in VDM shares for the twelve months to 28 May 2013 is set out below:

	Share price low	Share price high	Cumulative volume traded	As a % of Issued capital
1 Trading Day	$0.010	$0.011	2,618,557	0.28%
10 Trading Days	$0.010	$0.013	35,348,802	3.79%
30 Trading Days	$0.010	$0.017	94,552,321	10.12%
60 Trading Days	$0.010	$0.019	157,426,291	16.86%
90 Trading Days	$0.010	$0.019	191,638,127	20.52%
180 Trading Days	$0.010	$0.036	594,103,777	63.62%
1 Year	$0.000	$0.064	722,063,285	77.32%

Source: Bloomberg and BDO analysis

This table indicates that VDM's shares display a high level of liquidity, with approximately 77% of the Company's current issued capital being traded in a twelve month period. For the quoted market price methodology to be reliable there needs to be a 'deep' market in the shares. RG 111.69 indicates that a 'deep' market should reflect a liquid and active market. We consider the following characteristics to be representative of a deep market:

- Regular trading in a company's securities;
- Approximately 1% of a company's securities are traded on a weekly basis;
- The spread of a company's shares must not be so great that a single minority trade can significantly affect the market capitalisation of a company; and
- There are no significant but unexplained movements in share price.

A company's shares should meet all of the above criteria to be considered 'deep', however, failure of a company's securities to exhibit all of the above characteristics does not necessarily mean that the value of its shares cannot be considered relevant.

In the case of VDM, we consider there to be a deep market for the shares with 3.79% of the Company's issued capital being traded in the ten trading days prior to the announcement of the Placement. This is supported by our analysis of the market's reaction to VDM's announcements over the past twelve months.

Our assessment is that a range of values for VDM shares based on market pricing, after disregarding post announcement pricing, is between $0.011 and $0.013.

Control Premium

We have reviewed the control premiums paid by acquirers of companies listed on the ASX. We have summarised our findings below:

Year	Number of Control Transactions	Average Deal Value (AU$m)	Average Control Premium (%)
2013	3	51.98	10.43
2012	50	340.87	42.62
2011	72	684.16	44.60
2010	87	745.14	37.18
2009	87	354.48	43.49
2008	63	663.83	39.47
2007	100	1078.32	21.79
2006	107	850.51	22.95
		Median	**38.33**
		Mean	**32.82**

Source: Bloomberg

In arriving at an appropriate control premium to apply, we note that observed control premiums can vary due to the:

- Nature and magnitude of non-operating assets
- Nature and magnitude of discretionary expenses
- Perceived quality of existing management
- Nature and magnitude of business opportunities not currently being exploited
- Ability to integrate the acquiree into the acquirer's business
- Level of pre-announcement speculation of the transaction
- Level of liquidity in the trade of the acquiree's securities.

Based on our analysis of control transactions observed on the ASX as captured in the table above, we consider a reasonable control premium to apply to a VDM share is between 25% and 35%.

Quoted market price including control premium

Applying a control premium to VDM's quoted market share price results in the following quoted market price value including a premium for control:

	Low $	Midpoint $	High $
Quoted market price value	0.011	0.012	0.013
Control premium	25%	30%	35%
Quoted market price valuation including a premium for control	**0.014**	**0.016**	**0.018**

Source: BDO analysis

Therefore, our valuation of a VDM share based on the quoted market price method and including a premium for control is between $0.014 and $0.018, with a midpoint value of $0.016.

