

VDM GROUP LIMITED

ABN 95 109 829 334

NOTICE OF ANNUAL GENERAL MEETING

EXPLANATORY MEMORANDUM & PROXY FORM

Date of Meeting

Friday 29 November 2013

Time of Meeting

3:00pm (AWST)

Place of Meeting

Mosman Bay Room, Hyatt Regency Perth, 99 Adelaide Terrace, Perth, Western Australia

This Notice of Annual General Meeting and accompanying Independent Expert's Report (which considers the transactions the subject of Resolutions 3 and 4 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 Annual 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 Annual General Meeting

VDM Group Limited (**VDM** or **the Company**) will hold its Annual General Meeting for 2013 on Friday 29 November 2013 at 3:00pm (AWST) at the Mosman Bay Room, Hyatt Regency Perth, 99 Adelaide Terrace, Perth, Western Australia.

ORDINARY BUSINESS

1. Financial Report

To receive the financial report, Directors' report and auditor's report for VDM and its controlled entities for the year ended 30 June 2013.

2. Remuneration Report

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

Resolution 1

"That for the purposes of section 250R(2) of the Corporations Act and for all other purposes, the Remuneration Report be adopted. The Remuneration Report is set out on pages 15 to 25 of the 2013 Annual Report to Shareholders."

Please note that the vote on this Resolution is advisory only and does not bind the Directors or VDM. However, if more than 25% of the votes cast on this Resolution are against the Resolution, then Resolution 8 (Holding a Spill Meeting) will be put to Shareholders for their consideration and vote.

Voting exclusion: In accordance with section 250R(4) of the Corporations Act, the Company will disregard any votes cast on Resolution 1 by or on behalf of a member of the Key Management Personnel (details of whose remuneration are included in the Remuneration Report) or their Closely Related Parties. However, a person described above may vote on this Resolution 1 if the person does so as a proxy appointed by writing that specifies how the proxy is to vote on the Resolution or the person is the chair of the Meeting and the appointment of the chair as proxy does not specify the way the person is to vote on the Resolution, and expressly authorises the chair to exercise the proxy even if the Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel.

3. Election of Directors

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

Resolution 2

"That Mr Xiangyang Ru who was appointed by the Directors as a Non-executive Director on 28 August 2013 is elected as a Director of VDM."

4. Approval to issue Conversion Shares to H&H Holdings Australia Pty Ltd

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

Resolution 3

"That, subject to Resolutions 4, 5 and 6 being approved, for the purposes of item 7 of section 611 of the Corporations Act, Chapter 2E of the Corporations Act, Listing Rule 10.11 and for

all other purposes, approval is given for the Company to allot and issue to H&H Holdings Australia Pty Ltd 500,000,000 Shares at an issue price of \$0.01 per Share on the terms and conditions set out and as described in the Explanatory Memorandum accompanying this Notice of Annual General Meeting."

Voting Exclusion: The Company will disregard any votes cast on Resolution 3 by H&H Holdings Australia Pty Ltd and any of its Associates. However, the Company need not disregard a vote if it is cast by a person who is entitled to vote, in accordance with the directions on the Proxy Form or is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the Proxy decides.

5. Approval to grant security arrangements in respect of the New Facility

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

Resolution 4

"That, subject to Resolutions 3, 5, and 6 being approved, for the purposes of Chapter 2E of the Corporations Act, Listing Rule 10.1 and for all other purposes, approval is given for the Company to grant a general security in favour of H&H Holdings Australia Pty Ltd in respect of the New Facility on the terms and conditions set out and as described in the Explanatory Memorandum accompanying this Notice of Annual General Meeting."

Voting Exclusion: The Company will disregard any votes cast on Resolution 4 by H&H Holdings Australia Pty Ltd and any of its Associates. However, the Company need not disregard a vote if it is cast by a person who is entitled to vote, in accordance with the directions on the Proxy Form or is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

6. Ratification of prior issues of Shares

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

Resolution 5

"That, subject to Resolutions 3, 4, and 6 being approved, for the purposes of Listing Rule 7.4 and for all other purposes, Shareholders hereby approve and ratify the allotment and issue of 140,080,961 Shares at \$0.01 per Share on 28 August 2013 to H&H Holdings Australia Pty Ltd pursuant to the Share Subscription Agreement for the purposes and on the terms set out in the Explanatory Memorandum accompanying this Notice of Annual General Meeting."

Voting Exclusion: The Company will disregard any votes cast on Resolution 5 by H&H Holdings Australia Pty Ltd and any of its Associates. However, the Company need not disregard a vote if it is cast by a person who is entitled to vote, in accordance with the directions on the Proxy Form or is cast by the person chairing the meeting as a proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

7. Issue of Shares to Jimblebar Creditors

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

Resolution 6

"That, subject to Resolutions 3, 4, and 5 being approved, for the purposes of Listing Rule 7.1 and for all other purposes, approval is given for the Company to allot and issue up to 245,000,000 Shares to the Jimblebar Creditors, on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice of Annual General Meeting."

Voting Exclusion: The Company will disregard any votes cast on Resolution 6 by any person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed and any Associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a 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.

SPECIAL BUSINESS

8. Approval of 10% Enhanced Placement Facility

To consider and if thought fit to pass, with or without amendment, the following as a special resolution:

Resolution 7

"That, pursuant to and in accordance with Listing Rule 7.1A and for all other purposes, Shareholders approve the issue of Equity Securities up to 10% of the issued capital of the Company (at the time of the issue) calculated in accordance with the formula prescribed in Listing Rule 7.1A.2 and on the terms and conditions in the Explanatory Memorandum."

Voting exclusion: The Company will disregard any votes cast on this Resolution by a person who may participate in the 10% Enhanced Placement Facility (and any Associates of such a person) and who might obtain a benefit (and any Associates of such a person), except a benefit solely in the capacity of a holder of Shares, if this Resolution is passed. However, the Company will not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form or it is cast by the chair 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.

CONTINGENT BUSINESS

9. Holding a Spill Meeting

Condition for Resolution 8: Resolution 8 will be considered at the AGM only if at least 25% of the votes cast on Resolution 1 are against the adoption of the Remuneration Report. Such a vote will constitute a second strike for the Company. The Explanatory Memorandum further explains the circumstances in which Resolution 8 will be put to the Meeting.

If the condition described above is satisfied, to consider and if thought fit pass the following as an ordinary resolution:

Resolution 8

"That, as required by the Corporations Act:

- (1) a meeting of the Company's members be held within 90 days of the date of the Annual General Meeting (the "spill meeting");
- (2) each of the Directors in office when the Board resolution to make the Directors' report for the year ended 30 June 2013 was passed and who are not a managing director cease to hold office immediately before the end of the spill meeting; and
- (3) resolutions to appoint persons to offices that will be vacated immediately before the end of the spill meeting be put to the vote at the spill meeting."

Voting exclusion: In accordance with the Corporations Act the Company will disregard any votes cast on Resolution 8 by or on behalf of a member of the Key Management Personnel (details of whose remuneration are included in the Remuneration Report) or their Closely Related Parties. However, a person described above may vote on this Resolution 8 if the person does so as a proxy appointed by writing that specifies how the proxy is to vote on the Resolution or the person is the chair of the Meeting and the appointment of the chair as proxy does not specify the way the person is to vote on the Resolution, and expressly authorises the chair to exercise the proxy even if the Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel.

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 Annual General Meeting is entitled to appoint a proxy. A proxy may be, 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 or by facsimile. Proxy Forms must be returned by 3:00pm (AWST) on 27 November 2013 to be effective.

As stated on the Proxy Form accompanying this Notice, the chair intends to vote available proxies in favour of the Resolutions with the exception of Resolution 8 where the chair intends to vote against Resolution 8.

Proxy voting on Resolution 1 (Remuneration Report) and Resolution 8 (Holding a Spill Meeting)

If you elect to appoint a member of Key Management Personnel whose remuneration details are included in the Remuneration Report (other than the chair) or any Closely Related Party of that member as your proxy to vote on Resolution 1 and Resolution 8, you must direct the proxy how they are to vote. Where you do not direct the member of Key Management Personnel whose remuneration details are included in the Remuneration Report (other than the chair) or a Closely Related Party of that member how to vote on Resolution 1 and Resolution 8, your vote will not be counted in determining the required majority for Resolution 1 and Resolution 8.

If the chair of the Meeting is appointed as your proxy (whether by appointment or by default) and you have not given directions on how to vote by completing the appropriate box in the voting directions section of the Proxy Form for Resolution 1 and Resolution 8, by signing and returning the Proxy Form you will be expressly authorising the chair of the Meeting to cast your votes in accordance with the chair's intention. The chair intends to vote in favour of Resolution 1 and against Resolution 8.

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 Annual General Meeting.

The Directors have determined that all Shares registered at 4.00pm (AWST) on 27 November 2013 shall, for the purposes of determining voting entitlements at the Annual 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 Annual 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 Annual 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 Annual General Meeting or handed in at the Annual General Meeting when registering as a corporate representative. A corporate representative form may be requested from the Company's registry if required.

By order of the Board of Directors

Samantha Drury Company Secretary VDM Group Limited

Dated 29 October 2013

Explanatory Memorandum

Purpose of this Explanatory Memorandum

This document is important. It provides Shareholders with necessary information to assist them in deciding how to vote on the Resolutions 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 Resolutions.

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

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 Resolutions 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 Resolutions.

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 3 and 4 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 11 of this Explanatory Memorandum.

29 October 2013

Dear Fellow Shareholder,

I am pleased to enclose an Explanatory Memorandum containing information regarding the Resolutions to be considered at the Annual General Meeting, including in relation to the proposed transactions with H&H Holdings Australia Pty Ltd and Recapitalisation Plan (as defined below).

Transactions with H&H

As announced on 27 August 2013, VDM advised that the Company was 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 remove VDM from the site (**Customer Notice**). Following receipt of the Customer Notice the Company was notified by H&H that it considered the matter to be a material adverse change within the definition of the existing share subscription agreement.

Rather than disputing the terms of the existing share subscription agreement, VDM worked with H&H to determine an alternative capital raising to provide the working capital to the business deemed necessary as a consequence of the Customer Notice.

As a result, VDM entered into the following arrangements:

- A new Share Subscription Agreement under which H&H agreed to subscribe for 140,080,961 Shares at a price of \$0.01 per Share, pursuant to VDM's placement capacity under Listing Rule 7.1. In conjunction with the subscription, Dr Dongyi Hua, as the owner of H&H, and Mr Xiangyang Ru, as a nominee of H&H, were appointed to the Board of VDM. Dr Hua was also appointed Managing Director of VDM;
- A Convertible Loan and Facility Agreement under which H&H agreed to lend \$5 million to VDM and, upon Shareholders approving Resolutions 3, 4, 5 and 6, the loan will automatically convert into 500 million Shares at a price of \$0.01 per Share; and
- An additional unsecured loan facility of up to \$4 million to be provided by H&H to VDM (New Facility).
 Subject to Conversion occurring, and upon Shareholders approving Resolutions 3, 4, 5 and 6, VDM will grant a general security to H&H in respect of the New Facility.

Conversion of the Convertible Loan is subject to the approval of Resolutions 3, 4, 5 and 6 by Shareholders at the Annual General Meeting. Whilst VDM and H&H have already entered into the New Facility, VDM is seeking approval from Shareholders for the New Facility to be secured by a general security deed to be granted by VDM in favour of H&H. The enforcement of such security may be subject to the approval of the Treasurer under the *Foreign Acquisitions and Takeovers Act 1975 (Cth)* (**FATA**) and Australia's foreign investment policy.

Recapitalisation plan

As announced on 1 October 2013, VDM advised that the Company was yet to lodge its accounts and was working through a financial proposal to improve the working capital of the Company.

On 29 October 2013, VDM advised that the Company's accounts had been lodged with ASIC and VDM announced a proposed recapitalisation plan, involving the Creditor Proposal and proposed Rights Issue (described below) (**Recapitalisation Plan**).

Under the terms of the Creditor Proposal the Relevant Debt of each Jimblebar Creditor is to be repaid as follows:

 20% of the Relevant Debt was paid upon execution of the relevant documentation (the Initial Payment); and

- subject to certain conditions noted below:
 - 35% of the Relevant Debt will be converted into Shares at \$0.01 per Share, such conversion to be subject to Shareholders approving Resolutions 3, 4, 5 and 6 and to take place prior to the Rights Issue (and, for the avoidance of doubt each Jimblebar Creditor shall have the right to participate in the Rights Issue, should it proceed) (the Creditor Conversion); and
 - the remaining 45% owing to each Jimblebar Creditor will be repaid by no later than 1 July 2014 (the Final Payment),

(together the Creditor Proposal).

The Creditor Conversion and Final Payment are subject to the satisfaction of the following conditions precedent:

- Shareholders approving Resolutions 3, 4, 5 and 6; and
- any and all authorisations and approvals which may be required by law, including under the Listing Rules, the Corporations Act and any provisions of the Constitution, to enter into and perform the transactions contemplated by the Recapitalisation Plan having been obtained.

In addition, as part of the Recapitalisation Plan and provided Resolutions 3, 4, 5 and 6 are passed at the Meeting, VDM is proposing to make a pro-rata entitlement offer to its Shareholders to subscribe for Shares at a price of \$0.01 per Share, seeking to raise at least \$9.25 million (**Rights Issue**). Pursuant to the Rights Issue, H&H has agreed to apply for \$4 million of shares through subscribing for some or all of its entitlement and, if required, by underwriting the Rights Issue, conditional upon Hunter Hall Investment Management Limited contributing an aggregate of \$1 million under the Rights Issue. The Rights Issue will have a minimum subscription of \$5 million.

To the extent that H&H is required to contribute pursuant to its pro-rata entitlement and underwriting obligations under the Rights Issue, any funds that VDM has drawn down pursuant to the New Facility will be set off against H&H's subscription and underwriting commitments pursuant to the Rights Issue in repayment of that part of the New Facility.

If Shareholders approve Resolutions 3, 4, 5 and 6, it is expected that the Rights Issue will be made during December 2013. Further details of the Rights Issue will be provided to Shareholders in due course.

Implications if Conversion and the Recapitalisation Plan do not proceed

If Conversion and the Recapitalisation Plan do not proceed this is likely to affect the solvency of the Company and may result in the Directors having no option other than to place the Company into voluntary administration.

Conversion and the Recapitalisation Plan will not proceed if any of Resolutions 3, 4, 5 or 6 are not approved by Shareholders at the AGM.

As previously noted, on 29 October 2013 VDM announced that the Company's accounts had been lodged with ASIC. As at the date of signing the accounts, the Directors had a reasonable expectation that VDM could pay its debts as and when they would fall due and concluded that VDM was solvent. This conclusion was based on the fact that the Directors have a reasonable expectation that Conversion and the Recapitalisation Plan will proceed.

The declaration of solvency is a continuing obligation and as such, if circumstances change or further information comes to hand which affects the solvency of the company, the Directors are required to reassess their position.

Therefore, if any of Resolutions 3, 4, 5 or 6 are not approved by Shareholders at the AGM and consequently the Recapitalisation Plan does not proceed, the solvency outlook of VDM will change and

the Directors would be expected to act proactively and take steps to assess whether to cease trading and possibly place the Company into voluntary administration.

Implications if Conversion and the Recapitalisation Plan do not proceed are set out in sections 5.7(b) and 8.2 of this Explanatory Memorandum.

Directors' recommendation

Dr Dongyi Hua, as the owner of H&H has declined to make a recommendation on Resolutions 3, 4, 5 and 6. Mr Xiangyang Ru, as a nominee of H&H, has declined to make a recommendation on Resolutions 2, 3, 4, 5 and 6.

Subject to the above, the Directors recommend that Shareholders vote to approve the Resolutions (except Resolution 8), subject (in the case of Resolution 3 and 4) to the Independent Expert not changing its view and concluding that the Conversion of the Convertible Loan and the provision of a general security pursuant to the New Facility are "not fair and reasonable" prior to the Annual General Meeting.

The Directors recommend that Shareholders vote against Resolution 8.

As a further signal to Shareholders of our support of the Recapitalisation Plan, the Convertible Loan and the New Facility, each Director who holds Shares in VDM (or whose associated entities hold Shares) and who is entitled to vote intends to vote those Shares in favour of the Resolutions (except Resolution 8).

Strategy update

At the date of this Notice of Meeting, the Company remains in dispute with the customer in relation to the Customer Notice. VDM's employees have been removed from the site, and only limited access has been granted to commence demobilisation of certain items of plant and equipment. The customer has appointed an alternative contractor to complete the outstanding works, with many of VDM's subcontractors remaining on site to assist with this process. Whilst completion of the works are imminent, resolution of the situation between the Company and the customer is uncertain.

As a result of the continuing weak market conditions and issues associated with the Customer Notice, the Company has commenced an extensive review of its existing contracts and business units. In light of this review, there is likely to be some restructuring of existing operations. Despite this restructure the Company remains committed to the continuation and growth of its core engineering, procurement and construction business and to the retention of key people with skills and expertise to enable this.

Rationale for the transactions with H&H

The previous share subscription agreement put to Shareholders on 16 August 2013 contemplated a \$15 million capital raising, which would have resulted in a number of significant benefits for VDM and Shareholders. As a result of the new arrangement entered into with H&H, some of these benefits, including the plans for the business to bid for a greater range of projects have been curtailed.

The Board believes that in the near term the Conversion of the Convertible Loan and the New Facility will still deliver a number of significant benefits to VDM and Shareholders including:

- Strengthening the balance sheet and providing working capital to assist with the restructure of the Company, to deal with issues associated with the Customer Notice and weak market conditions;
- Improving market confidence in VDM which will have flow on benefits to clients, Shareholders, employees, and suppliers;
- Improving the ability of the Company to renegotiate banking and security facilities; and
- The presence of H&H allowing the Company to pursue new opportunities, leveraging off the global experience of H&H in the mining and construction sectors.

It is important to note that in the event that Conversion will not proceed and any of Resolutions 3, 4, 5 and 6 are not approved, there are a number of significant consequences for Shareholders including:

- Dr Dongyi Hua has indicated that his present intention would be to resign from his position as Managing Director of VDM to pursue other opportunities for H&H;
- Conversion will not proceed and the terms of the Convertible Loan will become more onerous for VDM. This includes an increased interest rate, the requirement for VDM to pay H&H a fee of \$500,000 at the expiration of the term of the Convertible Loan and the requirement for VDM to repay the loan, and all other amounts due and payable at the expiration of the term of the Convertible Loan;
- Whilst not specifically contemplated at this time, it is possible that Dr Hua may seek to sell down his holding in VDM, putting pressure on the Share price; and
- The Recapitalisation Plan will not proceed.

Independent Expert

The Directors have engaged an Independent Expert, BDO Corporate Finance (WA) Pty Ltd to assist Shareholders in deciding whether or not to approve Resolution 3 and 4. The Independent Expert has concluded that the Conversion of the Convertible Loan and the provision of a general security pursuant to the New Facility are 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 Convertible Loan, New Facility and Recapitalisation Plan.

The Directors encourage you to participate in the vote. You can vote in person at the Annual General Meeting on Friday 29 November 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 Resolutions, you should consult your independent financial, legal and/or tax adviser. For assistance with matters concerning the Resolutions, the Annual 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 Recapitalisation Plan, as well as further alignment with H&H, will significantly benefit the Company and its Shareholders. If you support our views and would like the Conversion of the Convertible Loan, the New Facility and the Recapitalisation Plan to proceed, it is important that you vote in favour of Resolutions 3, 4, 5 and 6.

