



ASX ANNOUNCEMENT

Contract update and revised capital raising

- **VDM is in dispute with a major customer on a material contract regarding the status of the contract and VDM has been removed from the site**
- **This dispute has the potential to materially impact operating performance and short term cash flows**
- **Existing Share Subscription Agreement with H&H Holdings Australia Pty Ltd (“H&H”) has been terminated by mutual agreement in order to allow a new arrangement to proceed**
- **A new arrangement with unanimous board support has been executed with H&H to immediately provide \$6.4 million in funding on the following terms:**
 - **Placement of 140 million shares to H&H at 1.0 cent per share to raise \$1.4 million**
 - **A Convertible Loan of \$5 million issued to H&H with a conversion price of 1.0 cent per share, conversion subject to shareholder approval**
- **The Company and H&H have agreed key terms of an additional \$5 million loan facility, should that be requested by the Company and agreed to by H&H, over the 12 month period from conversion**
- **In conjunction with the Placement Dr Dongyi Hua and Mr Xiangyang Ru will be appointed as directors of VDM. Dr Hua will also be appointed as Managing Director from 9 September 2013.**

Perth, 27 August 2013: VDM Group Ltd (ASX: VMG; “VDM” or “the Company”) wishes to advise that the Company is in dispute with a major customer on a material contract regarding the status of the contract. The Company received a notice from the customer purporting to exercise its right to take the whole of the remaining works under a contract out of the hands of VDM (“Customer Notice”). The effect of this notice may materially

BOARD & MANAGEMENT

Mr Michael Delany Perrott AM
CHAIRMAN & ACTING CHIEF
EXECUTIVE OFFICER

Mr Barry Nazer
NON-EXECUTIVE DIRECTOR

Mr Michael Fry
NON-EXECUTIVE DIRECTOR

Mr Richard Mickle
NON-EXECUTIVE DIRECTOR

Mrs Samantha Drury
CHIEF FINANCIAL OFFICER
COMPANY SECRETARY

REGISTERED OFFICE

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ASX CODE

VMG

impact the operating performance and short term cash flows of the Company. On receipt of the Customer Notice the Company immediately entered into a Trading Halt. The Company notes the status of the contract is in dispute and VDM has been removed from the Customer's site.

Following receipt of the Customer Notice the Company was notified by H&H that it considered the matter to be a Material Adverse Change ("MAC") within the definition of the existing Share Subscription Agreement ("SSA"). Whilst the Company has not conceded that the event is a MAC, it has worked with H&H since receiving the Customer Notice to determine if an alternative capital raising might be agreed, rather than disputing the terms of the SSA, so as to provide the necessary working capital to the business deemed necessary as a consequence of the Customer Notice.

As a result the Company is pleased to announce the terms of an alternative capital raising agreed with H&H today to provide funding as follows ("the Capital Raising"):

- capital of \$6.4 million immediately, via a Placement and Convertible Loan; and
- a further \$5 million loan facility over the next 12 months, subject to VDM and H&H agreeing the requirement for and precise terms of such funding.

Key terms of the Capital Raising

Placement

The Company will issue to H&H 140,080,961 shares at 1.0 cent per share to raise \$1.401 million, pursuant to VDM's placement capacity under ASX Listing Rule 7.1.

Dr Hua, as the owner of H&H, and Mr Ru, as a nominee of H&H, will be appointed to the Board of VDM. Dr Hua will also be appointed as Managing Director of VDM effective 9 September 2013. Until this date, Mr Michael Perrott AM will remain as Acting Chief Executive Officer. The material terms of Dr Hua's service agreement are annexed to this announcement.

Following the Placement, H&H will hold 185,110,976 shares in VDM, representing 17.2% of all shares on issue. Completion will take place on Wednesday 28 August 2013.

Convertible Loan

Convertible Loan to H&H for \$5 million, with the following key terms:

- The loan is unsecured and has a term of 6 months;

- Conversion of the loan into VDM shares is subject to shareholder approval, and upon such approval being granted will immediately convert to 500 million shares at 1.0 cent per share;
- Interest of 10% pa, payable up to the date of conversion of the loan; and
- The facility cannot be repaid by the Company prior to the shareholder meeting date, but can be repaid any time up to the expiration of the term (if shareholder approval is not received).

Following the conversion of the loan, H&H would hold 685,110,976 shares in VDM, representing 43.5% of all shares on issue at that time. At that time H&H is entitled to appoint a further nominee Director, which the Company understands will be Mr Ming Guo.

In the event that shareholders do not approve the conversion of the loan, the following terms will apply:

- Interest will increase to 15% pa. applicable from the earlier of the date of the shareholders meeting or 12 weeks from today
- A line fee of \$500,000 will apply to be repaid at the expiration of the term

In addition to the above, Dr Hua has indicated that his present intention would be to resign from his position as Managing Director in the event that shareholders do not approve the conversion of the loan.

As the ability of the loan to be converted is dependent on shareholder approval, and H&H's entitlement post conversion would exceed 20% of all shares on issue at that time, the Company will issue a Notice of Meeting (including an Independent Expert's Report) to be sent to all shareholders in due course.