10.3 Assessment of VDM's Value

The results of the valuations performed are summarised in the table below:

	Low $	Preferred $	High $
Net assets value (Section 10.1)	0.031	0.034	0.037
ASX market prices (Section 10.2)	0.014	0.016	0.018

Source: BDO analysis

We note that the values obtained from the NAV approach are higher than the values obtained from the QMP approach. The difference between the valuation obtained under the NAV and QMP approaches can be explained by the following:

- The QMP value reflects investors' perception of the future prospects of VDM, given the significant losses that the Company has made in the most recent financial years that may continue into the future. The QMP value also reflects the going concern uncertainty of the Company that has been disclosed to the market in VDM's half year report for the period to 31 December 2012
- The NAV approach does not take into account the going concern issues and the deteriorating financial performance of the Company, nor does it take into account the uncertainty around the outcomes of the contingent liabilities, which the QMP approach does
- The NAV approach that we have undertaken is on a going concern basis and does not take into account any realisation costs in the event of an orderly realisation of assets or in a liquidation scenario. The valuation obtained under the NAV approach will be lower when realisation costs and the costs required to complete VDM's contracts in progress in a liquidation scenario are taken into account. These costs are not determinable at this stage
- The NAV approach is based on the net asset value of VDM as at 31 December 2012 after making fair market value adjustments and adjusting for material transactions and material movements in the assets and liabilities post 31 December 2012
- Particularly in the situation where a company is making losses and earnings are deteriorating, it is not unreasonable to expect the entity's value trading below the realisable value of its assets
- In accordance with RG111.69, we note that there is a deep and liquid market for the trading of VDM shares. Therefore, there is a sufficiently active trading market to reflect a fair market value of the Company's shares, which makes the QMP method a reliable valuation approach for VDM
- RG 111.32 also requires the consideration of the volatility of the market price of the entity's shares. We note that the share price of VDM has traded in a narrow range between $0.01 per share and $0.02 per share for the last seven months between October 2012 and May 2013.

For all the reasons described above, we conclude that the value obtained under the QMP approach is more reflective of the value of a VDM share. Therefore, we consider the value of a VDM share to be between $0.14 per share and $0.18 per share with a preferred value of $0.16 per share.

BDO

11. Valuation of consideration

Under the Placement, H&H will subscribe for 600 million new fully paid ordinary VDM shares at 2.5 cents per share to raise $15 million. Accordingly, the Placement consideration is $0.025 per share.

12. Is the Placement fair?

The value of the Placement is compared below:

	Section	Low $	Preferred $	High $
Value of a VDM share	10	0.014	0.016	0.018
Value of the Placement consideration	11	0.025	0.025	0.025

Source: BDO analysis

We note from the table above that the value of a VDM share is less than the value of the Placement consideration. Therefore, we consider that the Placement is fair.

13. Is the Placement reasonable?

13.1 Advantages of approving the Placement

13.1.1 The Placement is fair

As outlined in section 12, the value of a share in VDM is less than $0.025, being the cash consideration receivable by VDM for the New Shares issued to H&H. We concluded that the Placement is fair. RG111 states that an offer is reasonable if it is fair.

13.1.2 Increased working capital

The Placement will provide increased working capital to support the business, including the ability for the Company to execute current construction projects, undertake additional projects and increase revenues.

In this regard, VDM's half year report for the period ended 31 December 2012 notes that there may be material uncertainty whether VDM will continue as going concern if it does not achieve the results from its current business strategy to provide additional working capital for its business, and the expected forecast cash flow from existing projects and anticipated new contract works.

This is further evidenced by the magnitude of change in working capital requirements between 31 December 2012 and 30 April 2013 where cash balances were reduced by $13.571 million, which puts the Company in a vulnerable position in the event of such swings in magnitudes of working capital.

BDO

13.1.3 Strengthen the balance sheet of VDM

The $15 million injection of cash under the Placement will strengthen the balance sheet of VDM, increasing the Company's net asset position by $15 million, better positioning it for further growth in pursuing additional engineering and construction contracts.

In particular, contractors are often assessed on their financial health and their ability to deliver on contracts that they tender for. VDM's going concern uncertainty does not allow it to position itself well for winning tenders, thus creating a spiralling effect on its continuing financial performance. The additional $15 million from the Placement is expected to improve the Company's positioning in tendering for future projects and contracts.