Yours faithfully

Michael Perrott AM Chairman

VDM Group Limited

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1. Frequently asked questions (FAQs)

Why did I receive this document?	This document contains information relating to the Resolutions to be considered at the Annual General Meeting on Friday 29 November 2013, including in relation to the proposed transactions with H&H and Recapitalisation Plan described in section 8.1. Transactions of this importance require your approval at a general meeting of Shareholders before they can be implemented. The information set out in this document will assist you, as a Shareholder, to decide how you wish to vote on the Resolutions.
Who is H&H and what does it do?	H&H is a private investment platform, owned and operated by Dr Dongyi Hua, Managing Director of VDM. H&H'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). As at the date of this Notice the number of Shares currently held by H&H is 185,110,976 which is equivalent to a Voting Power of 17.24%.
What is the Convertible Loan and Facility Agreement?	Under the terms of the Convertible Loan and Facility Agreement H&H advanced \$5 million to VDM and, upon Shareholders approving Resolutions 3, 4, 5 and 6, the advance will automatically convert into 500 million Shares at a price of \$0.01 per Share. Further information on the Convertible Loan is set out in section 5.1 of this Explanatory Memorandum. VDM and H&H have also entered into an additional loan facility of up to \$4 million to be provided by H&H to VDM. Subject to Conversion occurring, and upon Shareholders approving Resolutions 3, 4, 5 and 6, VDM will grant a general security to H&H in respect of the New Facility, which will then become a secured loan. The enforcement of such security may be subject to the approval of the Treasurer under the FATA and Australia's foreign investment policy. Further information on the New Facility is set out in section 6.1 of this Explanatory Memorandum.
Resolution 3	
What is Resolution 3 asking me to vote on?	Shareholders are being asked to vote on a resolution authorising the issue of the Conversion Shares, being the proposed issue of 500 million Shares to H&H at an issue price

	of \$0.01 per Share.
	or wolver per origine.
	Further information on Resolution 3 is set out in section 5.1 of this Explanatory Memorandum.
Why is my approval required to issue the Conversion Shares?	You are a Shareholder and given the nature and size of the issue, approval of the Shareholders is required under the Corporations Act and the Listing Rules.
If Resolution 3 is approved what will happen?	Conversion is subject to Shareholders passing Resolutions 3, 4, and 5 at the Meeting. If Resolutions 3, 4, 5 and 6 are approved, the Convertible Loan will automatically convert into 500 million Shares at a price of \$0.01 per Share.
	On the date that VDM issues the Conversion Shares to H&H, the Convertible Loan (excluding accrued interest) will be taken to have been paid in full.
	Please see section 5.7(a) for further details on what will happen if Shareholders approve the issue of the Conversion Shares.
When will the Conversion Shares be issued to H&H?	The Conversion Shares will be issued to H&H promptly after Resolutions 3, 4, 5 and 6 are approved by Shareholders at the Meeting, and in any event within 5 Business Days.
Why should I vote to approve the issue of Conversion Shares to H&H?	Conversion of the Convertible Loan will, amongst other things, have the following benefits for Shareholders:
	 Permit the Recapitalisation Plan to proceed; Strengthening the Company's balance sheet; Improving market confidence in VDM; and Providing an enhanced financial platform on which to accelerate growth.
	Please see section 5.5(a) for further details on the benefits of the Conversion of the Convertible Loan.
If Resolution 3 is not approved what will happen?	Conversion and the Recapitalisation Plan are subject to Shareholders passing Resolutions 3, 4, 5 and 6 at the Meeting. If any or all of Resolutions 3, 4, 5 or 6 are not approved, Conversion and the Recapitalisation Plan will not proceed.
	Further information on what will happen if Conversion does not proceed is set out in section 5.7(b) of this Explanatory Memorandum.
	If Conversion and the Recapitalisation Plan do not proceed this is likely to affect the solvency of the Company and may result in the Directors having no option other than to place the Company into voluntary administration.
	Further information regarding the implications if Conversion and the Recapitalisation Plan do not proceed are set out in sections

	F.7(b) and 0.0 of this Fundaments. M.
	5.7(b) and 8.2 of this Explanatory Memorandum.
How will the structure of the Company's ownership change if the Conversion Shares are issued to H&H?	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 1,074 million Shares to approximately 1,574 million Shares. On the basis Resolution 6 is passed at the Meeting, following the issue of Shares to the Jimblebar Creditors the total of VDM's issued Shares will increase to approximately 1,819 million Shares. ¹
	Following Conversion, H&H will hold approximately 685 million Shares, or 43.53% of the Company's issued share capital. On the basis Resolution 6 is passed at the Meeting, following the issue of Shares to the Jimblebar Creditors H&H's Voting Power will be 37.66%.
	1511 0 11 1101111 111
If the Conversion Shares are issued to H&H, my Shareholding will be diluted. What does this mean to me?	If the Conversion Shares are issued to H&H 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 transaction, 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	Nothing will happen to your Shares. You will continue to own
Shares? Will I still be able to	the same number of Shares.
sell them on the ASX after the	
Conversion Shares have been issued?	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 following Conversion?	Following Conversion, the Board will change to reflect the new Shareholder ownership of the Company. Following the issue of the Conversion Shares to H&H, H&H will have the right to appoint a further nominee Director, which the Company understands will be Mr Ming Guo. Also, Barry Nazer and Richard Mickle will resign as directors of the Board at the conclusion of the AGM.
	In addition, it is intended that Dr Hua will become Executive Chairman, and Michael Perrott will become Deputy Non-

¹ On the basis that the maximum number of Shares are issued to the Jimblebar Creditors.

² Equivalent to 33.31% on a fully diluted basis – that is, assuming that all Options and Rights to be issued Shares currently on issue are exercised.

³ On the basis that the maximum number of Shares are issued to the Jimblebar Creditors and equivalent to 29.76% on a fully diluted basis – that is, assuming all Options and Rights currently on issue have been exercised.

	executive Chairman at the conclusion of the AGM.
	As such, the new Board will comprise 5 members in total, with 3 Directors being nominees of H&H and the remaining 2 Directors being Non-executive Directors who are independent of H&H.
	Further information on composition of the Board post following Conversion is set out in sections 5.1 and 5.4 of this Explanatory Memorandum.
Who will manage VDM following Conversion?	No immediate changes to the current senior management team are expected to be made.
	Further information on the intentions of H&H is set out in section 5.4(b) of this Explanatory Memorandum.
Resolution 4	
What is Resolution 4 asking me to vote on?	Shareholders are being asked to vote on a resolution authorising the Company to grant a general security in favour of H&H in respect of the New Facility.
	Further information on Resolution 4 is set out in section 6.1 of this Explanatory Memorandum.
Why is my approval required to grant the security arrangement in respect of the New Facility?	You are a Shareholder and given the nature of the proposed transaction, that is, VDM granting a security in favour of H&H in respect of the New Facility, approval of Shareholders is required under the Corporations Act and Listing Rules.
	Further details are set out in sections 6.2 and 6.6 of this Explanatory Memorandum.
If Resolution 4 is approved what will happen?	The grant of the general security deed in respect of the New Facility is subject to Conversion of the Convertible Loan.
	If Resolutions 3, 4, 5 and 6 are approved, the New Facility will be secured by a general security deed (that is, the New Facility will become a secured loan facility).
	The enforcement of such security may be subject to the approval of the Treasurer under the FATA and Australia's foreign investment policy.
If Resolution 4 is not approved what will happen?	VDM will not be able to approve the security arrangements in respect of the New Facility.
	In addition, as Conversion and the Recapitalisation Plan are subject to Shareholders passing Resolutions 3, 4, 5 and 6, if Resolution 4 is not approved Conversion and the Recapitalisation Plan will not proceed.
	If Conversion and the Recapitalisation Plan do not proceed this

	is likely to affect the solvency of the Company and may result in the Directors having no option other than to place the Company into voluntary administration.
	Further information regarding the implications if Conversion and the Recapitalisation Plan do not proceed are set out in sections 5.7(b) and 8.2 of this Explanatory Memorandum.
Why should I vote to approve the	The grant of security in respect of the New Facility will permit
grant of security in respect of the New Facility?	the Conversion and the Recapitalisation Plan to proceed, which will, amongst other things, have the following benefits for Shareholders:
	 Strengthening the Company's balance sheet; Improving market confidence in VDM; and Providing an enhanced financial platform on which to accelerate growth.
Resolution 5	
What is Resolution 5 asking me	Shareholders are being asked to vote on a resolution to
to vote on?	approve and ratify the allotment and issue of Shares issued in the past 12 months pursuant to VDM's placement capacity
	under the Listing Rules.
	and and anomy reason
Why is my approval required?	Please see section 7 for the reasons Shareholder approval is required.
If Resolution 5 is approved what will happen?	If Resolution 5 is approved VDM will be able to ratify the issue and allotment of Shares issued pursuant to VDM's placement capacity. The result is that the Company will have renewed its capacity to issue securities up to its 15% limit without the need for Shareholder approval under the Listing Rules.
If Resolution 5 is not approved what will happen?	If Resolution 5 is not approved by Shareholders, it will restrict the ability of the Company to issue securities without Shareholder approval until the Company's 15% capacity is replenished.
	In addition, as Conversion and the Recapitalisation Plan are subject to Shareholders passing Resolutions 3, 4, 5 and 6, and the grant of security in respect of the New Facility is subject to Conversion, if Resolution 3 is not approved Conversion and the Recapitalisation Plan will not proceed and VDM will be unable to grant security pursuant to the New Facility with H&H.
	Further information on what will happen if Conversion does not proceed is set out in section 5.7(b) of this Explanatory Memorandum.
	If the Recapitalisation Plan does not proceed this is likely to affect the solvency of the Company and may result in the Directors having no option other than to place the Company

	into voluntary administration.
Why should I vote to approve Resolution 5?	If Resolution 5 is approved, it will preserve the Company's ability to issue further securities (if necessary) without the need to obtain Shareholder approval.
Resolution 6	
What is Resolution 6 asking me to vote on?	Shareholders are being asked to vote on a resolution to approve the allotment and issue of up to 245,000,000 Shares to the Jimblebar Creditors.
Why is my approval required?	You are a Shareholder and given the nature and size of the issue, approval of the Shareholders is required under the Listing Rules.
	Further information on the Listing Rule requirements is set out in sections 7.2 and 7.3.
If Resolution 6 is approved what will happen?	If Resolution 6 is approved VDM will be able to issue the Shares to the Jimblebar Creditors without using the Company's 15% annual placement capacity under the Listing Rules.
If Resolution 6 is not approved what will happen?	If Resolution 6 is not approved by Shareholders, VDM will be unable to issue the Shares to the Jimblebar Creditors.
	In addition, the issue of Shares to the Jimblebar Creditors is conditional on the approval of Resolutions 3, 4 and 5. If any or all of Resolutions 3, 4, 5 and 6 are not approved by Shareholders at the Meeting, the Recapitalisation Plan will not proceed. This is likely to affect the solvency of the Company and may result in the Directors having no option other than to place the Company into voluntary administration. Further information regarding the implications if the Recapitalisation Plan does not proceed is set out in section 8.2 of this Explanatory Memorandum.
Why should I vote to approve Resolution 6?	If Resolution 6 is approved, it will enable the Company to satisfy 35% of the Relevant Debt by way of an issue of Shares, rather than cash.
General questions	
How does the Board recommend that I vote on the Resolutions?	The Board (other than Dr Dongyi Hua, as the owner of H&H, who has declined to make a recommendation for Resolutions 3, 4, 5 and 6, and Mr Xiangyang Ru, as a nominee of H&H, who has declined to make a recommendation for Resolutions 2, 3, 4, 5 and 6 due to their positions) recommends that Shareholders vote in favour of the Resolutions, except Resolution 8, where the Board recommends Shareholders vote against the Resolution.
	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 the Resolutions.
What is the opinion of the Independent Expert?	The terms of the Convertible Loan and New Facility have been reviewed by an Independent Expert, BDO Corporate Finance (WA) Pty Ltd.
	The Independent Expert has concluded that the Conversion of the Convertible Loan and the provision of a general security pursuant to the New Facility are fair and reasonable to Shareholders not associated with H&H.
	The Independent Expert's report is set out in Appendix A of this Explanatory Memorandum.
When and where will the Meeting be held?	The Meeting will take place on Friday 29 November at 3:00pm (AWST) at the Mosman Bay Room, Hyatt Regency Perth, 99 Adelaide Terrace, Perth, Western Australia.
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 4.00pm (AWST) on 27 November 2013.
	In accordance with the Corporations Act, the Resolutions to be put to the Meeting have voting exclusion statements. These voting exclusion statements are set out in this Explanatory Memorandum.
What is the voting approval threshold?	The Resolutions being put to Shareholders are ordinary resolutions, requiring simple majority approval (i.e. more than 50% of votes cast by Shareholders entitled to vote on Resolutions 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 29 November 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.
Further questions	If you have any questions regarding any of the Resolutions 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. VDM's Financial Report

The financial report, Directors' report and auditor's report for VDM for the year ended 30 June 2013 will be laid before the meeting. There is no requirement for Shareholders to approve these reports. However, the chair of the meeting will allow a reasonable opportunity for Shareholders to ask questions about the conduct of the audit and the content of the auditor's report.

Further, written questions to the chairman about the management of VDM or to VDM's auditor about the content of the auditor's report and the conduct of the audit may be submitted no later than 3:00pm (AWST) on Friday 22 November 2013 to:

Company Secretary VDM Group Limited L2, 27-31 Troode St West Perth WA 6005 Facsimile: (08) 9265 1399

Email: sam.drury@vdmgroup.com.au

3. Resolution 1 - Remuneration Report

3.1. Background

The Remuneration Report is set out in the Directors' report in the Company's 2013 Annual Report, which is available from the Company's website at www.vdmgroup.com.au.

The Remuneration Report sets out the Company's remuneration arrangements for the Directors and executives of the Company.

Section 250R(2) of the Corporations Act requires that a resolution to adopt the Remuneration Report be put to the vote of the Company at the Annual General Meeting. However, Shareholders should note that the vote on Resolution 1 is advisory only and is not binding on the Company or its Directors.

A reasonable opportunity will be provided for discussion of the Remuneration Report at the Annual General Meeting.

Pursuant to the Corporations Act, if at least 25% of the votes cast on the resolution are voted against the adoption of the Remuneration Report at the meeting, a vote on Resolution 8 (Holding a Spill Meeting) will be required to be put to Shareholders. The operation and consequences of Resolution 8 are set out under the Explanatory Memorandum to that Resolution below.

The chairman of the AGM will allow reasonable opportunity for Shareholders to ask questions about, or comment on, the Remuneration Report at the meeting.

3.2. Board recommendation

The Board unanimously recommends that Shareholders vote in favour of Resolution 1.

4. Resolution 2 - Election of Directors

Resolution 2 relates to the election of Mr Xiangyang Ru as a Director.

Mr Ru was appointed under Rule 8.1(b) of the Constitution which states that the directors may appoint any individual to be a director, either as an addition to the existing directors or to fill a casual vacancy, but so that the total number of directors does not exceed the maximum number fixed under the Constitution.

Rule 8.1(c) of the Constitution states that a director appointed by the directors under Rule 8.1(b) who is not a managing director, holds office until the conclusion of the next annual general meeting following his or her appointment.

Being a Director appointed under Rule 8.1(b), Mr Ru offers himself for election at the 2013 Annual General Meeting.

Mr Ru has held various senior positions at Shaihai Jiacai Printing Ltd, Henan Xuchuangli Science & Technology Development Ltd & Beijing Hengdehunyi Investment Consulting Ltd. He has a Bachelor degree from the University of Science & Technology of China and a Master from the Institute of Applied Mathematics, AMSS, CAS.

4.1. Board Recommendation

The Board, other than Mr Xiangyang Ru, who has an interest in the outcome of Resolution 2, recommends that Shareholders vote in favour of Resolution 2.

5. Resolution 3 - Approval to issue Conversion Shares to H&H

5.1. Description of the Convertible Loan and Facility Agreement

(a) Summary and key terms of the Convertible Loan and Facility Agreement

Under the terms of the Convertible Loan and Facility Agreement, H&H advanced \$5 million to VDM which, upon Shareholders approving Resolutions 3, 4, 5 and 6, will automatically convert into 500 million Shares at a price of \$0.01 per Share.

Prior to entering into the Convertible Loan and Facility Agreement, H&H acquired 45,030,015 Shares on-market, representing Voting Power of 4.82% on an undiluted basis. H&H acquired a further 140,080,961 Shares pursuant to the terms of the Share Subscription Agreement, representing a total Voting Power of 17.24% on an undiluted basis.

If Resolutions 3, 4, 5 and 6 are approved, the Conversion Shares will be issued to H&H and H&H's Voting Power will increase from 17.24% to 43.53%. On the basis Resolution 6 is passed at the Meeting, following the issue of Shares to the Jimblebar Creditors, H&H will have a Voting Power of 37.66% in the Company.

Following Conversion, H&H has the right to appoint a further nominee Director, which the Company understands will be Mr Ming Guo. Also, Barry Nazer and Richard Mickle will resign as directors of the Board at the conclusion of the AGM. In addition, it is intended that Dr Hua will become Executive Chairman, and Michael Perrott will become Deputy Non-executive Chairman at the conclusion of the AGM. As such, following Conversion, the Board shall comprise 5 members, with at least 2 Directors who are independent of H&H.

The Convertible Loan has the following key terms:

- 1. The loan is unsecured and has a term of 6 months (if Conversion does not occur);
- 2. Conversion is subject to Shareholders passing Resolutions 3, 4, 5 and 6 at the Meeting;
- 3. Interest of 10% per annum, is payable up to the Conversion Date; and
- 4. The facility cannot be repaid by the Company prior to the Meeting but can be repaid at any time up to the expiration of the term (if Shareholder approval is not received).

In the event any or all of Resolutions 3, 4, 5 or 6 are not approved by Shareholders, and the Conversion does not take place, the following terms will apply:

- 1. Interest will increase to 15% per annum applicable from the earlier of the date of the Meeting or 19 November 2013; and
- 2. VDM will be required to pay to H&H a fee of \$500,000 at the expiration of the term.

The Convertible Loan and Facility Agreement contains customary exclusivity provisions, including no shop, no talk and no due diligence provisions. Customary provisions are also contained within the Convertible Loan and Facility 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 17 December 2013.

⁴ Equivalent to 33.31% on a fully diluted basis – that is, assuming that all Options and Rights to be issued Shares currently on issue are exercised.

⁵ On the basis that the maximum number of Shares are issued to the Jimblebar Creditors and equivalent to 29.76% on a fully diluted basis – that is, assuming all Options and Rights currently on issue have been exercised.

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

Further information about the Convertible Loan and Facility Agreement is set out in Schedule A.

(b) Steps involved in converting the Convertible Loan into Shares

To implement Conversion, Shareholders must approve Resolutions 3, 4, 5 and 6 by the requisite majority (more than 50% of votes cast by Shareholders entitled to vote on the Resolutions are cast in favour) at the Meeting. For the avoidance of doubt, H&H and its Associates are not entitled to vote.

(c) Reason Shareholder approval is required

You are a Shareholder, and given the nature and size of the proposed issue, and the fact the issue 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 sections 5.10 and 5.11 of this Explanatory Memorandum.

5.2. Rationale for the Convertible Loan and Facility Agreement

Activity and sentiment in the sectors in which the Company operates within the construction industry remains weak. Over the past 12 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 12 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 addition, the dispute regarding the Customer Notice is likely to impact the operating performance and short term cash flows of the Company. The proposed transactions with H&H provide the Company with a better platform to manage the potential impact of the Customer Notice, implement a number of restructuring initiatives currently being contemplated and take advantage of potential opportunities.

5.3. 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 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;
- Dr Dongyi Hua Managing Director;
- Mr Michael Fry Non-executive Director;
- Mr Richard Mickle Non-executive Director;

- Mr Barry Nazer Non-executive Director; and
- Mr Xiangyang Ru Non-executive Director.

(c) Strategy update

The Company remains in dispute with a customer in relation to the Customer Notice. The Company's employees have been removed from the site, and only limited access has been granted to commence demobilisation of certain items of plant and equipment. The customer has appointed an alternative contractor to complete the outstanding works, with many of VDM's subcontractors remaining on site to assist with this process. Whilst completion of the works are imminent, resolution of the situation between the Company and the customer is uncertain.

As a result of the continuing weak market conditions and issues associated with the Customer Notice, the Company has commenced an extensive review of its existing contracts and business units. In light of this review, there is likely to be some restructuring of existing operations.

Elements of a restructure currently being reviewed by the management of VDM include:

- Consolidation of regional offices;
- Sale of smaller business units;
- Further overhead cost reductions:
- Potentially some redundancies; and
- Sale of surplus plant & equipment.

Despite this potential restructure, the Company remains committed to the continuation and growth of its core engineering, procurement and construction business and to the retention of key people with skills and expertise to enable this. In conjunction with H&H, the management of VDM have developed a plan to focus initially on issues associated with a restructure, as well as core customer retention and targeting only contracts of scale and profit that are linked to the Company's core competencies.

Restructuring of the business is likely to take 3-6 months, with growth opportunities only to be targeted when this is complete. The timing for requirement of any further capital will be assessed on an ongoing basis, however, the Company is confident that a restructure can be successfully executed and that new opportunities should be pursued shortly thereafter.

5.4. 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 being a 100% owned subsidiary of H&H Holdings, which is 100% owned and controlled by Dr Dongyi Hua, Managing Director of VDM.

(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 Baohua Zhang are the current directors of H&H.

(b) Intentions of H&H

This section sets out H&H's intentions regarding the future of VDM if Shareholders approve Conversion of the Convertible Loan and the Conversion 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 an H&H representative to the VDM Board; and
- whether VDM remains listed on ASX.

If the Conversion of the Convertible Loan is approved and implemented, H&H has the right to appoint a further nominee to the Board of VDM. Also, as a result of the proposed resignation of Barry Nazer and Richard Mickle, H&H nominees will comprise a majority of the positions of Company's board. In addition, it is intended that Dr Hua will become Executive Chairman, and Michael Perrott will become Deputy Non-executive Chairman at the conclusion of the AGM. H&H will therefore be able to determine decisions of the Board of VDM. However, H&H's nominees will in any event have fiduciary and statutory duties to all Shareholders of VDM.

Also, under the Recapitalisation Plan, H&H has agreed to apply for \$4 million of shares under the Rights Issue through subscribing for some or all of its entitlement and, if required, by underwriting the Rights Issue, conditional upon Hunter Hall Investment Management Limited contributing an aggregate of \$1 million under the Rights Issue. Assuming that the Recapitalisation Plan proceeds, and depending on the level of acceptances in respect of the Rights Issue, H&H's shareholding in the Company could materially increase so that H&H holds up to a maximum of 46.79% 6.

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 Conversion and the Conversion is implemented. Accordingly, the statements set out in this section 5.4(b) are statements of current intention only, which may change as new information becomes available or circumstances change.

Further, the intentions and statements of future conduct set out in this section 5.4(b) must be read as being subject to:

⁶ This figure is based on H&H subscribing for \$4 million worth of Shares at \$0.01 per Share, the maximum number of Shares being issued to the Jimblebar Creditors, and a minimum subscription of 500 million Shares under the Rights Issue. This figure does not take into account the issue of Shares upon conversion of any Options or Rights.