The Convertible Loan contains customary exclusivity provisions, including no shop, no talk and no due diligence provisions. Customary provisions are also contained within the Convertible Loan Agreement that allow the Board to exercise their fiduciary duties in the event that an alternate proposal eventuates. The exclusivity obligations apply until the earlier of; the end of the Shareholder Meeting to approve the conversion of the loan, or 12 weeks from today.

The Convertible Loan also contains events of default, and undertakings in relation to the conduct of VDM's business customary for facilities of this nature.

Potential New Facility

H&H and VDM have also agreed key terms under which the parties may enter into a new loan facility within the 12 months following the date of conversion:

- Maximum drawn amount of \$5 million
- The facility will have a term of 12 months from the date of the first draw down
- Draw down, in full or part, is subject to H&H's absolute discretion
- Interest rate of 8% pa, calculated daily and payable quarterly in arrears
- To be secured, subject to shareholder approval, by a general security deed to be granted by the Company in favour of the H&H, to be at least second ranking unless otherwise agreed by H&H; and
- on all other terms and conditions customary for a loan and security of this nature.

Whilst no agreement has been entered into in relation to any potential new facility, H&H and VDM have agreed that VDM will seek provisional shareholder approval for an arrangement based on the above key terms, to provide flexibility for the parties to move quickly should they wish to enter into such arrangement in the future.

Until approval of the conversion right under the Convertible Loan, the Company is not able to request that H&H consider entering into any new facility.

Benefits of Capital Raising

As a result of the Capital Raising the Company will receive \$6.4 million from H&H immediately, with the potential to access a further \$5 million via a loan from H&H, following receipt of relevant shareholder approvals. In the event that the Company requires a further loan, and such loan is successfully negotiated with H&H, the Company would have access up to \$11.4 million of funding over the next 12 months from H&H.

In light of the Customer Notice referred to above and the current difficult market trading conditions the Capital Raising is unanimously supported by the Board.

The financial position of the Company is immediately strengthened and sufficient working capital is now available for the business to continue with current projects, manage the potential impact of the Customer Notice and pursue other initiatives to allow the business to improve performance over the next 12 months.

Board and Management

As announced on 23 August 2013, Mr Andrew Broad was terminated as Managing Director and Chief Executive Officer.

Dr Hua and Mr Ru will be appointed to the Board. In the event that the Convertible Loan is approved by shareholders and the additional 500 million shares are issued to H&H, H&H is entitled to appoint a further nominee Director, which the Company understands will be Mr Guo. The profiles of these Directors are set out in the previous Notice of Meeting sent to shareholders on 15 July 2013. Separately Dr Hua has entered into a Service Agreement on the key terms set out in the attached Appendix. Mr Michael Perrott AM will remain as Acting Chief Executive Officer until Dr Hua commences his appointment.

Indicative Timetable

The conversion of the Convertible Loan is conditional on shareholder approval as is the ability of the Company to draw down funds if any new facility is entered into. As a result a Notice of Meeting will be sent to shareholders to consider these matters. In respect of the Capital Raising the Company is required, under the arrangements with H&H, to use its best endeavours to hold a shareholder meeting within 8 weeks of this announcement. It is therefore expected that a meeting will be held by no later than the end of October.

For further information please contact:

Mr Michael Perrott AM
Chairman and Acting Chief Executive Officer
(08) 9265 1100

An Appendix 3B, together with Appendices 3X in respect of Dr Hua and Mr Ru, will be lodged in due course.

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About VDM Group

VDM is an engineering and construction company that services the mining and resources, transport and civil infrastructure and urban development sectors. VDM's highly skilled engineers develop innovative technical solutions for clients and deliver projects that are cost effective, reliable and sustainable.

Summary of the material terms and conditions of the service agreement executed between VDM Group Limited (the Company) and Dr Dongyi Hua

1. Appointment

The appointment is to the position of Managing Director.

2. Term

The appointment commences on 9 September 2013, and is ongoing, with the termination provisions summarised below.

3. Duties

The duties of Dr Hua are those expected of the Managing Director, reporting to and receiving directions from the Board.

4. Remuneration

There are three components of Dr Hua's remuneration as follows:

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.

The Company and Dr Hua have agreed to use their best endeavours to agree, as soon as possible, the terms of an incentive based remuneration scheme for Dr Hua no less favourable to Dr Hua than the Short Term Incentives and the Long Term Incentives as set out below, unless agreed otherwise between the Company and Dr Hua.

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.

5. Termination

Dr 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, unless it is as a direct result of the failure to obtain shareholder approval to convert the loan, in which his resignation will be effective immediately.

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.

6. Restraint

The agreement contains customary restraint provisions for a contract of this nature. This restraint will only apply at those time or times (if any) during the relevant restraint period that Dr Hua holds a Relevant Interest in issued voting shares of the Company which constitute less than 10% in the total issued voting shares of the Company.

7. Other provisions

The agreement also contains general provisions regarding confidentiality, insurance, intellectual property and other provisions usual for an agreement of this type.