13.1.4 Increased ability to renegotiate banking facilities

The $15 million cash injection and access to Dr Hua's vast network in China may provide VDM with alternative sources of funding including both in debt and equity going forward. This ability to obtain alternative funding sources will reduce VDM's reliance on its current surety bond providers.

13.1.5 Expand VDM's network through the appointment of Dr Hua

As a strategic investor, H&H is likely to provide opportunities for leveraging global experience and relationships of H&H in the mining and construction sectors, particularly with Chinese stakeholders. Given Dr Hua's previous experience as Executive Chairman and CEO of CITIC Pacific Mining, he is anticipated to bring a wealth of experience and expertise to the Board of VDM. VDM's management expects that the potential business opportunities arising from the appointment of Dr Hua may allow VDM to broaden its revenue base outside of construction and consulting. Dr Hua's network in China may also provide VDM with the opportunity to leverage procurement out of China which may give VDM a cost advantage against its Australian competitors. This is likely to improve VDM's competitiveness in Australia.

13.2 Disadvantages of approving the Placement

13.2.1 Dilution of existing Shareholders' interest

If the Placement is approved, Shareholders' interest will be diluted from approximately 95% of the issued capital of VDM to approximately 58%. This will dilute Shareholders' interests and their level of collective influence on the operations of the Company.

13.2.2 Decreases the likelihood of a takeover offer

If the Placement is approved, H&H will hold approximately 42% of the issued capital of VDM. This may discourage any other potential bidder from making a takeover bid in the future as H&H will have significant control over the Company. This may have an adverse effect on the share price of VDM and may reduce the opportunity for Shareholders to receive a takeover premium in the future.

13.2.3 Potential lower liquidity of shares

If the Placement is approved then trading in VDM shares may be negatively affected by the presence of a major shareholder with approximately a 42% ownership. The existing shares will therefore have a materially lower free float on a proportional basis which may reduce liquidity.

13.3 Other considerations

13.3.1 Alternative Proposal

VDM has received other indicative non-binding proposals which vary from acquiring all of the shares of VDM or to subscribe for new shares through a share placement. VDM has considered these proposals not to be more superior to this proposed Placement.

13.3.2 Practical Level of Control

If the Placement is approved then H&H will hold an interest of approximately 42% in VDM. In addition to this, VDM will have two Board members nominated by H&H.

When shareholders are required to approve an issue that relates to a company there are two types of approval levels. These are general resolutions and special resolutions. A general resolution requires 50% of shares to be voted in favour to approve a matter and a special resolution required 75% of shares on issue to be voted in favour to approve a matter. If the Transaction is approved then H&H will be able to block special resolutions. We note that if H&H were to acquire an additional interest of at least 8%, it will also be able to block and pass general resolutions.

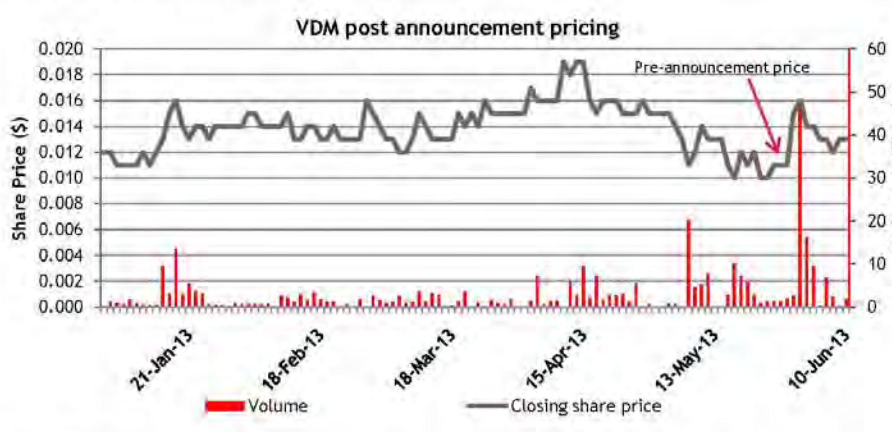
VDM's Board currently comprises six directors. H&H will nominate Dr Hua as Managing Director and two additional directors in a non-executive capacity. VDM will retain four independent non-executive directors on the Board. Together with Dr Hua and the two H&H nominees, the VDM Board will comprise 7 members. This means that H&H nominated directors will make up 42.9% of the Board.