- 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 are Related Parties of VDM; and
- the legal obligations of the VDM Directors at the time, including the additional nominee 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 5.4(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 understands that VDM's current strategy is concentrated on restructuring its business towards a focused 'design, procure and construct' model that reflects current activity levels with an emphasis on resource related and civil infrastructure projects. H&H is supportive of this restructure and the development of a more focussed business model.

H&H's goal is to build Shareholder wealth by assisting management implement this strategy over the next 3-6 months. Upon completion of the restructure H&H's desire is for VDM to expand on its capabilities in order to capture a larger portion of the resource value chain. It should be noted that any future changes recommended by H&H will, however, be subject to comprehensive review and endorsement by the Board of VDM prior to the changes in strategy being adopted by VDM. H&H believes that additional capital will strengthen VDM's ability to implement its strategic objectives and compete for new contracts in its chosen markets. In addition, H&H's strong relationships in engineering and construction, in particular those that are Chinese related, may accelerate the growth and sustainability of VDM's project pipeline in engineering, procurement 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 two new divisions: Procurement Services and Mining.

Procurement Services

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.

Mining

H&H proposes to leverage VDM's current engineering, procurement and construction capabilities to expand into mining. Under H&H's strategy changes, 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, procurement 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, procurement 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 restructured engineering, procurement 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 by the Board of VDM in due course.

Capital and resources

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 the Placement and Convertible Loan will be applied to resolve these matters.

Funds invested by H&H will also be allocated to enabling the Company to pursue new contracts and support these contracts under the normal trading conditions of construction contracting.

(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 presently intend to inject further equity capital into VDM, or increase its Shareholding in VDM, but reserves its right to do so in the future.

H&H has agreed to apply for \$4 million of shares under the Rights Issue through subscribing for some or all of its entitlement and, if required, by underwriting the Rights Issue, conditional upon Hunter Hall Investment Management Limited contributing an aggregate of \$1 million under the Rights Issue.

If any additional capital is required in the form of equity, H&H may seek to participate in such a capital raising to avoid dilution of its 43.53% Shareholding.

(iii) Future employment of employees

H&H is aware that the restructure currently contemplated by VDM may potentially result in some redundancies, although core personnel and skills are to be retained to establish the more focussed business model. H&H has no plans to alter the restructure and as a result has no separate intentions regarding the employment of existing staff. In due course H&H proposes that appropriately qualified individuals be employed to assist with the establishment of two new divisions: Procurement Services and Mining.

(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 other than as contemplated in VDM's restructure plans or in the ordinary course of VDM's business.

(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 5.4(c) below, if the Conversion is approved and implemented, H&H has the right to appoint a further nominee to the Board of VDM, after which H&H will have in total 3 Directors on the VDM Board. As a result of the proposed resignation of Barry Nazer and Richard Mickle, H&H nominees will comprise a majority of the positions of Company's board. In addition, it is intended that Dr Hua will become Executive Chairman, and Michael Perrott will become Deputy Non-executive Chairman at the conclusion of the AGM. While H&H would have the ability through its significant Shareholding to influence changes to the Board if the Conversion is approved, H&H has no present intention to seek the appointment of additional representatives to the Board positions, however it reserves the right to do so.

(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 additional proposed H&H Board nominee

If Shareholders approve the Conversion and the Conversion is implemented, H&H will have the right to appoint a further nominee Director, which the Company understands will be Mr Ming Guo.

Mr Ming 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, Eastern Europe, Middle East and Oceania. Mr Guo holds a Bachelor in Business Management from Shaanxi Aerospace Staffs & Vocation University.

(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 understands that FIRB approval under either FATA, or Australia's foreign investment policy will not be required in respect of the Placement or the Conversion. However, FIRB approval may be required in respect of the enforcement of the security to be granted in respect of the New Facility.

5.5. Advantages and disadvantages of Conversion

(a) Advantages of Conversion

The Directors expect that the issue of new capital and the issuing of Conversion Shares through the Convertible Loan will deliver material benefits to VDM, including the following:

Issue of new capital

- Strengthen the balance sheet: Strengthening VDM's balance sheet to support ongoing work;
- Help manage the potential impact of the Customer Notice and continuing weak markets: Provides capital to ensure that restructuring of the business can occur on a timely basis;
- Improve market confidence in VDM: Would have flow on benefits to clients, Shareholders, employees, and suppliers;
- 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; and
- Mitigate contract risk: Enhances the ability of the Company to pursue and defend claims and variations to contracts.

Issue of Conversion Shares to H&H

- Recapitalisation Plan: The Recapitalisation Plan can proceed. Further information regarding the implications if the Recapitalisation Plan does not proceed is set out in section 8.2 of this Explanatory Memorandum.
- 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;

- 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: 56.47% 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 Conversion of the Convertible Loan 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 Conversion

The Directors note that there are a number of risks and disadvantages of issuing Conversion Shares to H&H 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 17.24% to 43.53%.⁷
 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 43.53% (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 43.53% 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; and
- Disagree with H&H's intentions: You may not agree with the intentions that H&H has with respect to the business.

5.6. 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.

Further details are set out in section 5.7(a)(iii) of this Explanatory Memorandum.

⁷ Equivalent to 33.31% 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 following Conversion

H&H and its Board nominees 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 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 Shareholders 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 5.6(a).

Further details pertaining to corporate governance are set out in section 5.7(a)(iii) of this Explanatory Memorandum.

5.7. Key implications and risks of Conversion

(a) Key implications and risks if Resolution 3 is approved by Shareholders and the Conversion proceeds

(i) Voting rights and shares

Should the Conversion proceed, VDM will issue 500 million Shares to H&H. This will increase the number of Shares on issue from approximately 1,074 million to approximately 1,574 million and will change the capital structure of the Company as outlined in section 5.7(c) of this Explanatory Memorandum. Existing Shareholders (other than H&H) will hold 56.47% 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 43.53% of the undiluted issued share capital of VDM.

On the basis Resolution 6 is passed at the Meeting, following the issue of Shares to the Jimblebar Creditors, the total of VDM's issued Shares will increase to 1,818,954,032 million Shares.⁸ Existing Shareholders (other than H&H) will hold 62.34% of the undiluted issued capital of VDM, and H&H will have a Voting Power of 37.66% in the Company.⁹

(ii) Headquarters

VDM will remain headquartered in Perth.

(iii) Governance

Following the issue of the Conversion Shares, H&H will hold 43.53% of the Shares and existing Shareholders (other than H&H) will hold 56.47% on an undiluted basis. In addition, the Board will change to reflect the new ownership structure. H&H will have the right to appoint a further nominee Director to the Board of VDM, which the Company understands will be Mr Ming Guo. Also, Barry Nazer and Richard

⁸ On the basis that the maximum number of Shares are issued to the Jimblebar Creditors.

⁹ On the basis that the maximum number of Shares are issued to the Jimblebar Creditors and equivalent to 29.76% on a fully diluted basis – that is, assuming all Options and Rights currently on issue have been exercised.

Mickle will resign as directors of the Board at the conclusion of the AGM. In addition, it is intended that Dr Hua will become Executive Chairman, and Michael Perrott will become Deputy Non-executive Chairman at the conclusion of the AGM. As such, the new Board will comprise of 5 Directors, 2 of whom will be Non-executive Directors who are independent of H&H. This represents a change in the governance dynamic of VDM and there is a risk that H&H 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 and VDM have agreed to the inclusion of additional corporate governance protocols as follows.

- 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 is contained in section 5.6.

H&H is a private company owned and controlled by Dr Dongyi Hua, who is also Managing Director of VDM and is therefore a Related Party of the Company. 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 Conversion does not proceed

If any or all of Resolutions 3, 4, 5 and 6 are not approved by the requisite majority of Shareholders at the Meeting, and consequently Conversion does not proceed:

- The Recapitalisation Proposal will not proceed. This is likely to affect the solvency of the Company and may result in the Directors having no option other than to place the Company into voluntary administration. Further information regarding the implications if the Recapitalisation Plan does not proceed is set out in section 8.2 of this Explanatory Memorandum;
- Interest on the Convertible Loan will increase to 15% per annum applicable from the earlier of the date of the Meeting or 19 November 2013;
- VDM will be required to pay to H&H a fee of \$500,000 at the expiration of the term of the Convertible Loan;
- VDM must repay the loan, and all other amounts due and payable at the expiration of the term of the Convertible Loan;
- Dr Dongyi Hua has indicated that his present intention would be to resign from his position as Managing Director of VDM;
- The material benefits outlined in respect of the reasons to vote in favour of the Convertible Loan (set out in section 5.5) may not be able to be realised; and
- 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 Convertible Loan and Facility Agreement.

(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 Conve (Undilut		Post Conv (Undilute		Post issue of Shares to Jimblebar Creditors (Resolution 6) ¹¹		
	# of Shares	%	# of Shares	%	# of Shares	%	
H&H Holdings Australia Pty Ltd	185,110,976	17.24%	685,110,976	43.53%	685,110,976	37.66%	
Hunter Hall Investment Management Ltd	127,665,260	11.89%	127,665,260	8.11%	127,665,260	7.02%	
Other Shareholders	761,177,796	70.87%	761,177,796	48.36%	1,006,177,796	55.32%	
Total	1,073,954,032	100.00%	1,573,954,032	100.00%	1,818,954,032	100%	

5.8. Independent Expert's Report

The Company engaged BDO Corporate Finance (WA) Pty Ltd to provide an Independent Expert's Report with respect to the Convertible Loan. It is intended to provide Shareholders with information that is material to the decision on how to vote on Resolution 3. The Independent Expert has concluded that Conversion of the Convertible Loan 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 Convertible Loan. 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 Resolution 3.

5.9. 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 (other than Dr Dongyi Hua, as the owner of H&H, and Mr Xiangyang Ru, as a nominee of H&H, who have declined to make a recommendation due to their positions) recommend that Shareholders vote in favour of Resolution 3, subject to the Independent Expert not changing its view and concluding that Conversion of the Convertible Loan 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 3.

(b) Interests of Directors

Dr Dongyi Hua is considered to have a material personal interest in the outcome of Resolution 3 by reason of his position as owner and controller of H&H. On Conversion, all of the Shares issued to H&H will be directly or indirectly legally and beneficially owned by Dr Hua. Also, Dr Dongyi Hua is the Managing

¹⁰ These figures do not take into account the issue of Shares upon conversion of any Options or Rights.

¹¹ These figures are based on the maximum number of Shares being issued to the Jimblebar Creditors and does not take into account the issue of Shares upon conversion of any Options or Rights.

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Director of VDM, and has indicated that his present intention would be to resign from his position as Managing Director of VDM if Resolutions 3, 4, 5 and 6 are not passed to pursue other opportunities.

Mr Xiangyang Ru is considered to have a material personal interest in the outcome of Resolution 3 by reason of his appointment as an H&H nominee Director.

Other than Dr Dongyi Hua, Mr Ru and as set out below, the Directors do not have any material personal interest in the outcome of Resolution 3 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 29 October 2013 are set out in the following table:

	Pre Conversion (Undiluted)			Post Conversion (Undiluted)			Post Conversion (Fully diluted) ¹²		Post issue of Shares to Jimblebar Creditors (Resolution 6) ¹³	
	# of Shares	%	# of Options and Rights	# of Shares	%	# of Options and Rights	# of Shares	%	# of Shares	%
Mr Michael Perrott AM - Chairman	6,200,000	0.58%	3,100,000	6,200,000	0.39%	3,100,000	9,300,000	0.45%	9,300,000	0.40%
Dr Dongyi Hua - Managing Director	185,110,976	17.24%	Nil	685,110,976	43.53%	Nil	685,110,976	33.31%	685,110,976	29.76%
Mr Michael Fry - Non- executive Director	500,000	0.05%	250,000	500,000	0.03%	250,000	750,000	0.04%	750,000	0.03%
Mr Richard Mickle - Non- executive Director	Nil	Nil	Nil	Nii	Nil	Nil	Nil	Nil	Nil	Nil
Mr Barry Nazer - Non- executive Director	1,228,568	0.11%	614,284	1,228,568	0.08%	614,284	1,842,852	0.09%	1,842,852	0.08%
Mr Xiangyang Ru - Non- executive Director	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	NIL	Nil

¹² Assumes all Options and Rights have been converted to Shares.
13 These figures are based on the maximum number of Shares being issued to the Jimblebar Creditors and assumes all Options and Rights have been converted to Shares.

(c) Interests of proposed H&H nominee Director

The number of Shares or rights to Shares in VDM in which the proposed H&H nominee Director, Mr Ming Guo has a relevant interest as at the date of this Explanatory Memorandum are set out in the table below:

	Pre Conversion (Undiluted)			Post Conversion (Undiluted)			Post Conversion (Fully diluted) 14		Post issue of Shares to Jimblebar Creditors (Resolution 6) 15	
	# of Shares	%	# of Option s and Rights	# of		# of Options and Rights	# of		# of Shares	%
Mr Ming Guo – Proposed Non- executive Director	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Once appointed, Mr Guo will be considered to have a material personal interest in the outcome of each Resolution 3, 4, 5 and 6 by reason of his appointment as an H&H nominee Director.

Other than as disclosed elsewhere in this Explanatory Memorandum, Mr Ming Guo does not have:

- (a) any associations with H&H, VDM or any of their Associates; or
- (b) any interest in the Convertible Loan, 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 Resolution 3.

5.10. Requirements under the Corporations Act

The Corporations Act sets out a number of regulatory requirements that must be satisfied in relation to the issue of the Conversion Shares under the Convertible Loan the subject of Resolution 3.

(a) Background to Item 7 of section 611 of the Corporations Act

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:

¹⁴ Assumes all Options and Rights have been converted to Shares.

¹⁵ These figures are based on the maximum number of Shares being issued to the Jimblebar Creditors and assumes all Options and Rights have been converted to Shares.

- (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 3.

(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 Convertible Loan 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 Resolutions 3, 4, 5 and 6 at the Meeting, the Conversion Shares will be issued to H&H promptly after the Meeting, and in any event within 5 Business Days.

(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 Convertible Loan and explanation of the reasons for the Convertible Loan is discussed above in sections 5.1 and 5.2 of this Explanatory Memorandum.
- (b) The identity of the persons who will hold a relevant interest in the Shares to be issued.

Following Conversion, H&H will have a Relevant Interest in 685,110,976 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 issue of the Conversion Shares and the maximum extent of the increase in H&H's Voting Power in the Company (including their Associates) as a result of the issue of the Conversion Shares.

At the date of this Notice the number of Shares held by H&H is 185,110,976 which is equivalent to Voting Power of 17.24%.

Following Conversion, the number of Shares held by H&H will increase to 685,110,976 which equates to a total increase in Voting Power from 17.24% in the Company to 43.53%. ¹⁶ On the basis Resolution 6 is passed at the Meeting, following the issue of Shares to the Jimblebar Creditors, H&H will have a Voting Power of 37.66% in the Company. ¹⁷

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 185,110,976 Shares, and will also have a Relevant Interest in the 685,110,976 Shares which H&H will hold after Conversion. As such, the issue of the Conversion Shares will also increase the total Voting Power of the H&H Controllers in VDM from 17.24% to 43.53%. ¹⁸ On the basis Resolution 6 is passed at the Meeting, following the issue of Shares to the Jimblebar Creditors, the total Voting Power of the H&H Controllers in VDM will be 37.66%. ¹⁹

¹⁶ Equivalent to 33.31% on a fully diluted basis – that is, assuming that all Options and Rights to be issued Shares currently on issue are exercised.

¹⁷ On the basis that the maximum number of Shares are issued to the Jimblebar Creditors and equivalent to 29.76% on a fully diluted basis – that is, assuming all Options and Rights currently on issue have been exercised.

¹⁸ Equivalent to 33.31% on a fully diluted basis – that is, assuming that all Options and Rights to be issued Shares currently on issue are exercised.

¹⁹ On the basis that the maximum number of Shares are issued to the Jimblebar Creditors and equivalent to 29.76% on a fully diluted basis – that is, assuming all Options and Rights currently on issue have been exercised.

(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 Resolution 3.

See sections 5.4(c) and 5.10(e) of this Explanatory Memorandum.

Following Conversion, Mr Ming Guo will be appointed as a Director of VDM.

Further details in relation to Mr Guo are set out in section 5.4(c) of this Explanatory Memorandum.

(e) The interest of any Director in the Convertible Loan or any relevant agreement.

Other than Dr Dongyi Hua as owner and controller of H&H (which will be issued 500,000,000 Shares on Conversion) and as the Managing Director of VDM (considering that his present intention is to resign as Managing Director to pursue other opportunities if the Resolutions are not passed), Mr Ru (as an H&H nominee Director) and Mr Guo (if appointed as an H&H nominee Director), no other Directors (or proposed Directors) have an interest in the outcome of Resolution 3 other than as a result of their interest arising solely in the capacity as Shareholders.

- (f) H&H's intentions regarding the future of the Company if Shareholders approve Resolution 3 are set out in section 5.4(b).
- (g) Please refer to section 5.9 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 Convertible Loan and Facility Agreement are set out in Schedule A.

(i) Further details of the Convertible Loan 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 Convertible Loan.

(f) Background to Chapter 2E of the Corporations Act

For a public company, or an entity that the public company controls, to give a financial benefit to a Related Party of the public company, the public company or entity must:

- (a) obtain the approval of the public company's members in the same manner set out in section 217 to 227 of the Corporations Act; and
- (b) give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in sections 210 to 216 of the Corporations Act.

For the purposes of Chapter 2E of the Corporations Act, H&H is a Related Party and the proposed issue of Conversion Shares to H&H constitutes the giving of a financial benefit. Accordingly, Shareholder approval is required.

Section 210 of the Corporations Act provides that a company does not need to obtain shareholder approval to give a financial benefit to a Related Party if the giving of the financial benefit would be reasonable in the circumstances if the Related Party and the entity were dealing at arm's length (or on term's less favourable than arm's length).

The Board is of the view that the proposed issue of Conversion Shares to H&H is reasonable. However, notwithstanding the above, the Board considers it prudent to seek Shareholder approval for the purposes of Chapter 2E of the Corporations Act.

(g) Specific information required by Chapter 2E of the Corporations Act

The following information is provided in accordance with section 219 of the Corporations Act to enable Shareholders to assess the merits of Resolution 3:

- (a) The Related Party to whom Resolution 3 would permit the financial benefit to be given is H&H who is a Related Party of the Company.
- (b) The nature of the financial benefit being provided is the issue of the Conversion Shares, being the issue of 500 million Shares to H&H.
- (c) The Conversion Shares have an issue price of \$0.01 per Share, being a total of \$5 million.
- (d) The Conversion Shares will be issued as fully paid ordinary shares in the capital of the Company and will rank equally with the Company's current issued Shares.
- (e) Promptly after Resolutions 3, 4, 5 and 6 are passed at the Meeting, and in any event within 5 Business Days, the Conversion Shares will be issued to H&H.
- (f) The recommendation of Directors in relation to Resolution 3 is set out in section 5.9.
- (g) Other than Dr Dongyi Hua as owner and controller of H&H and as the Managing Director of VDM (considering that his present intention is to resign as Managing Director to pursue other opportunities if the Resolutions are not passed), Mr Ru (as an H&H nominee Director) and Mr Guo (if appointed as an H&H nominee Director), no other Directors (or proposed Directors) have an interest in the outcome of Resolution 3 other than as a result of their interest arising solely in the capacity as Shareholders.
- (h) At the date of this Notice the number of Shares held by H&H is 185,110,976 which is equivalent to Voting Power of 17.24%. Following Conversion, the number of Shares held by H&H will increase to 685,110,976 which equates to a total increase in Voting Power from 17.24% in the Company to 43.53%. On the basis Resolution 6 is passed at the Meeting, following the issue of Shares to the Jimblebar Creditors, H&H will have a Voting Power of 37.66% in the Company.
- (i) Following Conversion, the number of Shares on issue will increase from 1,073,954,032 to 1,573,954,032 with the effect that the Shareholding of existing Shareholders would be diluted by 31.76%.²² On the basis Resolution 6 is passed at the Meeting, following the issue of Shares to the Jimblebar Creditors, the number of Shares on issue will increase to 1,818,954,032, with the effect that existing Shareholders (other than H&H) will hold 62.34% of the undiluted issued capital of VDM.²³

²⁰ Equivalent to 33.31% on a fully diluted basis – that is, assuming that all Options and Rights to be issued Shares currently on issue are exercised.

²¹ On the basis that the maximum number of Shares are issued to the Jimblebar Creditors and equivalent to 29.76% on a fully diluted basis – that is, assuming all Options and Rights currently on issue have been exercised.

²² These figures do not take into account the issue of Shares upon conversion of any Options or Rights.

²³ On the basis that the maximum number of Shares are issued to the Jimblebar Creditors.

- (j) The funds raised will be used by the Company to provide necessary working capital to the business.
- (k) The Board does not consider that there are any significant opportunity costs of the Company, taxation consequences or benefits foregone by issuing the Conversion Shares to H&H.

Other than as set out in the Explanatory Statement, there is no further information that is reasonably required by Shareholders in order to decide whether it is in the best interests of the Company to pass Resolution 3.

5.11. Requirements under the Listing Rules

(a) Listing Rule 10.11

Listing Rule 10.11 provides that, unless one of the exceptions in Listing Rule 10.12 applies, a listed company must not, without the approval of shareholders, issue or agree to issue equity securities to a Related Party, or a person whose relationship with the listed company, or a Related Party of the listed company, is in ASX's opinion, such that approval should be obtained.

The Conversion Shares are to be issued to H&H. H&H is a private company owned and controlled by Dr Dongyi Hua, who is a Director of VDM and is therefore a Related Party of the Company. On Conversion, all of the Shares issued to H&H will be directly or indirectly legally and beneficially owned by Dr Hua.

It is the view of the Directors that the exceptions set out in Listing Rule 10.12 do not apply in the current circumstances. Accordingly, Shareholder approval is sought under Listing Rule 10.11 for the issue of the Conversion Shares to H&H.

(b) Specific information required by Listing Rule 10.13

Listing Rule 10.13 sets out a number of matters which must be included in a notice of meeting requesting shareholder approval under Listing Rule 10.11. In accordance with Listing Rule 10.13, the following information is provided to Shareholders to assist them to assess whether to approve Resolution 3:

- (a) The name of the person.
 - H&H Holdings Australia Pty Ltd.
- (b) The maximum number of securities to be issued or the formula for calculating the number of securities to be issued to the person.
 - On Conversion, 500 million Shares will be issued to H&H.
- (c) The date by which the entity will issue the securities which must be not more than 1 month after the date of the meeting.
 - Promptly after Resolutions 3, 4, 5 and 6 are passed at the Meeting, and in any event within 5 Business Days, the Conversion Shares will be issued to H&H.
- (d) If the person is not a director, a statement of the relationship between the person and the director that requires the approval to be obtained.
 - The person to whom it is proposed to issue the Conversion Shares is H&H. H&H is a private company controlled by Dr Dongyi Hua, who is a Director of VDM and is therefore a Related Party of the Company.
- (e) The issue price of the securities and a statement of the terms of the issue.

The Conversion Shares have an issue price of \$0.01 per Share. The Conversion Shares will be issued as fully paid ordinary shares in the capital of the Company and will rank equally with the Company's current issued Shares.

(f) A voting exclusion statement.

A voting exclusion statement in respect of Resolution 3 is set out in section 5.12 of the Explanatory Memorandum.

(g) The intended use of the funds raised.

The funds raised will be used by the Company to provide necessary working capital to the business.

5.12. Voting exclusion

For the purposes of Listing Rules 10.11 and 10.14, item 7 of section 611 of the Corporations Act, section 224 of the Corporations Act and for all other purposes, the Company will disregard any votes cast on Resolution 3 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.

6. Resolution 4 - Approval of security arrangements in respect of the New Facility

6.1. Background

Under the terms of the New Facility, VDM and H&H have entered into an unsecured loan facility which may, subject to Conversion, be secured by way of a general security deed from VDM to H&H.

As the grant of the security is subject to Conversion, VDM will only be able to grant security to H&H in respect of the New Facility if Resolutions 3, 4, 5 and 6 are approved by Shareholders at the Meeting.

The New Facility provided by H&H to VDM has the following terms:

- (a) Up to \$4 million, to be drawn down at the discretion of VDM, and available for a period of 6 months from the initial draw down;
- (b) Interest is payable quarterly in arrears at a rate of 8% per annum, calculated daily;
- (c) Repayment on the date 6 months after the date of the initial draw down, unless set off pursuant to the arrangements set out below;
- (d) Subject to necessary approvals being obtained, to be secured by a general security deed to be granted by VDM in favour of H&H; and
- (e) On all other terms and conditions customary for a loan and security of this nature.

H&H will apply for \$4 million of shares under the Rights Issue through subscriptions for some or all of its pro-rata entitlement and, if required, an underwriting or sub-underwriting commitment on customary terms. To the extent H&H is required to contribute pursuant to its aggregate pro-rata entitlement and underwriting obligations under the Rights Issue, any funds that VDM has drawn down pursuant to the New Facility will be set off against H&H's subscription and underwriting commitments pursuant to the Rights Issue.

Further information about the New Facility is set out in Schedule A.

6.2. Requirements under the Listing Rules

Listing Rule 10.1 provides that a listed company must not acquire a substantial asset from, or dispose of a substantial asset to, specified persons or companies without the approval of shareholders at a general meeting.

A asset is treated as a substantial asset if its value or the value of the consideration for it is, or in ASX's opinion is, 5% or more of the listed company's equity securities as set out in the latest financial statement given to ASX under the Listing Rules. A listed company's equity interests are the sum of paid up capital, reserves, and accumulated profits or losses, disregarding redeemable preference share capital and outside equity interests.

If Shareholder approval is obtained, the New Facility will be secured by a general security deed. The granting of such a security by the Company in favour of H&H would be deemed, under Listing Rule 10.1, to be a disposal of assets to which Listing Rule 10.1 may apply. As such, Shareholder approval is sought under Listing Rule 10.1.

The specified persons or companies to whom Listing Rule 10.1 applies includes a Related Party. H&H is a private company controlled by Dr Dongyi Hua, who is a Director of VDM and is therefore a Related Party of the Company.

On the basis that:

(a) the granting of a security interest is considered a disposal of a substantial asset; and

(b) H&H is a Related Party of the Company,

the Company is required to seek Shareholder approval under Listing Rule 10.1 in respect of entering into the proposed security arrangements for the New Facility.

6.3. Advantages and disadvantages of granting security in respect of the New Facility

(a) Advantages of granting security in respect of the New Facility

If VDM grants a general security to H&H in respect of the New Facility, it will permit the Conversion and the Recapitalisation Plan to proceed. The Directors expect this will deliver material benefits to VDM, including the following:

- Strengthen the balance sheet: Strengthening VDM's balance sheet to support ongoing work and pursue new opportunities;
- Improve market confidence in VDM: Would have flow on benefits to clients, Shareholders, employees, and suppliers; and
- Mitigate contract risk: Enhances the ability of the Company to pursue and defend claims and variations to contracts.

(b) Disadvantages of granting security in respect of the New Facility

The Directors note that there are a number of risks and disadvantages of VDM granting a general security to H&H in respect of the New Facility of which you should be aware, namely:

- Reduce flexibility: the Company will give a number of undertakings under the general security in respect of the New Facility, the effect of which, may reduce the flexibility of potential divestment or capital raising in the future; and
- Discourage potential bidders: the secured liabilities associated with the New Facility may make the Company less attractive as a potential takeover target.

(c) Consequences if Resolution 4 is not approved

As Conversion is subject to Shareholders passing Resolutions 3, 4, 5 and 6, and granting the security in respect of the New Facility is subject to Conversion, if Resolution 5 is not approved Conversion will not proceed and VDM will be unable to grant security in respect of the New Facility with H&H.

In addition, if Resolution 4 is not approved by Shareholders, the Recapitalisation Plan will not proceed. If the Recapitalisation Plan does not proceed this is likely to affect the solvency of the Company and may result in the Directors having no option other than to place the Company into voluntary administration.

Further information regarding the implications if Conversion and the Recapitalisation Plan do not proceed are set out in sections 5.7(b) and 8.2 of this Explanatory Memorandum.

6.4. Independent Expert's Report

In accordance with the requirements of Listing Rule 10.10.2, the Company engaged BDO Corporate Finance (WA) Pty Ltd to provide an Independent Expert's Report with respect to the provision of a general security pursuant to the New Facility. It is intended to provide Shareholders with information that is material to the decision on how to vote on Resolution 4.

The Independent Expert has concluded that the provision of a general security pursuant to the New

Facility 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 provision of a general security pursuant to the New Facility. 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 Resolution 4.

6.5. Recommendation of Directors

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 (other than Dr Dongyi Hua, as the owner of H&H, and Mr Xiangyang Ru, as a nominee of H&H, who have declined to make a recommendation due to their positions) recommend that Shareholders vote in favour of Resolution 4, subject to the Independent Expert not changing its view and concluding that the provision of a general security pursuant to the New Facility 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 4.

6.6. Chapter 2E of the Corporations Act

The granting of the security arrangements by VDM to H&H would constitute giving a financial benefit to H&H as specified in sections 6.1 and 6.2 above.

As noted above at 5.10(f), section 210 of the Corporations Act provides that a company does not need to obtain shareholder approval to give a financial benefit to a Related Party if the giving of the financial benefit would be reasonable in the circumstances if the Related Party and the entity were dealing at arm's length (or on term's less favourable than arm's length).

The Board was of the view that the terms of the New Facility were no more favourable to H&H than were reasonable in the circumstances if H&H and the Company were dealing at arm's length and accordingly did not consider that shareholder approval was required in respect of its entry into the New Facility.

The Board is of the view that the terms of the security arrangements for the New Facility are no more favourable to H&H than would be reasonable in the circumstances if H&H and the Company were dealing at arm's length. However, notwithstanding the above, the Board considers it prudent to seek Shareholder approval for the purposes of Chapter 2E of the Corporations Act in respect of the grant of security.

6.7. Specific information required by Chapter 2E of the Corporations Act

The following information is provided in accordance with section 219 of the Corporations Act to enable Shareholders to assess the merits of Resolution 4:

- (a) The Related Party to whom Resolution 4 would permit the financial benefit to be given is H&H who is a Related Party of the Company for the reasons set out in section 6.2.
- (b) The nature of the financial benefit being provided is the grant of a security in favour of H&H pursuant to the key terms of the New Facility specified in section 6.1.
- (c) The recommendation of Directors in relation to Resolution 4 is set out in section 6.5.

- (d) Other than Dr Dongyi Hua as owner and controller of H&H and as the Managing Director of VDM (considering that his present intention is to resign as Managing Director to pursue other opportunities if the Resolutions are not passed), Mr Ru (as an H&H nominee Director) and Mr Guo (if appointed as an H&H nominee Director), no other Directors (or proposed Directors) have a material interest in the outcome of Resolution 4 other than as a result of their interest arising solely in the capacity as Shareholders.
- (e) The New Facility makes up to \$4 million available to the Company. Funds raised will be used by the Company to provide necessary working capital to the business.
- (f) There will be no effect on H&H's Shareholding in the Company as a result of VDM granting a security in respect of the New Facility.
- (g) There will be no dilutionary effect on the other Shareholders' holdings in the Company as a result of granting a security in respect of the New Facility.
- (h) The Board does not consider that there are any significant opportunity costs of the Company, taxation consequences or benefits foregone by granting the security in respect of the New Facility.

Other than as set out in the Explanatory Statement, there is no further information that is reasonably required by Shareholders in order to decide whether it is in the best interests of the Company to pass Resolution 4.

6.8. Voting exclusion

For the purposes of section 224 of the Corporations Act, and for all other purposes, the Company will disregard any votes cast on Resolution 4 by H&H and any of its Associates.

However, the Company need not disregard a vote if:

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

7. Resolution 5 - Ratification of prior issues of Shares

7.1. Background

On 28 August 2013 the Company issued 140,080,961 Shares to H&H at an issue price of \$0.01 per Share (**Placement Shares**). The Shares were issued pursuant to the Company's 15% capacity under Listing Rule 7.1 (**Placement**).

7.2. Listing Rule 7.1

Listing Rule 7.1 provides, in summary, that subject to certain exceptions, a listed company may not issue equity securities in any 12 month period which exceed 15% of the number of securities of the company on issue at the beginning of the 12 month period, except with the prior approval of the shareholders of the company in general meeting of the precise terms and conditions of the proposed issue.

The outcome of this Resolution 5 will have no effect on the issue of Placement Shares to H&H as the Company has already issued those Shares within the Company's annual 15% limit prescribed by Listing Rule 7.1.

If Resolution 5 is approved VDM will be able to ratify the issue and allotment of the Placement Shares and preserve the Company's ability to issue further securities (if necessary) under Listing Rule 7.1. The result is that the Company will have a renewed ability to issue securities up to the 15% limit without the need to obtain Shareholder approval under Listing Rule 7.1.

If Resolution 5 is not approved by Shareholders, it will restrict the ability of the Company to issue securities without Shareholder approval until the Company's 15% capacity is replenished, in accordance with Listing Rule 7.1.

In addition, as Conversion is subject to Shareholders passing Resolutions 3, 4, 5 and 6, and granting the security in respect of the New Facility is subject to Conversion, if Resolution 5 is not approved Conversion will not proceed and VDM will be unable to grant security in respect of the New Facility with H&H.

Also, if Resolution 5 is not approved by Shareholders, the Recapitalisation Plan will not proceed. If the Recapitalisation Plan does not proceed this is likely to affect the solvency of the Company and may result in the Directors having no option other than to place the Company into voluntary administration.

Further information regarding the implications if Conversion and the Recapitalisation Plan do not proceed are set out in sections 5.7(b) and 8.2 of this Explanatory Memorandum.

7.3. Listing Rule 7.4

Listing Rule 7.4 permits a company to subsequently approve an issue of securities made without approval under Listing Rule 7.1. Resolution 5 has been included in the Notice to preserve the Company's ability to issue further securities (if necessary) under Listing Rule 7.1.

Listing Rule 7.4 states that an issue of securities made without shareholder approval under Listing Rule 7.1 is treated as having been made with approval for the purpose of Listing Rule 7.1 if the issue did not breach Listing Rule 7.1 and the shareholders of the company subsequently approve it.

7.4. Requirements under the Listing Rules

In accordance with Listing Rule 7.5, the following information is provided to Shareholders to allow them to assess whether to approve Resolution 5.

(a) A total of 140,080,961 Shares were allotted and issued on 28 August 2013.

- (b) The Shares were issued at a price of \$0.01 per Share.
- (c) The Shares issued pursuant to this Resolution 5 rank equally in all respects with all other Shares in the Company and are listed on ASX.
- (d) The Shares were allotted and issued to H&H who was not, at the time of the issue, a Related Party of the Company.
- (e) \$1.4 million was raised by the Placement. It is intended that the funds raised will be used by the Company to strengthen the Company's balance sheet and provide necessary working capital to the business.
- (f) A voting exclusion statement in respect of Resolution 5 is set out in section 7.6 of this Explanatory Statement.

7.5. Directors' recommendation

The Directors (other than Dr Dongyi Hua, as the owner of H&H, and Mr Xiangyang Ru, as a nominee of H&H, who have declined to make a recommendation due to their positions) recommend that Shareholders vote in favour of Resolution 5.

7.6. Voting exclusion

For the purposes of Listing Rule 7.4 and Listing Rule 14.11, and for all other purposes, the Company will disregard any votes cast on Resolution 5 by H&H and any of its Associates.

However, the Company need not disregard a vote if:

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

8. Resolution 6 - Issue of Shares to Jimblebar Creditors

Resolution 6 seeks Shareholder approval for the allotment and issue of up to 245,000,000 Shares to the Jimblebar Creditors to enable 35% of the Relevant Debt to be repaid by way of an issue of Shares, rather than cash.

If Resolution 6 is approved VDM will be able to issue the Shares to the Jimblebar Creditors without using the Company's 15% annual placement capacity.

A summary of Listing Rules 7.1 and 7.4 is set out in section 7.2 and 7.3 above.

As noted below, the issue of Shares to the Jimblebar Creditors is subject to Shareholders passing all Resolutions necessary to effect Conversion and is a conditions precedent to the Recapitalisation Plan. If any or all of Resolutions 3, 4, 5 and this Resolution 6 are not approved by Shareholders at the Meeting, the Recapitalisation Plan will not proceed.

If the Recapitalisation Plan does not proceed, this is likely to affect the solvency of the Company and may result in the Directors having no option other than to place the Company into voluntary administration. Further information regarding the implications if the Recapitalisation Plan does not proceed is set out in section 8.2 below.

8.1. Background to the Recapitalisation Plan

As announced to ASX on 1 October 2013, VDM advised that the Company was yet to lodge its accounts and was working through a financial proposal to improve the working capital of the Company.

On 29 October 2013, VDM advised that the Company's accounts had been lodged with ASIC and VDM announced a proposed recapitalisation plan, involving the Creditor Proposal and proposed Rights Issue outlined below (**Recapitalisation Plan**).

Under the terms of the Creditor Proposal the Relevant Debt of each Jimblebar Creditor is to be repaid as follows:

- 20% of the Relevant Debt was paid upon execution of the relevant documents;
- subject to certain conditions noted below:
 - 35% of the Relevant Debt will be converted into Shares at \$0.01 per Share, such conversion to be subject to Shareholders approving Resolutions 3, 4, 5 and this Resolution 6 and to take place prior to the Rights Issue (and, for the avoidance of doubt each Jimblebar Creditor shall have the right to participate in the Rights Issue, should it proceed) (the Creditor Conversion); and
 - the remaining 45% owing to each Jimblebar Creditor will be repaid by no later than 1 July 2014 (the **Final Payment**),

(together the Creditor Proposal).

The Creditor Conversion and Final Payment are subject to the satisfaction of the following conditions precedent:

- Shareholders approving Resolutions 3, 4, 5 and 6; and
- any and all authorisations and approvals which may be required by law, including under the Listing Rules, the Corporations Act and any provisions of the Constitution, to enter into and perform the transactions having been obtained.

In addition, under the Recapitalisation Plan, provided that Resolutions 3, 4, 5 and 6 are passed at the

Meeting, VDM is proposing to make a pro-rata entitlement offer to its Shareholders to subscribe for Shares at a price of \$0.01 per Share seeking to raise at least \$9.25 million (**Rights Issue**). Pursuant to the Rights Issue, H&H has agreed to apply for \$4 million of shares under the Rights Issue through subscribing for some or all of its entitlement and, if required, by underwriting the Rights Issue, conditional upon Hunter Hall Investment Management Limited contributing an aggregate of \$1 million under the Rights Issue.

To the extent that H&H is required to contribute pursuant to its aggregate pro-rata entitlement and underwriting obligations under the Rights Issue, any funds that VDM has drawn down pursuant to the New Facility will be set off against H&H's subscription and underwriting commitments pursuant to the Rights Issue.

Further details of the Rights Issue will be provided to Shareholders in due course.

8.2. Implications if the Recapitalisation Plan does not proceed

If any of Resolutions 3, 4, 5 and 6 are not approved by Shareholders at the AGM, Conversion, the Creditor Proposal and, consequently, the Rights Issue will not proceed. This is likely to affect the solvency of the Company and may result in the Directors having no option other than to place the Company into voluntary administration. Further information regarding the implications if Conversion does not proceed is set out section 5.7(b).

As previously noted, on 29 October 2013 VDM announced that the Company's accounts had been lodged with ASIC. As at the date of signing the accounts, the Directors had a reasonable expectation that VDM could pay its debts as and when they would fall due and concluded that VDM was solvent. This conclusion was based on the fact that the Directors had a reasonable expectation that the Recapitalisation Plan would proceed.

The declaration of solvency is a continuing obligation and as such, should circumstances change or further information come to hand which affects the solvency of the company, the Directors are required to reassess their position.

Therefore, if Resolutions 3, 4, 5 or 6 are not approved by Shareholders at the AGM and consequently the Recapitalisation Plan does not proceed, the solvency outlook of VDM will change and the Directors would be expected to act proactively and take steps to assess whether to cease trading and possibly place the Company into voluntary administration.

8.3. Requirements under the Listing Rules

In accordance with Listing Rule 7.3, the following information is provided to Shareholders to allow them to assess whether to approve Resolution 6.

- (a) The maximum number of Shares to be issued is 245,000,000;
- (b) The Shares will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that allotment will occur on the same date;
- (g) The Shares will be issued at a price of \$0.01 per Share.
- (c) The Shares will be issued to the Jimblebar Creditors;
- (d) The Shares issued will be fully paid ordinary shares in the capital of the Company, issued on the same terms and conditions as the Company's existing Shares;
- (e) The Shares issued will be used to satisfy 35% of the Relevant Debt; and

(h) A voting exclusion statement in respect of Resolution 6 is set out in section 8.5 of this Explanatory Statement.

8.4. Directors' recommendation

The Directors unanimously recommend that Shareholders vote in favour of Resolution 6.

8.5. Voting exclusion

For the purposes of Listing Rule 14.11, and for all other purposes, the Company will disregard any votes cast on Resolution 5 by any person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed and any Associates of those persons.

However, the Company need not disregard a vote if:

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

9. Resolution 7 - Approval of 10% Enhanced Placement Facility

Listing Rule 7.1A enables eligible entities to issue Equity Securities up to 10% of its issued share capital through placements over a 12 month period after the annual general meeting (**10% Enhanced Placement Facility**). The 10% Enhanced Placement Facility is in addition to the Company's 15% placement capacity without shareholder approval under Listing Rule 7.1.

An eligible entity for the purposes of Listing Rule 7.1A is an entity that is not included in the S&P/ASX 300 Index and has a market capitalisation of \$300 million or less as at the date of the annual general meeting. The Company is an eligible entity as at the time of this Notice and expects to remain so at the date of the AGM.

The Company is seeking shareholder approval by way of a special resolution to have the ability to issue Equity Securities under the 10% Enhanced Placement Facility. The exact number of Equity Securities to be issued under the 10% Enhanced Placement Facility will be determined in accordance with the formula prescribed in Listing Rule 7.1A.2 (see section 9.1(c) below).

The effect of Resolution 7 will be to allow the Directors to issue the Equity Securities under Listing Rule 7.1A during the 10% Placement Period without using the Company's 15% placement capacity under Listing Rule 7.1. Resolution 7 is a special resolution and therefore requires approval of 75% of the votes cast by Shareholders present and eligible to vote (in person, by proxy, by attorney or, in the case of a corporate Shareholder, by a corporate representative).