H&H's control of VDM following the Placement will be significant when compared to all other shareholders as H&H will be the largest shareholder holding a 42% interest and will control 42.9% of the Board.

13.3.3 Consequences of not approving the Placement

Potential decline in share price

We have analysed movements in VDM's share price since the Placement was announced. A graph of VDM's share price since the announcement is set out below.



Source: Bloomberg

Following the announcement of the Placement on 29 May 2013 VDM's share price increased 36% to $0.015. The share price increased further to close at a high of $0.016 on 30 May 2013.

Given the above analysis it is possible that if the Placement is not approved then VDM's share price may decline.

13.3.4 Contingent liabilities

We note that there are a number of contingent liabilities and litigation matters outstanding for VDM, which is not unusual given the nature of the construction industry. A material uncertainty exists around the outcome of these legal claims and as such, we have not incorporated these into our valuation of VDM. Depending on the outcome of these liabilities and litigation matters individually and collectively, they may have a significant negative impact on VDM's business and on the NAV value that we have arrived at in section 10.1.

13.3.5 Change in risk profile of the investment

We note that H&H may be proposing that VDM considers expanding its exposure to the resources value chain through the establishment of two new business activities in procurement services and mining.

H&H's plan for a procurement services division is through the establishment of an international procurement centre in China to access the country's cost competitive goods and services.

H&H's plan to expand into mining is aimed at leveraging VDM's current engineering and construction capabilities. The mining strategy is to source opportunities to apply for mining rights or invest directly in mining projects with the intention to take the project through to production or exit at an optimal return for Shareholders.

As both new business strategies carry different risk profiles to VDM's current business, the risk profile of Shareholders' investment in VDM's future business may change if H&H's plans materialise. The change in Shareholders' investment profile may include differences in business profile, operational profile, capital structure, size, share liquidity and geographic exposure between VDM's existing business and H&H's proposed plan for VDM's business in the future.

14. Conclusion

We have considered the terms of the Placement as outlined in the body of this report and have concluded that the Placement is fair and reasonable to the Shareholders of VDM.

15. Sources of information

This report has been based on the following information:

- Draft Notice of General Meeting and Explanatory Statement on or about the date of this report;
- Subscription Agreement between VDM and H&H dated 28 May 2013;
- Audited financial statements of VDM for the years ended 30 June 2011 and 30 June 2012;
- Reviewed financial statements of VDM for the half year ended 31 December 2012;
- Unaudited management accounts of VDM for the period ended 30 April 2013;
- Property asset valuations (the property value was not material therefore we have not included them as appendices to our Report);
- Share registry information;
- Debtors and creditors ageing as at 30 April 2013;
- Daily cash balances statement as at 30 April 2013;
- List of asset disposals from July 2012 to April 2013;
- Share sale agreement in relation to Quartz Estate Lot 61/500;
- Land sale and purchase agreement in relation to Quartz Estate Lot 266/501;
- Variation for commercial contract dated 15 January 2013 in relation to the Karratha Property;
- Indicative non-binding proposals from interested parties;
- Information in the public domain; and
- Discussions with Directors and Management of VDM.

16. Independence

BDO Corporate Finance (WA) Pty Ltd is entitled to receive a fee of $40,000 (excluding GST and reimbursement of out of pocket expenses). The fee is not contingent on the conclusion, content or future use of this Report. Except for this fee, BDO Corporate Finance (WA) Pty Ltd has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this report.

BDO Corporate Finance (WA) Pty Ltd has been indemnified by VDM in respect of any claim arising from BDO Corporate Finance (WA) Pty Ltd's reliance on information provided by the VDM, including the non provision of material information, in relation to the preparation of this report.