9.1. Background

(a) Shareholder approval

The ability to issue Equity Securities under the 10% Enhanced Placement Facility is subject to shareholder approval by way of a special resolution at the AGM.

(b) Equity Securities

Any Equity Securities issued under the 10% Enhanced Placement Facility must be in the same class as an existing quoted class of Equity Securities of the Company. As at the date of the Notice, the Company's Shares are the only class of Equity Securities on issue. The Shares are the only class of Equity Securities that are quoted.

(c) Formula for calculating 10% Enhanced Placement Facility

Listing Rule 7.1A.2 provides that eligible entities which have obtained shareholder approval at an annual general meeting may issue or agree to issue, during the 12 month period after the date of the annual general meeting, a number of Equity Securities calculated in accordance with the following formula:

$(A \times D) - E$

A is the number of Shares on issue 12 months before the date of issue or agreement:

- (i) plus the number of fully paid Shares issued in the 12 months under an exception in Listing Rule 7.2;
- (ii) plus the number of partly paid Shares that became fully paid in the 12 months;

- (iii) plus the number of fully paid Shares issued in the 12 months with approval of holders of shares under Listing Rule 7.1 and 7.4. This does not include an issue of fully paid shares under the entity's 15% placement capacity without shareholder approval;
- (iv) less the number of fully paid Shares cancelled in the 12 months.

Note that A has the same meaning in Listing Rule 7.1 when calculating an entity's 15% placement capacity.

D is 10%:

E is the number of Equity Securities issued or agreed to be issued under Listing Rule 7.1A.2 in the 12 months before the date of the issue or agreement to issue that are not issued with the approval of shareholders under Listing Rule 7.1 or 7.4.

(d) Listing Rule 7.1 and Listing Rule 7.1A

The ability of an entity to issue Equity Securities under Listing Rule 7.1A is in addition to the entity's 15% placement capacity without shareholder approval under Listing Rule 7.1.

At the date of this Notice, the Company has 1,073,954,032 Shares on issue. Therefore subject to Shareholder approval the Company will have a capacity to issue:

- (i) 161,093,104 Equity Securities under Listing Rule 7.1; and
- (ii) subject to Shareholder approval being obtained under Resolution 7, 107,395,403 Equity Securities under Listing Rule 7.1A.1

The actual number of Equity Securities that the Company will have capacity to issue under Listing Rule 7.1A will be calculated at the date of issue of the Equity Securities in accordance with the formula prescribed in Listing Rule 7.1A.2 (see section 9.1(c) above) and so is subject to change.

(e) Minimum Issue Price

The issue price of Equity Securities issued under Listing Rule 7.1A must be not less than 75% of the VWAP of Equity Securities in the same class calculated over the 15 Trading Days immediately before:

- (i) the date on which the price at which the Equity Securities are to be issued is agreed; or
- (ii) if the Equity Securities are not issued within 5 Trading Days of the date in paragraph (i) above, the date on which the Equity Securities are issued.

(f) 10% Placement Period

Shareholder approval of the 10% Enhanced Placement Facility under Listing Rule 7.1A is valid from the date of the annual general meeting at which the approval is obtained and expires on the earlier to occur of:

- (i) the date that is 12 months after the date of the annual general meeting at which the approval is obtained; or
- (ii) the date of the approval by shareholders of a transaction under Listing Rules 11.1.2 (a significant

change to the nature or scale of activities) or 11.2 (disposal of main undertaking),

(10% Placement Period).

9.2. Specific information required by Listing Rule 7.3A

Pursuant to and in accordance with Listing Rule 7.3A, information is provided in relation to the approval of the 10% Enhanced Placement Facility as follows:

(a) Minimum price of securities issued under the 10% Enhancement Placement Facility

The Equity Securities will be issued at an issue price of not less than 75% of the VWAP for the Company's Equity Securities over the 15 Trading Days immediately before:

- (i) the date on which the price at which the Equity Securities are to be issued is agreed; or
- (ii) if the Equity Securities are not issued within 5 Trading Days of the date in paragraph (i) above, the date on which the Equity Securities are issued.

If the Equity Securities are issued for non-cash consideration the Company will provide to the market in accordance with the Listing Rules a valuation of the non-cash consideration that demonstrates that the issue price of the securities complies with Listing Rule 7.1A.3.

(b) Risk of economic and voting dilution

If Resolution 7 is approved by Shareholders and the Company issues Equity Securities under the 10% Enhanced Placement Facility, the existing Shareholders' voting power in the Company will be diluted as shown in the below table. There is a risk that:

- (i) the market price for the Company's Equity Securities may be significantly lower on the date of the issue of the Equity Securities than on the date of the Meeting; and
- (ii) the Equity Securities may be issued at a price that is at a discount to the market price for the Company's Equity Securities on the issue date or the Equity Securities are issued as part of consideration for the acquisition of a new asset,

which may have an effect on the amount of funds raised by the issue of the Equity Securities.

The table below shows the potential dilution of existing Shareholders on the basis of the current market price of Shares and the current number of ordinary securities (being variable "A" as calculated in accordance with the formula in Listing Rule 7.1A.2) on issue as at the date of this Notice.

The table shows:

- (i) two examples where variable "A" has increased by 50% and 100%. Variable "A" is based on the number of ordinary securities the Company has on issue. The number of ordinary securities on issue may increase as a result of issues of ordinary securities that do not require Shareholder approval (for example, a pro rata entitlements issue or scrip issued under a takeover offer) or future specific placements under Listing Rule 7.1 that are approved a future Shareholders' meeting; and
- (ii) two examples of where the issue price of ordinary securities has decreased by 50% and increased by 50% as against the current market price.

The table has been prepared on the following assumptions:

- (i) The Company issues the maximum number of Equity Securities available under the 10% Enhanced Placement Facility.
- (ii) No Options or Rights are issued, vest and are exercised before the date of the issue of the Equity Securities.
- (iii) The 10% voting dilution reflects the aggregate percentage dilution against the issued share capital at the time of issue. This is why the voting dilution is shown in each example as 10%.
- (iv) The table does not show an example of dilution that may be caused to a particular Shareholder by reason of placements under the 10% Placement Facility, based on the Shareholder's holding at the date of the Meeting.
- (v) The table shows only the effect of issues of Equity Securities under Listing Rule 7.1A, not under the 15% placement capacity under Listing Rule 7.1.
- (vi) The issues of Equity Securities under the 10% Enhanced Placement Facility consists only of Shares.
- (vii) The issue price is \$0.009, being the closing price of the Shares on ASX on 26 September 2013.

		Dilution		
Variable 'A' in Listing Rule 7.1A.2		\$0.0045	\$0.009	\$0.018
		50% decrease in		100% increase in
		Issue Price	Issue price	issue price
Current Variable	10% Voting	107,395,403	107,395,403	107,395,403
A	Dilution	Shares	Shares	Shares
1,073,954,032 Shares	Funds raised	\$483,279.30	\$969,558.63	\$1,933,117
50% increase in	10% Voting	161,093,105	161,093,105	161,093,105
current Variable A	Dilution	Shares	Shares	Shares
1,610,931,048 Shares	Funds raised	\$724,918.97	\$1,449,837.90	\$2,899,675.9
100% increase	10% Voting	214,790,806	214,790,806	214,790,806
in current Variable A	Dilution	Shares	Shares	Shares
2,147,908,064 Shares	Funds raised	\$966,558.60	\$1,933,117	\$3,866,235

(c) The final date for issue

The Company will only issue and allot the Equity Securities during the 10% Placement Period. The approval under Resolution 7 for the issue of the Equity Securities will cease to be valid in the event that Shareholders approve a transaction under Listing Rule 11.1.2 (a significant change to the nature or scale of activities) or Listing Rule 11.2 (disposal of main undertaking).

(d) Purpose of issue under 10% Enhanced Placement Facility

The Company may seek to issue the Equity Securities for the following purposes:

- (i) non-cash consideration for the acquisition of the new resources, assets or investments. In such circumstances the Company will provide a valuation of the non-cash consideration as required by Listing Rule 7.1A.3; or
- (ii) cash consideration. In such circumstances, the Company intends to use the funds raised towards continued exploration and feasibility study expenditure on the Company's portfolio of assets and/or general working capital.

The Company will comply with the disclosure obligations under Listing Rules 7.1A.4 and 3.10.5A upon issue of any Equity Securities.

The Company's allocation policy is dependent on the prevailing market conditions at the time of any proposed issue pursuant to the 10% Enhanced Placement Facility. The identity of the allottees of Equity Securities will be determined on a case-by-case basis having regard to the factors including but not limited to the following:

- (i) the methods of raising funds that are available to the Company, including but not limited to, rights issue or other issue in which existing security holders can participate;
- (ii) the effect of the issue of the Equity Securities on the control of the Company;
- (iii) the financial situation and solvency of the Company; and
- (iv) advice from corporate, financial and broking advisers (if applicable).

The allottees under the 10% Enhanced Placement Facility have not been determined as at the date of this Notice but may include existing substantial Shareholders and/or new Shareholders who are not related parties or associates of a related party of the Company.

Further, if the Company is successful in acquiring new resources, assets or investments, it is likely that the allottees under the 10% Enhanced Placement Facility will be the vendors of the new resources, assets or investments.

(e) Company has not previously obtained Shareholder approval under Listing Rule 7.1A

The Company has not previously obtained Shareholder approval under Listing Rule 7.1A.

(f) Voting exclusion statement

A voting exclusion statement is included in the Notice. At the date of the Notice, the Company has not determined its allocation policy for the issue of Equity Securities under the 10% Enhanced Placement Facility and proposed allottees of any Equity Securities are therefore not as yet known or identified. The Company has not approached any particular existing Shareholder or security holder or an identifiable class of existing security holder to participate in the issue of the Equity Securities. No existing Shareholder's votes will therefore be excluded under the voting exclusion in the Notice.

10. Resolution 8 - Holding a Spill Meeting

The Corporations Act was amended in June 2011 to introduce the "two-strikes" rule. The two strikes rule provides that if at least 25% of the votes cast on the adoption of the remuneration report at two consecutive Annual General Meetings are against adopting the remuneration report, members will have the opportunity to vote on a "spill resolution" (as described below).

At last year's AGM, 27.51% of the votes cast on the resolution to adopt the remuneration report were against adopting the report. This constitutes a "first strike".

If at least 25% of the votes cast on Resolution 1 are against adopting the Remuneration Report at the AGM this will constitute a "second strike" and Resolution 8 will be put to the Meeting and voted on by Shareholders as required by section 250V of the Corporations Act (the **spill resolution**).

If less than 25% of the votes cast on Resolution 1 are against adopting the Remuneration Report at the AGM, then there will be no second strike and Resolution 8 will not be put to the Meeting.

If put, the spill resolution will be considered as an ordinary resolution.

If the spill resolution is passed, a further meeting of members must be held within 90 days (the **spill meeting**). Immediately before the end of the spill meeting, each of the Directors who approved the last Directors' report, cease to hold office (if they still hold office at the time), with the exception of a managing director of the Company (the **Relevant Directors**).

All of the Directors have approved the last Directors' report.

Each Relevant Director is eligible, but not required, to seek re-election as a Director of the Company at the spill meeting.

10.1. Directors' recommendation

The Board unanimously recommends that Shareholders vote against Resolution 8.

11. Glossary

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

- "AGM", Annual General Meeting" or "Meeting" means the general meeting of Shareholders of the Company convened by this Notice:
- "Associate" has the meaning given to that term by Division 2 of Part 1 of the Corporations Act;
- "Accounting Standards" has the meaning given to that term in 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;
- "Closely Related Party" of the Key Management Personnel has the meaning given to that term in the Corporations Act;
- "Company" or "VDM" means VDM Group Limited ABN 95 109 829 334, and where the context permits, wholly owned subsidiaries of the parent;
- "Conversion" means the conversion of the Convertible Loan to Shares:
- "Conversion Date" means the date the Resolutions are passed at the Meeting;
- "Conversion Shares" means 500 million Shares at a price of \$0.01 per Share;
- "Convertible Loan" means the loan of \$5 million under the Convertible Loan and Facility Agreement;
- "Convertible Loan and Facility Agreement" means the agreement entered into between VDM and H&H in respect of the Conversion dated 27 August 2013;

- "Corporations Act" means the Corporations Act 2001 (Cth);
- "Director" means a Director of the Company from time to time;
- "Equity Securities" has the same meaning as in the Listing Rules;
- "Explanatory Memorandum" means the explanatory memorandum accompanying 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;
- "Jimblebar Creditors" means those creditors of VDM who have entered into binding agreements or arrangements with VDM in relation to the Jimblebar Project;
- "Key Management Personnel" has the meaning given in the Accounting Standards and broadly includes those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Director (whether executive or otherwise) of the Company;
- "Listing Rules" means the Listing Rules of ASX:
- "New Facility" means the facility of up to \$4 million provided by H&H to VDM on the terms

agreed to under the New Facility Agreement dated 29 October 2013;

- "Notice" or "Notice of Annual General Meeting" means this notice of Annual General Meeting;
- "Placement" means the \$1.4 million raised from the issue of the 140,080,961 Shares to H&H under the terms of the Share Subscription Agreement;
- "Proxy Form" means the proxy form attached to this Notice:
- "Related Party" has the meaning given to it in the Listing Rules;
- "Relevant Debt" means the outstanding debt owed by VDM to each Jimblebar Creditor;
- "Relevant Interest" has the meaning given by section 608 of the Corporations Act;
- "Remuneration Report" means the remuneration report set out in the Director's report section of the Company's annual financial report for the year ended 30 June 2013;
- "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 27 August 2013;
- "Trading Day" means a day determined by ASX to be a trading day in accordance with the Listing Rules;
- "Voting Power" has the meaning given by section 610 of the Corporations Act;

"VWAP" means volume weighted average price; and

"\$" means Australian dollars.

Schedule A - Material terms of Convertible Loan and Facility Agreement

The Convertible Loan and Facility Agreement was entered into by VDM and H&H on 27 August 2013, and was amended and restated on 29 October 2013.

Convertible Loan

Pursuant to the Convertible Loan and Facility Agreement, H&H agreed to loan \$5 million to VDM and, upon Shareholders approving Resolutions 3, 4, 5 and 6, the Convertible Loan will automatically convert into 500 million shares at a price of \$0.01 per Share, in accordance with the terms and subject to the conditions set out in the Convertible Loan and Facility Agreement.

Key terms

The Convertible Loan has the following key terms:

- (a) The loan is unsecured and has a term of 6 months (if Conversion does not occur);
- (b) Conversion is subject to Shareholders passing Resolutions 3, 4, 5 and 6 at the Meeting;
- (c) Interest of 10% per annum, is payable up to the Conversion Date; and
- (d) The facility cannot be repaid by the Company prior to the Meeting but can be repaid any time prior to the expiration of the term (if Shareholder approval is not received).

The Convertible Loan is to be used for general working capital purposes of VDM in the ordinary course of VDM's business.

Conversion

Promptly after Resolutions 3, 4, 5 and 6 are approved by Shareholders at the Meeting, and in any event within 5 Business Days, VDM must allot and issue to H&H the Conversion Shares.

On the date that VDM issues the Conversion Shares to H&H, the loan of \$5 million (excluding accrued interest) will be taken to have been paid in full.

If any or all of Resolutions 3, 4, 5 and 6 are not approved by Shareholders, and consequently Conversion does not take place, the following terms will apply:

- (a) Dr Dongyi Hua will be entitled to resign as Managing Director of VDM immediately to pursue other opportunities for H&H;
- (b) Interest will increase to 15% per annum applicable from the earlier of the date of the Meeting or 19 November 2013;
- (c) VDM will be required to pay to H&H a fee of \$500,000 at the expiration of the term; and
- (d) VDM must repay the loan, and all other amounts due and payable at the expiration of the term.

Board representation

At any time following the issue of the Conversion Shares to H&H, H&H has the right to appoint a further nominee to the Board of VDM. Also, Barry Nazer and Richard Mickle will resign as directors of the Board at the conclusion of the AGM. In addition, it is intended that Dr Hua will become Executive Chairman, and Michael Perrott will become Deputy Non-executive Chairman at the conclusion of the AGM. As such, following Conversion, the Board shall comprise 5 members, with 2 Directors who are independent of H&H.

Exclusivity

The Convertible Loan and Facility Agreement contains customary exclusivity provisions which apply during the exclusivity period (being the period commencing on 27 August 2013 and ending on the earlier of the Meeting, the termination of the Convertible Loan and Facility Agreement, or 19 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 Convertible Loan and Facility 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 Convertible Loan and Facility 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.

Warranties

VDM has given a number of warranties to H&H, including as to VDM's capacity and authority. The warranties are customary for a facility of this nature.

Events of default and undertakings

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

If an event of default occurs then H&H may declare that the loan will be cancelled and all amounts due and payable will become immediately due and payable by VDM.

New Facility

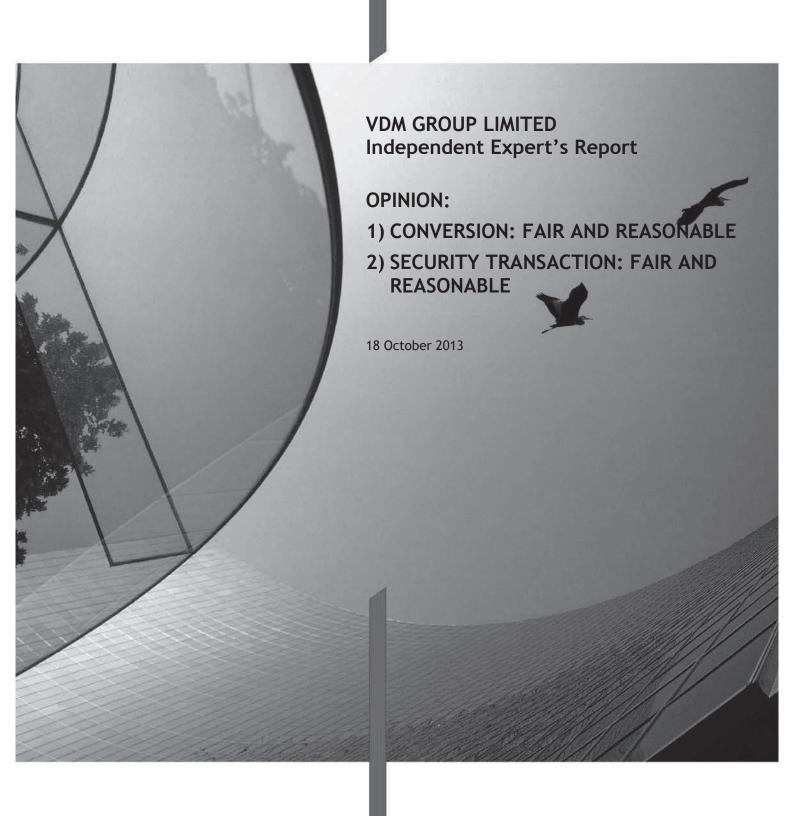
Pursuant to the New Facility, VDM and H&H have entered into an unsecured loan facility which may, subject to Conversion, be secured by way of a general security deed from VDM to H&H.

As the grant of the security is subject to Conversion, VDM will only be able to grant security to H&H in respect of the New Facility if Resolutions 3, 4, 5 and 6 are approved by Shareholders at the Meeting.

The New Facility has the following key terms:

- (a) Up to \$4 million, to be drawn down at the discretion of VDM, and available for a period of 6 months from the initial draw down:
- (b) Interest is payable quarterly in arrears at a rate of 8% per annum, calculated daily;
- (c) Repayment on the date 6 months after the date of the initial draw down, unless set off pursuant to the arrangements set out below;
- (d) to be secured, subject to Shareholder approval, by a general security deed to be granted by VDM in favour of H&H; and
- (e) On all other terms and conditions customary for a loan and security of this nature.

H&H will apply for \$4 million under the Rights Issue through subscriptions for some or all of its pro-rata entitlement and, if required, an underwriting or sub-underwriting commitment on customary terms. To the extent H&H is required to contribute pursuant to its aggregate pro-rata entitlement and underwriting obligations under the Rights Issue, any funds that VDM has drawn down pursuant to the New Facility will be set off against H&H's subscription and underwriting commitments pursuant to the Rights Issue.







Financial Services Guide

18 October 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 potential conversion of shares under a convertible loan of \$5 million issued to H&H Holdings Australia Pty Ltd ("H&H") with a conversion price of 1.0 cent per share and the grant of security on an additional \$4 million loan facility agreed to be provided to VDM by H&H. 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 \$25,000.

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 prepared an independent expert's report in June 2013 for the issue of 600 million shares to H&H Holdings Australia Pty Ltd at \$0.025 per share to raise \$15 million, for a fee of approximately \$40,000. We also 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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Appendix 1 - Glossary

Appendix 2 - Valuation Methodologies



600 38 Station Street 601 Subiaco, WA 6008 u PO Box 700 West Perth WA 6872 Australia



18 October 2013

The Directors VDM Group Limited Level 2, 27-31 Troode Street West Perth, WA 6005

Dear Sirs

INDEPENDENT EXPERT'S REPORT

1. Introduction

On 16 August 2013, VDM Group Limited ("VDM" or "the Company") obtained shareholders' approval to issue 600 million new fully paid ordinary VDM shares to H&H Holdings Australia Pty Ltd ("H&H") at 2.5 cents per share to raise \$15 million under a binding share subscription agreement. Following this issue, H&H would hold approximately 42% of the issued share capital of VDM.