Prior to accepting this engagement BDO Corporate Finance (WA) Pty Ltd has considered its independence with respect to VDM and H&H and any of their respective associates with reference to ASIC Regulatory Guide 112 "Independence of Experts". In BDO Corporate Finance (WA) Pty Ltd's opinion it is independent of VDM and H&H and their respective associates.

The provision of our services is not considered a threat to our independence as auditors under Professional Statement APES 110 - Professional Independence. The services provided have no material impact on the financial report of VDM.

A draft of this report was provided to VDM and its advisors for confirmation of the factual accuracy of its contents. No significant changes were made to this report as a result of this review.

BDO is the brand name for the BDO International network and for each of the BDO Member firms.

BDO (Australia) Ltd, an Australian company limited by guarantee, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of Independent Member Firms. BDO in Australia, is a national association of separate entities (each of which has appointed BDO (Australia) Limited ACN 050 110 275 to represent it in BDO International).

17. Qualifications

BDO Corporate Finance (WA) Pty Ltd has extensive experience in the provision of corporate finance advice, particularly in respect of takeovers, mergers and acquisitions.

BDO Corporate Finance (WA) Pty Ltd holds an Australian Financial Services Licence issued by the Australian Securities and Investment Commission for giving expert reports pursuant to the Listing rules of the ASX and the Corporations Act.

The persons specifically involved in preparing and reviewing this report were Sherif Andrawes and Adam Myers of BDO Corporate Finance (WA) Pty Ltd. They have significant experience in the preparation of independent expert reports, valuations and mergers and acquisitions advice across a wide range of industries in Australia and were supported by other BDO staff.

Sherif Andrawes is a Fellow of the Institute of Chartered Accountants in England & Wales and a Member of the Institute of Chartered Accountants in Australia. He has over twenty five years experience working in the audit and corporate finance fields with BDO and its predecessor firms in London and Perth. He has been responsible for over 200 public company independent expert's reports under the Corporations Act or ASX Listing Rules. These experts' reports cover a wide range of industries in Australia with a focus on companies in the natural resources sector. Sherif Andrawes is the Chairman of BDO in Western Australia, Corporate Finance Practice Group Leader of BDO in Western Australia and the Natural Resources Leader for BDO in Australia.

Adam Myers is a member of the Australian Institute of Chartered Accountants. Adam's career spans 15 years in the Audit and Assurance and Corporate Finance areas. Adam has considerable experience in the preparation of independent expert reports and valuations in general for companies in a wide number of industry sectors.

18. Disclaimers and consents

This report has been prepared at the request of directors of VDM for inclusion in the Explanatory Memorandum which will be sent to all VDM Shareholders. VDM engaged BDO Corporate Finance (WA) Pty Ltd to prepare an independent expert's report to consider proposal to issue 600 million shares at a price of 2.5 cents per share to H&H Holdings Australia Pty Ltd to raise $15 million.

BDO Corporate Finance (WA) Pty Ltd hereby consents to this report accompanying the above Explanatory Memorandum. Apart from such use, neither the whole nor any part of this report, nor any reference thereto may be included in or with, or attached to any document, circular resolution, statement or letter without the prior written consent of BDO Corporate Finance (WA) Pty Ltd.

BDO Corporate Finance (WA) Pty Ltd takes no responsibility for the contents of the Explanatory Memorandum other than this report.

We have no reason to believe that any of the information or explanations supplied to us are false or that material information has been withheld. It is not the role of BDO Corporate Finance (WA) Pty Ltd acting as an independent expert to perform any due diligence procedures on behalf of the Company. The Directors of the Company are responsible for conducting appropriate due diligence in relation to H&H. BDO Corporate Finance (WA) Pty Ltd provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process.

The opinion of BDO Corporate Finance (WA) Pty Ltd is based on the market, economic and other conditions prevailing at the date of this report. Such conditions can change significantly over short periods of time.