However, on 27 August 2013, VDM announced that the Company was in dispute with a major customer ("Disputing Party") on a material contract regarding the status of the contract and VDM has been removed from the site ("the Dispute"). The Dispute has the potential to materially impact operating performance and short term cash flows. As a result, the existing share subscription agreement with H&H in relation to the \$15 million placement was terminated. A new arrangement was negotiated with H&H to immediately provide approximately \$6.4 million in funding on the following terms:

- Placement of 140,080,961 shares to H&H at \$0.01 per share to raise \$1,400,809.61
- A convertible loan of \$5 million issued to H&H with a conversion price of \$0.01 per share, the conversion of which will be subject to shareholders' approval ("Convertible Loan").

The respective agreements for the above transactions were executed with H&H on 27 August 2013 and VDM has now received the funding of approximately \$6.4 million. The placement of approximately 140 million shares to H&H issued on 28 August 2013, together with additional shares purchased by H&H and its associates prior to the recent placement, has resulted in H&H and its associates currently holding a 17.24% interest in VDM.

The potential conversion of the Convertible Loan ("the Conversion"), which would 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 Cth ("the Act"). The Conversion is also subject to shareholders' approval under ASX Listing Rule 10.11.

Security will be provided under an additional \$4 million loan facility ("Additional Loan Facility") to be provided by H&H ("Security Transaction"), which is also subject to shareholders' approval under the Australian Securities Exchange ("ASX") Listing Rule 10.1.

The Conversion and the Security Transaction are collectively referred to as "the Transactions".



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 Conversion and the Security Transaction are fair and reasonable to the non-associated shareholders of VDM ("Shareholders").

Our Report is prepared pursuant to the following sections of the Act and/or ASX listing rule ("ASX Listing Rule") and is to be included in the Notice of Meeting and Explanatory Memorandum for VDM in order to assist the Shareholders in their decision whether to approve the Transactions:

- Conversion section 611 (item 7) of the Act as a result of H&H increasing its voting power in the Company from its current position at 17.24% to up to 43.53% following the Conversion; and ASX Listing Rule 10.11 as a result of VDM issuing shares under the Conversion to a party whose relationship with the Company is such that approval under ASX Listing Rule 10.11 is required
- Security Transaction ASX Listing Rule 10.1 as a result of the Company disposing a substantial asset (being entering into a general security deed to grant security) to a substantial holder (being H&H who currently holds a relevant interest of 17.24% of VDM's issued share capital) ("Secured Assets") to secure repayment of the Additional Loan Facility.

Our Report is prepared to assist Shareholders in approving resolutions 3 and 4 contained in the Notice of Meeting and Explanatory Memorandum. There are other resolutions contained in the Notice of Meeting and Explanatory Memorandum that BDO has not been requested to express an opinion on. In particular, our Report does not consider resolution 6 which relates to the issue of shares to creditors of VDM who have entered into binding agreements or arrangements with VDM in relation to the Jimblebar project.

2.2 Approach

Our Report has been prepared having regard to Australian Securities and Investments Commission ("ASIC") Regulatory Guide 74 ("RG 74"), 'Acquisitions Approved by Members', 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 respective terms of the Transactions as outlined in the body of this report. We have considered:

- How the value of a VDM share prior to the Conversion compares to the conversion price of 1.0 cent per share;
- How the value of the proceeds of the sale of the Secured Assets that would be provided to H&H under
 a general security deed in relation to the Additional Loan Facility in the event of a default compare to
 the value of the liabilities that would be settled
- 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 Transactions; and
- The position of Shareholders should the Transactions not proceed.



2.3 Opinion

We have considered the terms of the Conversion as outlined in the body of this report and have concluded that, in the absence of a superior offer, the Conversion is fair and reasonable to Shareholders.

We have considered the terms of the Security Transaction as outlined in the body of this report and have concluded that, in the absence of any other relevant information, the Security Transaction is fair and reasonable to Shareholders.

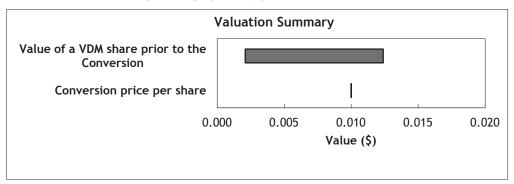
2.4 Fairness

In Section 13, we determined that the value of a VDM share prior to the Conversion compares to the conversion price of 1.0 cent as detailed hereunder.

	Section	Low \$	Midpoint \$	High \$
Value of a VDM share	10	0.0021	0.0072	0.0124
Conversion price	11	0.0100	0.0100	0.0100

Source: BDO analysis

The above valuation ranges are graphically presented below:



Source: BDO analysis

The above pricing indicates that the Conversion price is within the range of values of a VDM share prior to the Conversion, and the Conversion price is higher than the midpoint value of a VDM share prior to the Conversion. Therefore, we conclude that the Conversion is fair for Shareholders.

We also concluded that the value of the proceeds of the sale of the Secured Assets that would be provided to H&H under a general security deed in relation to the Additional Loan Facility in the event of a default is equivalent or lower than the value of the liabilities that would be settled. This is discussed in section 12 of our Report. Therefore, in the absence of any other relevant information, this indicates that the Security Transaction is fair to Shareholders.

2.5 Reasonableness

We have considered the analysis in Section 14 of this report, in terms of both:

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



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

- the Conversion is reasonable for Shareholders; and
- the Security Transaction is reasonable for Shareholders.

The respective advantages and disadvantages considered are summarised below:

ADVANTAGE	ADVANTAGES AND DISADVANTAGES				
Section	Advantages	Section	Disadvantages		
Conversion					
14.1.1	The Conversion is fair. RG 111 states that an offer is reasonable if it is fair	14.2.1	Dilution of existing Shareholders' interests		
14.1.2	The Convertible Loan provided VDM with an immediate cash injection which was critically needed for working capital purposes and its ability to continue as a going concern.	14.2.2	Decreases the likelihood of a takeover offer		
	The Convertible Loan was necessary as a quicker mechanism to obtain the much needed funding than re-negotiating an equivalent placement with H&H which would require Shareholders' approval before funds can be received.				
	If the Conversion is not approved, VDM will have to re-negotiate or obtain alternative funding, as it will likely have to repay the Convertible Loan six months from the date of its issue.				
14.1.3	The Conversion will result in VDM not having to repay the Convertible Loan in cash, which puts the Company under less strain on cash flows	14.2.3	Potential lower liquidity of shares		
14.1.4	The Conversion will result in H&H increasing its current shareholding from 17.24% to 43.53%, and consequently, increasing H&H's commitment as VDM's major shareholder				
14.1.5	No alternative offer could have been obtained within such a short period of time				



ADVANTAGES AND DISADVANTAGES				
Section	Advantages	Section	Disadvantages	
Security Tr	ransaction			
14.1.6	The Security Transaction is fair. RG 111 states that an offer is reasonable if it is fair	14.2.4	Onerous restrictions placed on the Company's ability to deal with its assets	
14.1.7	The provision of security enables the Company to obtain the debt funding that it requires and the provision of security for debt funding purposes is not unusual			

Other key matters we have considered include:

Section	Description
14.3.1	We are unaware of any alternative proposal that might offer the Shareholders of VDM a premium over the values ascribed under the Conversion
14.3.2	If the Conversion is approved, H $\&$ H will hold approximately 43.53% of VDM. 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
14.3.3	Potential decline in the share price of VDM if the Transaction is not approved
14.3.4	A material uncertainty exists around a number of contingent liabilities and litigation matters which, depending on their outcome individually and collectively, may have a significant negative impact on VDM's business and its value
14.3.5	If there is a possibility of some payment recovery from Disputing Party for the work that VDM had conducted up to it being removed from site, the value of VDM may increase.
14.3.6	The risk profile of Shareholders' investment in VDM's future business may change if H&H implements its plans to introduce new business activities in procurement services and mining.



3. Scope of the Report

3.1 Purpose of the Report

Conversion

Section 606 of 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 Conversion, H&H will increase its shareholding in VDM from the current level of 17.24% to hold approximately 43.53%.

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 Approved by Members". 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 Transactions 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.

ASX Listing Rule 10.11 requires that, subject to exceptions in ASX Listing Rule 10.12, a listed entity must obtain shareholders' approval before it issues or agrees to issue equity securities to a related party or to a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained.

Security Transaction

ASX Listing Rule 10.1 requires that a listed entity must obtain shareholders' approval before it acquires or disposes of a substantial asset, when the consideration to be paid for the asset or the value of the asset being disposed constitutes more than 5% of the equity interest of that entity at the date of the last audited accounts.

ASX Listing Rule 10.1 applies where the vendor or acquirer of the relevant assets is a related party or a substantial holder of the listed entity. H&H is a substantial holder through its relevant interest of 17.24% in the issued share capital of VDM. Dr Dongyi Hua is also a director of VDM.

ASX Listing Rule 10.10.2 requires the Notice of Meeting for shareholders' approval to be accompanied by a report by an independent expert expressing their opinion as to whether the transaction is fair and reasonable to the shareholders whose votes are not to be disregarded in respect of the transaction (non-associated shareholders).

Accordingly, an independent experts' report is required for the Security Transaction. The report should provide an opinion by the expert stating whether or not the terms and conditions in relation thereto are fair and reasonable to non-associated shareholders of VDM.



3.2 Regulatory guidance

Neither the Listing Rules nor the Act defines the meaning of "fair and reasonable". In determining whether the Transactions are 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.

Conversion - A control transaction

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

Security Transaction - Related party transactions

RG 111 suggests that, where an expert assesses whether a related party transaction is 'fair and reasonable' for the purposes of ASX Listing Rule 10.1, this should not be applied as a composite test — that is, there should be a separate assessment of whether the transaction is 'fair' and 'reasonable', as in a control transaction. An expert should not assess whether the transaction is 'fair and reasonable' based simply on a consideration of the advantages and disadvantages of the proposal.

We do not consider the Security Transaction to be a control transaction.

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.

Conversion

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 Conversion on a control basis and the conversion price at 1.0 cent per share (fairness see Section 13 "Are the Transactions 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 14 "Are the Transactions Reasonable?").



Security Transaction

In the case of the Security Transaction, the provision of the Secured Assets to H&H to secure repayment of the Additional Loan Facility is the subject of the offer.

As stated in Section 3.2, we do not consider that the Security Transaction is a control transaction. As such, we have not included a premium for control when considering the value of the assets of VDM to be disposed.

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

- A comparison between the value of the assets being disposed and the value of the consideration (fairness see section 13 "Are the Transactions 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 14 "Are the Transactions Reasonable?").

Valuation assignment

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 Transactions

On 27 August 2013, VDM announced that the Company 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 of VDM.

As a result, the previous share subscription agreement with H&H in relation to the \$15 million placement was terminated. A new arrangement was entered into with H&H on 27 August 2013 to immediately provide approximately \$6.4 million in funding on the following terms:

- Placement of 140,080,961 shares to H&H at \$0.01 per share to raise \$1,400,809.61
- A convertible loan of \$5 million issued to H&H with a conversion price of \$0.01 per share, which will automatically convert into 500 million VDM shares upon obtaining shareholders' approval.

H&H has also agreed to provide VDM with an unsecured \$4 million additional loan facility which may, subject to the Conversion occurring and upon Shareholders approving resolutions 3, 4, 5 and 6 in the Notice of Meeting and Explanatory Memorandum, be secured by way of a general security deed from VDM to H&H.

In conjunction with the \$1.4 million placement to H&H, which completed on 28 August 2013, Dr Dongyi Hua and Mr Xiangyang Ru were appointed as directors of VDM, and Dr Dongyi Hua was appointed as VDM's Managing Director on 9 September 2013.

The Convertible Loan, which was drawn on 28 August 2013, together with the \$1.4 million placement, provided \$6.4 million to the Company on 28 August 2013.

Key terms of the Convertible Loan agreement entered into between VDM and H&H on 27 August 2013 ("Convertible Loan Agreement") are as follows:

- The purpose of the Convertible Loan is to be used for general working capital in the ordinary course of the Company's business
- Available commitment of \$5,000,000 convertible at \$0.01 per share resulting in the issue of 500,000,000 shares upon Conversion
- Interest rate to be charged at 10% per annum from the date of the Convertible Loan Agreement until and including the earlier of the end of the Shareholders' general meeting and 12 weeks after the date of the Convertible Loan Agreement; after which, interest to be charged at 15% per annum until the repayment of the Convertible Loan
- Term of the Convertible Loan is 6 months after the date of the Convertible Loan Agreement
- H&H has agreed to provide VDM with the Additional Loan Facility with the following terms:
 - o Interest payable quarterly in arrears at a rate of 8% per annum, calculated daily
 - Repayment on the date 6 months after the date of the initial draw down, unless set off pursuant to the set off arrangements agreed to between H&H and VDM (details of which can be found in the Notice of Meeting and Explanatory Memorandum)
 - Subject to the necessary approvals being obtained, to be secured by a general security deed to be granted by VDM in favour of H&H, to be at least second ranking unless otherwise agreed by H&H



- o All other terms and conditions customary for a loan and security of this nature
- VDM must use all reasonable endeavours to ensure that all approvals are obtained, being all
 resolutions necessary to approve and give effect to the issue of new VDM shares upon Conversion,
 the entry into the Additional Loan Facility and ratifying the issue of all equity securities issued by
 VDM in the 12 months prior to the date of the Shareholders' meeting
- Should these approvals not be obtained, Dr Dongyi Hua will be entitled to resign as Managing Director of VDM immediately, the terms of the Convertible Loan will become more onerous for the Company, and VDM must pay H&H a fee of \$500,000 on repayment date of the Convertible Loan
- Amongst other standard undertakings, the Convertible Loan also contains undertakings in relation to the conduct of VDM's business customary of facilities of this nature.

Following the Conversion, H&H and is associated entities will hold approximately 43.53% of the issued share capital of VDM.

	Number of	Percentage of	Conversion	Number of	Percentage of
Name	Ordinary Shares	Issued Shares	Shares	Ordinary Shares	Issued Shares
	Held	(%)		post Conversion	(%)
Non-associated shareholders	888,843,067	82.76%	-	888,843,067	56.47%
H&H and its associates		17.24%		685,110,976	43.53%
 Existing shares 	45,030,015				
- Placement to raise \$1.4m	140,080,961				
- Convertible Loan of \$5m	-		500,000,000		
Total ordinary shares	1,073,954,043	100.00%		1,573,954,043	100.00%

Source: Transaction agreements, VDM's share register and BDO analysis

Given that resolution 6 of the Notice of Meeting and Explanatory Memorandum is conditional upon resolutions 3, 4 and 5 being approved, the shareholding interest and voting power of H&H and its associates will reduce, upon shares being issued to the creditors of VDM who have entered into binding agreements or arrangements with VDM in relation to the Jimblebar project.

However, for the reasons set out in section 2.1, we have not considered this resolution for the purpose of our Report.



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 ASX in 2006.

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

Year	Events
Teal	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.



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.
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.



Year Events

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. The consideration offered for this transaction was \$5.45 million.

VDM announced on 15 May 2013 the resignation of David Coyne as Chief Financial Officer.

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.

On 9 August 2013, VDM completed the sale of its shares in Quartz South Hedland Pty Ltd for \$1.35 million.

A shareholders' meeting of VDM was held on 16 August 2013 approving the aforementioned binding share subscription agreement with H&H.

On 23 August 2013, VDM announced the termination of Andrew Broad as Managing Director and Chief Executive officer, and Michael Perrott AM remained as Acting Chief Executive Officer until Dr Hua Dongyi commenced his appointment on 9 September 2013.

On 27 August 2013, VDM announced that it was involved in a dispute with a major customer with respect to a material contract regarding the status of the contract. The Dispute resulted in VDM being removed from the site. As a consequence, the binding share subscription agreement, announced on 29 May 2013 and approved by shareholders on 16 August 2013, was terminated.

On 28 August 2013, VDM entered into a new funding arrangement with H&H to immediately provide approximately \$6.4 million in funding through (i) a placement of 140,080,961 shares at 1.0 cent per share to raise \$1,400,809.61; and (ii) a convertible loan of \$5 million with a conversion price of 1.0 cent per share, the conversion of which is subject to shareholders' approval.

On 11 September 2013, VDM announced that 40 redundancies have been made to date and further redundancies are expected. The restructured VDM will specialise in Engineering, Procurement, Construction (EPC) and Mining.

On 20 September 2013, VDM announced its intention to divest its VDM Construction (Eastern Operations) business for a cash consideration of \$2.75 million.

VDM's shares were placed on trading halt on 26 September 2013 and suspended from official quotation from 1 October 2013. The Company's shares have not re-commenced trading since.



5.2 Historical Balance Sheet

Statement of Financial Position	Preliminary Final as at 30-Jun-13	Audited as at 30-Jun-12	Audited as at 30-Jun-11
Statement of Financial Position	\$'000	\$'000	\$'000
CURRENT ASSETS	7000	2000	\$ 000
Cash and cash equivalents	11,857	10,029	-
Term deposits	5,238	13,568	-
Trade and other receivables	12,507	48,736	46,852
Contracts in progress	7,848	19,656	25,822
Inventory	308	952	4,851
Income tax receivable	-	-	4,825
Development properties	5,411	5,529	6,517
Non-current assets classified as held for sale	900	1,295	13,011
Other assets	728	2,342	2,697
TOTAL CURRENT ASSETS	44,797	102,107	104,575
NON-CURRENT ASSETS			
Trade and other receivables	258	-	-
Property, plant and equipment	6,359	12,847	62,918
Deferred tax assets	-	16,156	7,804
Intangible assets and goodwill	307	23,154	45,917
TOTAL NON-CURRENT ASSETS	6,924	52,157	116,639
TOTAL ASSETS	51,721	154,264	221,214
CURRENT LIABILITIES			
Trade and other payables	39,588	54,460	63,366
Current tax liabilities	3,152	3,145	-
Deferred tax liability	-	918	-
Interest bearing loans and borrowings	1,782	2,468	25,590
Provisions	4,324	5,501	7,075
TOTAL CURRENT LIABILITIES	48,846	66,492	96,031
NON-CURRENT LIABILITIES			
Interest bearing loans and other borrowings	299	128	16,883
Provisions	244	495	540
TOTAL NON-CURRENT LIABILITIES	543	623	17,423
TOTAL LIABILITIES	49,389	67,115	113,454
NET ASSETS	2,332	87,149	107,760
EQUITY			
Contributed equity	248,286	248,612	214,112
Reserves	884	967	1,266
Accumulated losses	(246,838)	(162,430)	(107,618)
TOTAL EQUITY	2,332	87,149	107,760
TOTAL EQUIT		07,147	107,700

Source: Annual report for the financial years ended 30 June 2011 and 30 June 2012 and Appendix 4E Preliminary Final Report for the year ended 30 June 2013

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



the expected forecast cash flow from existing projects and anticipated new contract works.

Net assets decreased from \$107.76 million at 30 June 2011 to \$2.33 million at 30 June 2013. This was due to a \$169.49 million decrease in total assets against a lower decrease in total liabilities of \$64.07 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.

Intangible assets and goodwill balance reduced from \$23.15 million at 30 June 2012 to \$0.307 million at 30 June 2013. The Company's Eastern and Western operations were impaired by \$18.51 million at 31 December 2012, on the basis that increased volatility in the resources market which VDM predominantly operated caused clients to defer, cancel or reduce their capital expenditure budgets.

Accounts receivable and contracts in progress have more than halved from \$48.74 million as at 30 June 2012 to \$12.51 million as at 30 June 2013, and from \$19.66 million as at 30 June 2012 to \$7.85 million as at 30 June 2013 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"). In addition, VDM's dispute with a major customer on a material contract has resulted in a low probability of recovery of claims to be made by VDM for work done under the contract.

Accounts receivables are generally on 30-60 day terms. An allowance for impairment loss was recognised when there is objective evidence that an individual trade receivable is impaired, an impairment loss of \$2.71 million was recognised for the year ended 30 June 2013, an increase from \$0.96 million in 2012.

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 \$5.24 million at 30 June 2013. As at 30 June 2011, VDM was funding its working capital primarily through debt and operating cash flows.

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 30 June 2013, VDM retired the majority of its debt, with interest bearing loans and borrowings decreasing from \$25.59 million as at 30 June 2011 to \$1.78 million as at 30 June 2013. 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 \$39.59 million as at 30 June 2013. This is in line with the decrease in operations which saw revenue fall over the same period.

The current provisions mainly comprise employee entitlements, which decreased from \$5.50 million at 30 June 2012 to \$4.32 million at 30 June 2013. The current portion of provisions as at 30 June 2012 includes a provision for a loss on the sale of its Cape Crushing subsidiary. The final consideration for the sale of shares was subject to change pending a review of the completion accounts. The Company provided for an adjustment payment of \$0.60 million, with the actual adjustment of \$0.71 million paid to CFC Group Limited in the year ended 30 June 2013.

Contributed equity increased \$34.50 million following the issue of shares in the financial year ended 30 June 2012 which raised \$33.73 million (after transaction costs). These funds were used to continue funding operations and to repay loans.



5.3 Historical Statement of Comprehensive Income

	Preliminary for the	Audited for the	Audited for the
Statement of Comprehensive Income	year ended 30-Jun-13	year ended 30-Jun-12*	year ended 30-Jun-11
	\$'000	\$'000	\$'000
Revenue			
Rendering of services	204,563	229,713	264,987
Other revenue	643	1,022	1,768
Total revenue	205,206	230,735	266,755
Cost of services	(239,457)	(241,430)	(288, 385)
Gross profit (loss)	(34,251)	(10,695)	(21,630)
Operating expenses			
Administration expenses	(12,874)	(15,176)	(16,068)
Financing costs	(233)	(786)	(1,582)
Impairment charge	(19,486)	(3,161)	(24,825)
Equity based payments	90	(329)	27
Loss from continuing operations before			
income tax	(66,754)	(30,147)	(64,078)
Income tax benefit (expense)	(14,905)	3,127	19,176
Loss from continuing operations after			
income tax	(81,659)	(27,020)	(44,902)
(Loss)/profit from discontinued operations	(2,749)	(27,792)	9,378
Total comprehensive loss for the year	(84,408)	(54,812)	(35,524)

*Note that the 30 June 2012 financials were adjusted in VDM's Appendix 4E Preliminary Final Report for the reclassification of certain revenue and expense items but there was no change in the total comprehensive loss for the year.

Source: Annual report for the financial years ended 30 June 2011 and 30 June 2012 and Appendix 4E Preliminary Final Report for the year ended 30 June 2013

Revenue declined over the period from 30 June 2011 to 30 June 2013. The \$25.53 million decline in revenue for the year ended 30 June 2013 from the previous year was partly due to the loss in revenue 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 117% for the year ended 30 June 2013. Lower revenues and higher costs of service resulted in the gross profit for the year ended 30 June 2013 declining \$23.56 million compared to the year before.

Administration expenses for the year ended 30 June 2013 remained slightly lower than previous years, due to the scaling back of operations during the year. Financing costs declined from \$1.58 million in the financial year ended 30 June 2011 to \$0.23 million year ended 30 June 2013 in line with the significant reduction in loans and borrowings over the same period.

Impairment of \$19.49 million for the year ended 30 June 2013 related mainly to the impairment of goodwill on VDM's Eastern and Western operations as a result of the volatility in the resources market in which VDM predominantly operates. Impairment charges also include a \$0.40 million impairment of non-current assets held for sale which relate to property acquired on settlement of a legacy contract.

In 2012, VDM disposed of one of its wholly owned business units, Cape Crushing, for \$45.85 million. This resulted in the recognition of a \$27.80 million loss from discontinued operations at 30 June 2012. The loss from discontinued operations recognised for the period ended 30 June 2013 related to the sale of Como, which was completed on 10 April 2013 for a consideration of \$5.45 million.



5.4 Capital Structure

The share structure of VDM as at 16 October 2013 is outlined below:

	Number
Total ordinary shares on issue	1,073,954,043
Top 20 shareholders	528,614,484
Top 20 shareholders - % of shares on issue	49.22%

Source: VDM's share register

The range of shares held in VDM as at 30 September 2013 is as follows:

Range of Shares Held	Number of Ordinary Shareholders	Number of Ordinary Shares	Percentage of Issued Shares (%)
1 - 1,000	633	245,491	0.02%
1,001 - 5,000	884	2,511,456	0.23%
5,001 - 10,000	488	3,829,602	0.36%
10,001 - 100,000	1,602	66,888,955	6.23%
100,001 - and over	954	1,000,478,539	93.16%
TOTAL	4,561	1,073,954,043	100.00%

Source: VDM's share register

The ordinary shares held by the most significant shareholders as at 16 October 2013 are detailed below:

Name	Number of Ordinary Shares Held	Percentage of Issued Shares (%)
H&H and its associates	185,110,976	17.24%
Hunter Hall Investment Management Ltd	127,665,260	11.89%
Subtotal	312,776,236	29.13%
Others	761,177,807	70.87%
Total ordinary shares on Issue	1,073,954,043	100.00%

Source: VDM's share register

The options on issue at 16 October 2013 are set out in the table below:

		Cash raised if
Current Options on Issue	Number	exercised (\$)
Options exercisable at \$0.05, expiring on 30 November 2013	464,992,675	23,249,634

Source: VDM's option register

As all the options are out-of-the-money, it is unlikely that this amount of cash will be raised.



6. Profile of H&H

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.

7. Economic analysis

Recent information 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 generally remain at high levels by historical standards. Inflation in most countries remains well contained.

Overall, global financial conditions remain very accommodative. Changes in the outlook for US monetary policy have increased volatility in financial markets, but long-term interest rates remain very low and there is ample funding available for creditworthy borrowers.

In Australia, the economy has been growing a bit below trend over the past year. This is expected to continue in the near term as the economy adjusts to lower levels of mining investment. The unemployment rate has edged higher. There has been an improvement in indicators of household and business sentiment recently, though it is too soon to judge how persistent this will be. Inflation has been consistent with the medium-term target. With growth in labour costs moderating, this is expected to remain the case over the next one to two years, even with the effects of the lower exchange rate.

The easing in monetary policy since late 2011 has supported interest-sensitive spending and asset values. The full effects of these decisions are still coming through, and will be for a while yet. The pace of borrowing has remained relatively subdued to date, though recently there have been signs of increased demand for finance by households. There is also continuing evidence of a shift in savers' behaviour in response to declining returns on low-risk assets.

The Australian dollar rose recently, but is still about 10 per cent below its level in April. A lower level of the currency than seen at present would assist in rebalancing growth in the economy.

Source: www.rba.gov.au Statement by Glenn Stevens, Governor: Monetary Policy Decision 1 October 2013



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



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 last three
 financial years, meaning that we do not have reasonable grounds on which to base a 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
 - the expected forecast cash flow from existing projects and anticipated new contract works.
- As a result of a material adverse event, which VDM announced on 27 August 2013 in relation to the
 Company being in dispute with a major customer, VDM has been placed in a more vulnerable position
 since 31 December 2012. This is also exacerbated by the change in funding support previously
 committed to by H&H, reducing the cash injection from \$15 million to a commitment of \$10.4 million
 (including the Additional Loan Facility but excluding the underwriting of VDM's proposed rights issue)
- On this basis, we consider the NAV methodology to be an appropriate valuation approach to undertake
- 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 10.3 of our Report.



10. Valuation of VDM

10.1 Net Asset Valuation of VDM

In arriving at our net asset values, we made the following adjustments to VDM's balance sheet as at 30 June 2013.

Statement of Financial Position	Note	Preliminary Final as at 30-Jun-13 \$'000	Adjustments \$'000	Net Asset Value \$'000
CURRENT ASSETS				
Cash and cash equivalents	a	11,857	(1,926)	9,931
Term deposits	b	5,238	-	5,238
Trade and other receivables	С	12,507	(3,242)	9,265
Contracts in progress	d	7,848	1,864	9,712
Inventory	е	308	-	308
Development properties	f	5,411	(1,350)	4,061
Non-current assets classified as held for sale	g	900	-	900
Other assets	h _	728	1,652	2,380
TOTAL CURRENT ASSETS		44,797	(3,002)	41,795
NON-CURRENT ASSETS				
Trade and other receivables	С	258	(258)	-
Property, plant and equipment	i	6,359	(576)	5,783
Intangible assets and goodwill		307	-	307
TOTAL NON-CURRENT ASSETS	-	6,924	(834)	6,090
TOTAL ASSETS	-	51,721	(3,836)	47,885
CURRENT LIABILITIES				
Trade and other payables	j	39,588	(8,506)	31,082
Current tax liabilities	k	3,152	(0,000)	3,152
Interest bearing loans and borrowings	l	1,782	4,782	6,564
Provisions		4,324	-	4,324
TOTAL CURRENT LIABILITIES	-	48,846	(3,724)	45,122
NON-CURRENT LIABILITIES				
Interest bearing loans and other borrowings		299	-	299
Provisions		244	-	244
TOTAL NON-CURRENT LIABILITIES	-	543	-	543
TOTAL LIABILITIES	-	49,389	(3,724)	45,665
	-	.,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	(-, -,	-,
NET ASSETS		2,332	(112)	2,220
Number of shares on issue (pre transaction)		1,073,954		1,073,954
Net asset value per share				\$0.0021

Source: VDM's management, VDM's Appendix 4E Preliminary Final Report and BDO analysis



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

Statement of Financial Position Low \$000 Mid \$000 High \$000 CURRENT ASSETS Cash and cash equivalents 9,931 9,931 9,931 Term deposits 5,238 5,238 5,238 5,238 5,238 Trade and other receivables 9,265 19,265 19,231 10 1,279 1,279 1,273 1,273 1,273 1,273 1,273 1,273 1,273 1,273 1,273 1,273<				
CURRENT ASSETS Q931 9,931 9,931 9,931 Term deposits 5,238 5,238 5,238 5,238 5,238 5,238 5,238 5,238 5,238 5,238 5,238 5,238 5,238 5,238 7,265 9,205 3,12 3,106 2,380 2,380 2,380 2,380 2,380 2,380 2,380 2,380 2,380 2,380 2,380	Statement of Financial Position	Low	Mid	High
Cash and cash equivalents 9,931 9,931 9,931 Term deposits 5,238 5,238 5,238 5,238 Trade and other receivables 9,265 9,262 308 308 308 308 308 308 308 308 308 308 308 308 308 308 308 308 308 208 2,380 7,380		\$'000	\$'000	\$'000
Term deposits 5,238 5,238 5,238 Trade and other receivables 9,265 9,265 9,265 Contracts in progress 9,712 9,712 9,712 Inventory 308 308 308 Development properties 4,061 4,061 4,061 Non-current assets classified as held for sale 900 900 900 Other assets 2,380 2,380 2,380 2,380 TOTAL CURRENT ASSETS 41,795 41,795 41,795 NON-CURRENT ASSETS - - - Trade and other receivables - - - Property, plant and equipment i 4,778 5,783 6,788 Intagible assets and goodwill 307 307 307 TOTAL NON-CURRENT ASSETS 5,085 6,090 7,095 TOTAL ASSETS 46,880 47,885 48,890 CURRENT LIABILITIES 3,152 3,152 3,152 Interest bearing loans and borrowings 6,564 6,564 <t< td=""><td>CURRENT ASSETS</td><td></td><td></td><td></td></t<>	CURRENT ASSETS			
Trade and other receivables 9,265 9,265 9,265 Contracts in progress 9,712 9,712 9,712 Inventory 308 308 308 Development properties 4,061 4,061 4,061 Non-current assets classified as held for sale 900 900 900 Other assets 2,380 2,380 2,380 TOTAL CURRENT ASSETS 41,795 41,795 41,795 NON-CURRENT ASSETS - - - - Trade and other receivables - - - - Property, plant and equipment i 4,778 5,783 6,788 Intagible assets and goodwill 307 307 307 TOTAL NON-CURRENT ASSETS 5,085 6,090 7,095 TOTAL ASSETS 31,082 31,082 31,082 CURRENT LIABILITIES 31,152 3,152 3,152 Interest bearing loans and borrowings 6,564 6,564 6,564 Provisions 4,324 4,324 <td>Cash and cash equivalents</td> <td>9,931</td> <td>9,931</td> <td>9,931</td>	Cash and cash equivalents	9,931	9,931	9,931
Contracts in progress Inventory 9,712 9,712 9,712 Inventory 308 308 308 Development properties 4,061 4,061 4,061 Non-current assets classified as held for sale 900 900 900 Other assets 2,380 2,380 2,380 TOTAL CURRENT ASSETS 41,795 41,795 41,795 NON-CURRENT ASSETS - - - - Property, plant and equipment i 4,778 5,783 6,788 Intangible assets and goodwill 307 307 307 TOTAL NON-CURRENT ASSETS 5,085 6,990 7,095 TOTAL ASSETS 46,880 47,885 48,890 CURRENT LIABILITIES 31,082 31,082 31,082 Current tax liabilities 3,152 3,152 3,152 Interest bearing loans and borrowings 6,564 6,564 6,564 Provisions 4,324 4,324 4,324 TOTAL CURRENT LIABILITIES 45,122 45,122<	·	5,238	5,238	5,238
Inventory 308 308 308 308 208 208 2090 2	Trade and other receivables	9,265	9,265	9,265
Development properties 4,061 4,061 4,061 Non-current assets classified as held for sale 900 900 900 Other assets 2,380 2,380 2,380 TOTAL CURRENT ASSETS 41,795 41,795 41,795 NON-CURRENT ASSETS 31,778 5,783 6,788 Property, plant and equipment i 4,778 5,783 6,788 Intangible assets and goodwill 307 307 307 TOTAL NON-CURRENT ASSETS 5,085 6,090 7,095 TOTAL ASSETS 46,880 47,885 48,890 CURRENT LIABILITIES 31,082 31,082 31,082 Trade and other payables 3,152 3,152 3,152 Interest bearing loans and borrowings 6,564 6,564 6,564 Provisions 4,324 4,324 4,324 TOTAL CURRENT LIABILITIES 45,122 45,122 45,122 NON-CURRENT LIABILITIES 299 299 299 Provisions 244 244 <t< td=""><td>Contracts in progress</td><td>9,712</td><td>9,712</td><td></td></t<>	Contracts in progress	9,712	9,712	
Non-current assets classified as held for sale Other assets 900 900 900 Other assets 2,380 2,380 2,380 TOTAL CURRENT ASSETS 41,795 41,795 41,795 NON-CURRENT ASSETS Trade and other receivables - - - Property, plant and equipment i 4,778 5,783 6,788 Intangible assets and goodwill 307 307 307 TOTAL NON-CURRENT ASSETS 5,085 6,090 7,095 TOTAL ASSETS 46,880 47,885 48,890 CURRENT LIABILITIES 31,082 31,082 31,082 Current tax liabilities 3,152 3,152 3,152 Interest bearing loans and borrowings 6,564 6,564 6,564 Provisions 43,224 4,324 4,324 TOTAL CURRENT LIABILITIES 299 299 299 Provisions 244 244 244 TOTAL NON-CURRENT LIABILITIES 543 543 543 Interest bearing loans and other	Inventory	308	308	308
Other assets 2,380 2,380 2,380 TOTAL CURRENT ASSETS 41,795 41,795 41,795 NON-CURRENT ASSETS Trade and other receivables	Development properties	4,061	4,061	4,061
TOTAL CURRENT ASSETS 41,795 41,795 41,795 NON-CURRENT ASSETS Trade and other receivables - - - - Property, plant and equipment i 4,778 5,783 6,788 Intangible assets and goodwill 307 307 307 TOTAL NON-CURRENT ASSETS 5,085 6,090 7,095 TOTAL ASSETS 46,880 47,885 48,890 CURRENT LIABILITIES 31,082 31,082 31,082 Current tax liabilities 3,152 3,152 3,152 Interest bearing loans and borrowings 6,564 6,564 6,564 Provisions 4,324 4,324 4,324 TOTAL CURRENT LIABILITIES 45,122 45,122 45,122 NON-CURRENT LIABILITIES 299 299 299 Provisions 244 244 244 TOTAL NON-CURRENT LIABILITIES 543 543 543 TOTAL LIABILITIES 45,665 45,665 45,665 NET ASSETS 1,073,954	Non-current assets classified as held for sale		900	900
NON-CURRENT ASSETS -	Other assets	2,380	2,380	2,380
Trade and other receivables - - - Property, plant and equipment i 4,778 5,783 6,788 Intangible assets and goodwill 307 307 307 TOTAL NON-CURRENT ASSETS 5,085 6,090 7,095 TOTAL ASSETS 46,880 47,885 48,890 CURRENT LIABILITIES 31,082 31,082 31,082 31,082 Current tax liabilities 3,152 3,152 3,152 Interest bearing loans and borrowings 6,564 6,564 6,564 Provisions 4,324 4,324 4,324 TOTAL CURRENT LIABILITIES 45,122 45,122 45,122 NON-CURRENT LIABILITIES 299 299 299 Provisions 244 244 244 TOTAL NON-CURRENT LIABILITIES 543 543 543 TOTAL LIABILITIES 45,665 45,665 45,665 NET ASSETS 1,215 2,220 3,225 Number of shares on issue (pre transaction) 1,073,954 1	TOTAL CURRENT ASSETS	41,795	41,795	41,795
Property, plant and equipment i 4,778 5,783 6,788 Intangible assets and goodwill 307 307 307 TOTAL NON-CURRENT ASSETS 5,085 6,090 7,095 TOTAL ASSETS 46,880 47,885 48,890 CURRENT LIABILITIES Trade and other payables 31,082 31,082 31,082 Current tax liabilities 3,152 3,152 3,152 Interest bearing loans and borrowings 6,564 6,564 6,564 Provisions 4,324 4,324 4,324 TOTAL CURRENT LIABILITIES 45,122 45,122 45,122 NON-CURRENT LIABILITIES 299 299 299 Provisions 244 244 244 TOTAL NON-CURRENT LIABILITIES 543 543 543 TOTAL LIABILITIES 45,665 45,665 45,665 NET ASSETS 1,215 2,220 3,225 Number of shares on issue (pre transaction) 1,073,954 1,073,954 1,073,954	NON-CURRENT ASSETS			
Intangible assets and goodwill 307 307 307 TOTAL NON-CURRENT ASSETS 5,085 6,090 7,095 TOTAL ASSETS 46,880 47,885 48,890 CURRENT LIABILITIES 31,082 31,082 31,082 Current tax liabilities 3,152 3,152 3,152 Interest bearing loans and borrowings 6,564 6,564 6,564 Provisions 4,324 4,324 4,324 TOTAL CURRENT LIABILITIES 45,122 45,122 45,122 NON-CURRENT LIABILITIES 299 299 299 Provisions 244 244 244 TOTAL NON-CURRENT LIABILITIES 543 543 543 TOTAL LIABILITIES 543 543 543 TOTAL LIABILITIES 45,665 45,665 45,665 NET ASSETS 1,215 2,220 3,225 Number of shares on issue (pre transaction) 1,073,954 1,073,954 1,073,954	Trade and other receivables	-	-	-
TOTAL NON-CURRENT ASSETS 5,085 6,090 7,095 TOTAL ASSETS 46,880 47,885 48,890 CURRENT LIABILITIES 31,082 31,082 31,082 Current tax liabilities 3,152 3,152 3,152 Interest bearing loans and borrowings 6,564 6,564 6,564 Provisions 4,324 4,324 4,324 TOTAL CURRENT LIABILITIES 45,122 45,122 45,122 NON-CURRENT LIABILITIES 299 299 299 Provisions 244 244 244 TOTAL NON-CURRENT LIABILITIES 543 543 543 TOTAL LIABILITIES 45,665 45,665 45,665 NET ASSETS 1,215 2,220 3,225 Number of shares on issue (pre transaction) 1,073,954 1,073,954 1,073,954	Property, plant and equipment i	4,778	5,783	6,788
TOTAL ASSETS 46,880 47,885 48,890 CURRENT LIABILITIES 31,082 31,082 31,082 31,082 31,082 31,082 31,082 31,082 31,082 31,082 31,082 31,52 3,152	Intangible assets and goodwill	307	307	307
CURRENT LIABILITIES Trade and other payables 31,082 31,082 31,082 Current tax liabilities 3,152 3,152 3,152 Interest bearing loans and borrowings 6,564 6,564 6,564 Provisions 4,324 4,324 4,324 TOTAL CURRENT LIABILITIES 45,122 45,122 45,122 NON-CURRENT LIABILITIES 299 299 299 Provisions 244 244 244 TOTAL NON-CURRENT LIABILITIES 543 543 543 TOTAL LIABILITIES 45,665 45,665 45,665 NET ASSETS 1,215 2,220 3,225 Number of shares on issue (pre transaction) 1,073,954 1,073,954 1,073,954	TOTAL NON-CURRENT ASSETS	5,085	6,090	7,095
Trade and other payables 31,082 31,082 31,082 Current tax liabilities 3,152 3,152 3,152 Interest bearing loans and borrowings 6,564 6,564 6,564 Provisions 4,324 4,324 4,324 TOTAL CURRENT LIABILITIES 45,122 45,122 45,122 NON-CURRENT LIABILITIES 299 299 299 Provisions 244 244 244 TOTAL NON-CURRENT LIABILITIES 543 543 543 TOTAL LIABILITIES 45,665 45,665 45,665 NET ASSETS 1,215 2,220 3,225 Number of shares on issue (pre transaction) 1,073,954 1,073,954 1,073,954	TOTAL ASSETS	46,880	47,885	48,890
Current tax liabilities 3,152 3,152 3,152 Interest bearing loans and borrowings 6,564 6,564 6,564 Provisions 4,324 4,324 4,324 TOTAL CURRENT LIABILITIES 45,122 45,122 45,122 NON-CURRENT LIABILITIES 299 299 299 Provisions 244 244 244 TOTAL NON-CURRENT LIABILITIES 543 543 543 TOTAL LIABILITIES 45,665 45,665 45,665 NET ASSETS 1,215 2,220 3,225 Number of shares on issue (pre transaction) 1,073,954 1,073,954 1,073,954	CURRENT LIABILITIES			
Interest bearing loans and borrowings 6,564 6,564 6,564 Provisions 4,324 4,324 4,324 TOTAL CURRENT LIABILITIES 45,122 45,122 45,122 NON-CURRENT LIABILITIES 299 299 299 Provisions 244 244 244 TOTAL NON-CURRENT LIABILITIES 543 543 543 TOTAL LIABILITIES 45,665 45,665 45,665 NET ASSETS 1,215 2,220 3,225 Number of shares on issue (pre transaction) 1,073,954 1,073,954 1,073,954	Trade and other payables	31,082	31,082	31,082
Provisions 4,324 4,324 4,324 TOTAL CURRENT LIABILITIES 45,122 45,122 45,122 NON-CURRENT LIABILITIES 299 299 299 Provisions 244 244 244 TOTAL NON-CURRENT LIABILITIES 543 543 543 TOTAL LIABILITIES 45,665 45,665 45,665 NET ASSETS 1,215 2,220 3,225 Number of shares on issue (pre transaction) 1,073,954 1,073,954 1,073,954	Current tax liabilities	3,152	3,152	3,152
TOTAL CURRENT LIABILITIES 45,122 45,122 45,122 NON-CURRENT LIABILITIES 299 299 299 Provisions 244 244 244 TOTAL NON-CURRENT LIABILITIES 543 543 543 TOTAL LIABILITIES 45,665 45,665 45,665 NET ASSETS 1,215 2,220 3,225 Number of shares on issue (pre transaction) 1,073,954 1,073,954 1,073,954	Interest bearing loans and borrowings	6,564	6,564	6,564
NON-CURRENT LIABILITIES Interest bearing loans and other borrowings 299 299 299 Provisions 244 244 244 TOTAL NON-CURRENT LIABILITIES 543 543 543 TOTAL LIABILITIES 45,665 45,665 45,665 NET ASSETS 1,215 2,220 3,225 Number of shares on issue (pre transaction) 1,073,954 1,073,954 1,073,954	Provisions	4,324	4,324	4,324
Interest bearing loans and other borrowings 299 299 299 Provisions 244 244 244 TOTAL NON-CURRENT LIABILITIES 543 543 543 TOTAL LIABILITIES 45,665 45,665 45,665 NET ASSETS 1,215 2,220 3,225 Number of shares on issue (pre transaction) 1,073,954 1,073,954 1,073,954	TOTAL CURRENT LIABILITIES	45,122	45,122	45,122
Provisions 244 244 244 TOTAL NON-CURRENT LIABILITIES 543 543 543 TOTAL LIABILITIES 45,665 45,665 45,665 NET ASSETS 1,215 2,220 3,225 Number of shares on issue (pre transaction) 1,073,954 1,073,954 1,073,954	NON-CURRENT LIABILITIES			
Provisions 244 244 244 TOTAL NON-CURRENT LIABILITIES 543 543 543 TOTAL LIABILITIES 45,665 45,665 45,665 NET ASSETS 1,215 2,220 3,225 Number of shares on issue (pre transaction) 1,073,954 1,073,954 1,073,954	Interest bearing loans and other borrowings	299	299	299
TOTAL LIABILITIES 45,665 45,665 45,665 NET ASSETS 1,215 2,220 3,225 Number of shares on issue (pre transaction) 1,073,954 1,073,954 1,073,954		244	244	244
NET ASSETS 1,215 2,220 3,225 Number of shares on issue (pre transaction) 1,073,954 1,073,954 1,073,954	TOTAL NON-CURRENT LIABILITIES	543	543	543
Number of shares on issue (pre transaction) 1,073,954 1,073,954 1,073,954	TOTAL LIABILITIES	45,665	45,665	45,665
Number of shares on issue (pre transaction) 1,073,954 1,073,954 1,073,954	NET ASSETS	1,215	2,220	3,225
		· · · · · · · · · · · · · · · · · · ·	·	•