With respect to taxation implications it is recommended that individual Shareholders obtain their own taxation advice, in respect of the Placement, tailored to their own particular circumstances. Furthermore, the advice provided in this report does not constitute legal or taxation advice to the Shareholders of VDM, or any other party.

BDO Corporate Finance (WA) Pty Ltd has also considered and relied upon independent valuations for property assets held by VDM.

The statements and opinions included in this report are given in good faith and in the belief that they are not false, misleading or incomplete.

The terms of this engagement are such that BDO Corporate Finance (WA) Pty Ltd has no obligation to update this report for events occurring subsequent to the date of this report.

Yours faithfully

BDO CORPORATE FINANCE (WA) PTY LTD

Sherif Andrawes	**Adam Myers**
Director	Director

Appendix 1 – Glossary of Terms

Reference	Definition
AASB 111	Australian Accounting Standards Board 111 'Construction Contracts
The Act	The Corporations Act 2001
APES 225	Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services'
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
BDO	BDO Corporate Finance (WA) Pty Ltd
Como Engineers	Como Engineers Pty Limited
The Company	VDM Group Limited
DCF	Discounted Future Cash Flows
Disposal Multiple	The multiple of proceeds received over the written down values of each property, plant and equipment sold
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
FME	Future Maintainable Earnings
Karratha Property	Property located at 2488 Pemberton Way, Karratha
Mandurah Apartment	Apartment 20/15 The Palladio, Mandurah
NAV	Net Asset Value
New Shares	600 million fully paid ordinary shares issued to H&H Holdings Australia Pty Ltd at 2.5 cents per share
Our Report	This Independent Expert's Report prepared by BDO
RG111	Content of expert reports (March 2011)
RG112	Independence of experts (March 2011)

Reference	Definition
The Placement	The proposal to issue 600 million fully paid ordinary shares at 2.5 cents per share to H&H Holdings Australia Pty Ltd
Shareholders	Shareholders of VDM Group Limited
VWAP	Volume Weighted Average Price
Valuation Engagement	An Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Valuer is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Valuer at that time.

Appendix 2 – Valuation Methodologies

Methodologies commonly used for valuing assets and businesses are as follows:

1 *Net asset value ("NAV")*

Asset based methods estimate the market value of an entity's securities based on the realisable value of its identifiable net assets. Asset based methods include:

- Orderly realisation of assets method
- Liquidation of assets method
- Net assets on a going concern method

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to entity holders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the entity is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the entity may not be contemplated, these methods in their strictest form may not be appropriate. The net assets on a going concern method estimates the market values of the net assets of an entity but does not take into account any realisation costs.

Net assets on a going concern basis are usually appropriate where the majority of assets consist of cash, passive investments or projects with a limited life. All assets and liabilities of the entity are valued at market value under this alternative and this combined market value forms the basis for the entity's valuation.

Often the FME and DCF methodologies are used in valuing assets forming part of the overall Net assets on a going concern basis. This is particularly so for exploration and mining companies where investments are in finite life producing assets or prospective exploration areas.

These asset based methods ignore the possibility that the entity's value could exceed the realisable value of its assets as they do not recognise the value of intangible assets such as management, intellectual property and goodwill. Asset based methods are appropriate when an entity is not making an adequate return on its assets, a significant proportion of the entity's assets are liquid or for asset holding companies.

2 *Quoted Market Price Basis ("QMP")*

A valuation approach that can be used in conjunction with (or as a replacement for) other valuation methods is the quoted market price of listed securities. Where there is a ready market for securities such as the ASX, through which shares are traded, recent prices at which shares are bought and sold can be taken as the market value per share. Such market value includes all factors and influences that impact upon the ASX. The use of ASX pricing is more relevant where a security displays regular high volume trading, creating a "deep" market in that security.

3 *Capitalisation of future maintainable earnings ("FME")*

This method places a value on the business by estimating the likely FME, capitalised at an appropriate rate which reflects business outlook, business risk, investor expectations, future growth prospects and other entity specific factors. This approach relies on the availability and analysis of comparable market data.

The FME approach is the most commonly applied valuation technique and is particularly applicable to profitable businesses with relatively steady growth histories and forecasts, regular capital expenditure requirements and non-finite lives.

The FME used in the valuation can be based on net profit after tax or alternatives to this such as earnings before interest and tax ("**EBIT**") or earnings before interest, tax, depreciation and amortisation ("**EBITDA**"). The capitalisation rate or "earnings multiple" is adjusted to reflect which base is being used for FME.

4 *Discounted future cash flows ("DCF")*

The DCF methodology is based on the generally accepted theory that the value of an asset or business depends on its future net cash flows, discounted to their present value at an appropriate discount rate (often called the weighted average cost of capital). This discount rate represents an opportunity cost of capital reflecting the expected rate of return which investors can obtain from investments having equivalent risks.

Considerable judgement is required to estimate the future cash flows which must be able to be reliably estimated for a sufficiently long period to make this valuation methodology appropriate.

A terminal value for the asset or business is calculated at the end of the future cash flow period and this is also discounted to its present value using the appropriate discount rate.

DCF valuations are particularly applicable to businesses with limited lives, experiencing growth, that are in a start up phase, or experience irregular cash flows.

5 *Market Based Assessment*

The market based approach seeks to arrive at a value for a business by reference to comparable transactions involving the sale of similar businesses. This is based on the premise that companies with similar characteristics, such as operating in similar industries, command similar values. In performing this analysis it is important to acknowledge the differences between the comparable companies being analysed and the company that is being valued and then to reflect these differences in the valuation.

VDM Group Limited
ABN 95 109 829 334

Lodge your vote:

Online:
www.investorvote.com.au

By Mail:
Computershare Investor Services Pty Limited
GPO Box 242 Melbourne
Victoria 3001 Australia

Alternatively you can fax your form to
(within Australia) 1800 783 447
(outside Australia) +61 3 9473 2555

For Intermediary Online subscribers only
(custodians) www.intermediaryonline.com

For all enquiries call:
(within Australia) 1300 850 505
(outside Australia) +61 3 9415 4000

Proxy Form

Vote online 24 hours a day, 7 days a week:

www.investorvote.com.au

☑ **Cast your proxy vote**

☑ **Review and update your securityholding**

Your secure access information is:
Control Number: 999999

SRN/HIN: **PIN:**

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

For your vote to be effective it must be received by 10.00 am (AWST) on 14 August 2013

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

Appointment of Proxy

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote as they choose. If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

Signing Instructions for Postal Forms

Individual: Where the holding is in one name, the securityholder must sign.
Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.
Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.
Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate “Certificate of Appointment of Corporate Representative” prior to admission. A form of the certificate may be obtained from Computershare or online at www.investorcentre.com under the information tab, "Downloadable Forms".

Comments & Questions: If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

GO ONLINE TO VOTE,
or turn over to complete the form ➔

☐ **Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with '**X**') should advise your broker of any changes.

Proxy Form

Please mark ☒ to indicate your directions

STEP 1 Appoint a Proxy to Vote on Your Behalf

I/We being a member/s of VDM Group Limited hereby appoint

☐ **the Chairman of the meeting** **OR** ______________________

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the General Meeting of VDM Group Limited to be held at Level 5, The Ernst & Young Building, 11 Mounts Bay Road, Perth on Friday, 16 August 2013 at 10.00am (AWST) and at any adjournment of that meeting.

STEP 2 Items of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

		For	Against	Abstain
Resolution 1	Proposed Issue of Shares to H&H Holdings Australia Pty Ltd	☐	☐	☐

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

SIGN Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1	Securityholder 2	Securityholder 3
Sole Director and Sole Company Secretary	Director	Director/Company Secretary

Contact Name ______________________ **Contact Daytime Telephone** ______________________ **Date** ___ / ___ / ___