Source: VDM's management, VDM's Appendix 4E Preliminary Final Report and BDO analysis

The above figures have not been audited and reflect a position as at 31 August 2013 only to the extent of material adjustments made to the 30 June 2013 balances. Further high level adjustments were made for material activities or transactions since 31 August 2013. Major activities and transactions since 31 August 2013 were:

- redundancies announced by VDM on 11 September 2013;
- sale of VDM's Eastern construction operations announced on 20 September 2013; and
- sale of plant and equipment of approximately \$1.1 million.

We have been advised by the management of VDM that the impact of the sale of VDM's Eastern construction operations on the net assets of the Company is not material.



We have not undertaken a review of VDM's financial position as at 31 August 2013 in accordance with Australian Auditing and Assurance Standard 2405 "Review of Historical Financial Information" and do not express an opinion on this financial information. However nothing has come to our attention as a result of our procedures that would suggest that the financial information derived from the material adjustments made, has not been prepared on a reasonable basis.

The following adjustments were made to the net assets of VDM as at 30 June 2013 in arriving at our valuation. The table above indicates the net asset value of a VDM share is between \$0.0011 and \$0.0030 with a midpoint value of \$0.0021.

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 31 August 2013, which includes the funding of \$6.4 million provided by H&H on 27 August 2013. Cash balance declined to as low as \$5.2 million as at 26 August 2013.

This cash balance was further adjusted for approximately \$1.1 million of sales proceeds received by VDM from the Company's sale of plant and equipment, but offset by \$0.8 million in redundancy payments post 31 August 2013.

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. The term deposits are based on VDM's bank balance in its term deposit accounts as at 31 August 2013.

Note c: Trade and other receivables

The trade and other receivables balance of \$12.765 million at 30 June 2013 comprise:

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

External trade debtors account for \$9.777 million, net of provision for doubtful debts of \$2.907 million as at 30 June 2013. An impairment loss of \$2.714 million was recognised. Other debtors and retentions are not past due and are expected to be received when due.

Trade and other receivables balance as at 31 August 2013 stood at \$9.265 million, of which, external trade debtors accounted for \$7.713 million after taking into account provision for impairment loss of \$2.906 million. This represents a decrease of approximately \$3.5 million in trade and other receivables between 30 June 2013 and 31 August 2013. The majority of this reduction reflects the repayment of receivables in relation to vendor finance, from its sale of Cape Crushing & Earthmoving Contractors Pty Ltd, which VDM completed in April 2012. The reduction also reflects the recovery of \$0.258 million from an individual.

The basis for the provisioning of VDM's trade and other receivables has been reviewed by the Company's auditors, to the extent sufficient for the release of its preliminary report as at 30 June 2013. 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 30 June 2013, 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.

The Dispute has resulted in a lower probability of recovery of claims to be made by VDM for the work done under that contract. The management of VDM has confirmed that, as at the date of our Report, the possibility of claims being recoverable from the Disputing Party was low. This was assessed on the basis that negotiation attempts with the Disputing Party have not advanced positively since the Dispute.

Accordingly, VDM has adjusted contracts-in-progress, in agreement with its auditors, to reflect no claims being recoverable from the Disputing Party. This depicts the worst case scenario, which is reflected in the 30 June 2013 contracts-in-progress position.

VDM advised that \$1.864 million of construction work in progress from other major projects has been added since 30 June 2013 but no recoverable claims from the Disputing Party have been added.

However, if there is a possibility that some, if not all, of the claims may be recoverable, this would have a materially positive impact on the value of VDM's contracts-in-progress and the value of the Company as a whole.

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 30 June 2013. No independent valuation was carried out to revalue this inventory to indicate if its 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 \$5.411 million as at 30 June 2013 based on independent property valuations conducted. This balance reduced to \$4.061 million as at 31 August 2013, reflecting the sale of VDM's shares in Quartz South Hedland Pty Ltd for \$1.35 million, which it completed on 9 August 2013. The management of VDM has confirmed that there has been no other major movement in development properties since 30 June 2013.

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

Non-current assets held for sale as at 30 June 2013 related to an apartment in Mandurah ("Mandurah Apartment"). An external independent valuation was obtained by VDM for the Mandurah Apartment, which valued the property at \$0.9 million. This was \$0.395 million lower than the carrying value of \$1.295 million as at 31 December 2012. There are no indications that would cause us to believe that the value of the Mandurah Apartment has changed materially since 30 June 2013.



Note h: Other assets

Other assets comprise mostly prepayments. This balance increased \$1.652 million since 30 June 2013 as VDM made upfront insurance payments in July and August, instead of utilising the usual premium funding facility that allows the Company to pay its premiums progressively through the year.

Note i: Property, plant and equipment

Property, plant and equipment were carried at \$6.359 million as at 30 June 2013. This is a substantial decrease in carrying value since 31 December 2012 in view of a number of disposals over the six-month period. This included the disposal of its leasehold improvements of approximately \$2 million at 28 Troode Street when VDM moved out of the building at the end of May 2013. Property, plant and equipment reduced by \$0.481 million to approximately \$5.878 million as at 31 August 2013. A further sale of approximately \$1.1 million of plant and equipment was made since 31 August 2013.

VDM provided information on the history of plant and equipment disposals between July 2012 and August 2013 which totalled over 332 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 August 2013
- The average Disposal Multiple over 332 transactions was approximately 2.0 times
- The average Disposal Multiple for major categories of plant and equipment was 1.9 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 as follows:

Plant and Equipment	Low value	Preferred value	High value
	\$'000	\$'000	\$'000
Plant and Equipment	4,020	4,020	4,020
Disposal Multiple	1.00	1.25	1.50
Fair market value	4,020	5,025	6,030
Add: Leasehold improvements	758	758	758
Total Property, Plant & Equipment	4,778	5,783	6,788

Source: VDM's management and BDO analysis



Note j: 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 31 August 2013 stood at \$31.082 million. This represents a reduction of \$8.506 million in trade and other payables between 30 June 2013 and 31 August 2013. The majority of this reduction resulted from a reduction of \$4.751 million in provision for loss making contracts and a reduction of \$2.744 million in amounts due to customers for contract work.

Note k: Current tax liabilities

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. The net current tax liabilities was \$3.152 million as at 30 June 2013 and management has confirmed that there has been no material change since then.

Note I: Interest bearing loans and borrowings

Interest bearing loans and borrowings, which comprised a fixed rate secured loan of \$1 million, insurance premium funding and hire purchase liabilities, totalled about \$2 million as at 30 June 2013. This balance was adjusted to include the \$5 million Convertible Loan extended by H&H under the Convertible Loan Agreement entered into on 27 August 2013 and a part repayment of \$0.218 million on a loan for the Mandurah Apartment. Management confirmed that there were no other material changes in interest bearing loans and borrowings since 30 June 2013.

10.2 Pre and post Transaction Analysis

The net asset value per share obtained in section 10.1 above reflects the pre-transaction value using the NAV approach. The post-transaction scenario involves the conversion of the \$5 million Convertible Loan into 500 million shares at \$0.01 each. The effect of the Conversion is the reduction of \$5 million in interest bearing liabilities (as the Conversion extinguishes the Convertible Loan liability) and an increase in the number of VDM shares by 500 million.

The post-transaction value, assuming no change in all other balance sheet items, is expected to be:

	Pre-Transaction				Post-Transaction		
				Adjust-			
	Low	Mid	High	ments	Low	Mid	High
Statement of Financial Position	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
CURRENT ASSETS							
Cash and cash equivalents	9,931	9,931	9,931	-	9,931	9,931	9,931
Term deposits	5,238	5,238	5,238	-	5,238	5,238	5,238
Trade and other receivables	9,265	9,265	9,265	-	9,265	9,265	9,265
Contracts in progress	9,712	9,712	9,712	-	9,712	9,712	9,712
Inventory	308	308	308	-	308	308	308
Development properties	4,061	4,061	4,061	-	4,061	4,061	4,061
Non-current assets held for sale	900	900	900	-	900	900	900
Other assets	2,380	2,380	2,380	-	2,380	2,380	2, 380
TOTAL CURRENT ASSETS	41,795	41,795	41,795	-	41,795	41,795	41,795



	Pre-Transaction				Po	st-Transactio	on
				Adjust-			
	Low	Mid	High	ments	Low	Mid	High
Statement of Financial Position	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
NON-CURRENT ASSETS							
Trade and other receivables	_	_	_	_	_		_
Property, plant and equipment	4,778	5,783	6,788	_	4,778	5,783	6,788
Intangible assets and goodwill	307	307	307	_	307	3,703	307
TOTAL NON-CURRENT ASSETS	5,085	6,090	7,095		5,085	6,090	7,095
TOTAL ASSETS	46,880	47,885	48,890		46,880	47,885	48,890
TOTAL ASSETS	40,000	47,003	40,070		40,000	77,003	40,070
CURRENT LIABILITIES							
Trade and other payables	31,082	31,082	31,082	-	31,082	31,082	31,082
Current tax liabilities	3,152	3,152	3,152	-	3,152	3,152	3,152
Interest bearing loans/borrowings	6,564	6,564	6,564	(5,000)	1,564	1,564	1,564
Provisions	4,324	4,324	4,324	-	4,324	4,324	4,324
TOTAL CURRENT LIABILITIES	45,122	45,122	45,122	(5,000)	40,122	40,122	40,122
NON-CURRENT LIABILITIES							
	299	299	299		299	299	299
Interest bearing loans/borrowings Provisions	299 244	244	299 244	-	299	299	
							244
TOTAL NON-CURRENT LIABILITIES	543	543	543	-	543	543	543
TOTAL LIABILITIES	45,665	45,665	45,665	(5,000)	40,665	40,665	40,665
						- 25	
NET ASSETS	1,215	2,220	3,225	5,000	6,215	7,220	8,225
Number of shares on issue	1,073,954	1,073,954	1,073,954	500,000	1,573,954	1,573,954	1,573,954
Net asset value per share	\$0.0011	\$0.0021	\$0.0030	\$0.0100	\$0.0039	\$0.0046	\$0.0052

Source: BDO analysis

In carrying out our pre and post transaction analysis, we have considered how the value of a VDM share (under the NAV valuation approach) prior to the Transaction on a controlling basis compares to the value of a VDM share following the Transaction on a minority interest basis.

We have applied a minority discount of between 20% and 26%, being the inverse of a control premium of between 25% and 35% as analysed in the 'Control Premium' paragraph of section 10.3.

	Low	Midpoint	High
	\$	\$	\$
Post-transaction value (controlling interest)	0.0039	0.0046	0.0052
Minority discount	26.0%	23.0%	20.0%
Post-transaction value (including minority discount)	0.0029	0.0035	0.0042

Source: BDO analysis

10.3 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.

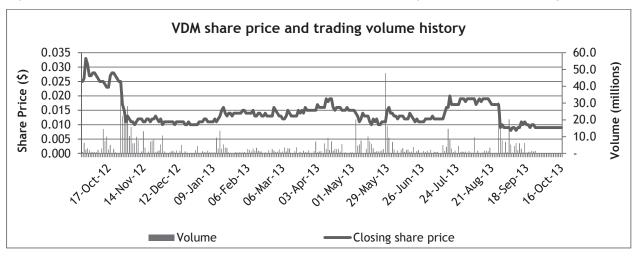
Whilst H&H will not be obtaining 100% of VDM, RG 111 states that the expert should calculate the value of a target's shares as if 100% control were being obtained. RG 111.13 states that the expert can then consider an acquirer's practical level of control when considering reasonableness. Reasonableness has been considered in Section 14.

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.

Minority interest value

On 27 August 2013, VDM released information to the market relating to the Dispute. Our analysis of the quoted market price of VDM securities considers the share price and trading history of the Company over the 12-month period to 26 September 2013, which was the last trading day before its shares were subject to the trading halt and subsequently suspended from official quotation.

The following chart summarises the share price and trading volume history for the 12-month period to 26 September 2013, and extended to 16 October 2013 to reflect the suspension of share trading.



Source: Bloomberg

The daily price of VDM shares from 27 September 2012 to 26 September 2013 has ranged from a low of \$0.007 on 28 August 2013 to a high of \$0.036 on 1 October 2012. The share price of VDM experienced a sharp decline following the announcement on 27 August 2013 and has not shown any signs of recovery over the subsequent trading days.



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

		Closing Share Price Following Announcement	Closing Share Price Three Days After Announcement
Date	Announcement	\$ (movement)	\$ (movement)
30/08/2013	Appendix 4E	0.009 (- 10%)	0.009 (-)
30/08/2013	VDM Company Update	0.009 (- 10%)	0.009 (-)
28/08/2013	Update on Contractual Matter and Revised Capital Raising	0.009 (- 47%)	0.009 (-)
26/08/2013	Suspension from Official Quotation	0.017 (-)	0.010 (🕶 41%)
22/08/2013	Trading Halt	0.017 (-)	0.017 (-)
29/05/2013	VDM Announces new Strategic Investor	0.015 (• 36%)	0.014 (🕶 7%)
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%)
26/10/2012	Trading Halt Request	0.025 (-)	0.017 (
26/10/2012	Trading Halt	0.025 (-)	0.017 (
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 27 August 2013 VDM released an announcement regarding the Dispute. The material nature of the Dispute caused the share price of the Company to plummet 47% on the day of the announcement.

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. VDM's share price increased 36% on the day of the announcement. This may reflect the positive sentiment of investors towards the Company increasing its financial capacity.

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%.

To provide further analysis of the market prices for a VDM share, we have also considered the volume weighted average market price ("VWAP") for 22, 30, 60 and 90 day periods to 26 September 2013. The 22-day VWAP captures the value of VDM securities post the announcement of the Dispute.

	26-Sep-13	22 Days	30 Days	60 Days	90 Days
Closing price	\$0.0090				
Volume weighted average price (VWAP)		\$0.0091	\$0.0096	\$0.0122	\$0.0131

Source: Bloomberg and BDO analysis

Analysis of the volume of trading in VDM shares for twelve months to 26 September 2013 is set out below:

	Share price	Share price	Cumulative volume	As a % of
	low	high	traded	Issued capital
1 Trading Day	\$0.009	\$0.010	1,450,416	0.14%
22 Trading Days	\$0.007	\$0.011	132,217,608	12.31%
30 Trading Days	\$0.007	\$0.020	140,209,722	13.06%
60 Trading Days	\$0.007	\$0.021	205,315,421	19.12%
90 Trading Days	\$0.007	\$0.021	323,630,097	30.13%
180 Trading Days	\$0.007	\$0.021	521,610,800	48.57%
1 Year	\$0.007	\$0.036	896,439,988	83.47%

Source: Bloomberg and BDO analysis

This table indicates that VDM's shares display a high level of liquidity, with 83.5% 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 a high percentage of the Company's issued capital being traded in the short time frame following the announcement of the Dispute as well as over the entire measurement period. This is also supported by our analysis of the market's reaction to VDM's announcements over the past twelve months.

The post-announcement share prices are the relevant prices to consider as they include the financial impact of the Dispute on VDM. Therefore the relevant VWAP would be the 22-day VWAP. VDM's shares also displayed a high level of liquidity during these 22 days, with 12.31% of the Company's current issued capital being traded over that period. On an annualised basis, this is approximately 141%.

Our assessment is that a range of values for VDM shares based on market pricing, after disregarding preannouncement pricing, is between \$0.0090 and \$0.0100, with a midpoint value of \$0.0095.

Control Premium

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

		Average Deal	Average Control
	Number of Control	Value	Premium
Year	Transactions	(AU\$m)	(%)
2013	10	60.46	24.70
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	34.60

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	0.0090	0.0095	0.0100
Control premium	25%	30%	35%
Quoted market price valuation including a premium for control	0.0113	0.0124	0.0135

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 \$0.0113 and \$0.0135, with a midpoint value of \$0.0124.

10.4 Assessment of VDM's Value

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

	Low	Midpoint	High
	\$	\$	\$
Net assets value (Section 10.1)	0.0011	0.0021	0.0030
ASX market prices (Section 10.3)	0.0113	0.0124	0.0135

Source: BDO analysis

We note that the values obtained from the NAV approach are lower 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 NAV valuation reflects no claims being recoverable from the Disputing Party which depicts the
 worst case scenario; if there is a possibility that some, if not all, of the claims may be recoverable,
 the NAV valuation will increase
- The QMP value reflects investors' perception of the future prospects of VDM and may have taken into account the support that H&H as a major shareholder may provide to the Company, despite the material impact on operating performance and short term cash flows arising from the Dispute
- In accordance with RG111.69, we note that there is a deep and liquid market for the trading of VDM shares, including the 22 days following the announcement of the Dispute. 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 \$0.009 per share and \$0.010 per share for the last 22 days since the announcement of the Dispute was made.

As at the date of our Report, management of VDM has assessed that the possibility of claims being recoverable from the Disputing Party was low, since negotiation attempts with the Disputing Party have not advanced positively since the Dispute.



Therefore, we consider that the midpoint value obtained under the NAV approach would form the low end of our valuation range and the midpoint value of the QMP method would form the high end of our valuation range. Accordingly, the value of a VDM share is between \$0.0021 per share and \$0.0124 per share with a midpoint value of \$0.0072 per share.

11. Valuation of consideration

A Convertible Loan of \$5 million was issued to H&H with a conversion price of \$0.01 per share. Accordingly, the conversion consideration is \$0.01 per share.

12. Valuation of security provided and liabilities settled

12.1 Value of security provided as settlement in the event of a default

Subject to the necessary approvals being obtained, VDM will provide the Secured Assets to H&H under a general security deed to secure repayment of the Additional Loan Facility.

In the event of default, H&H would only be entitled to recover the principal and interest of the Additional Loan Facility and not all the proceeds from the sale of the Secured Assets in the event of default. Therefore, we do not need to consider the value of the Company or the Secured Assets for this purpose as H&H will not receive more than the value of the liability if the security is called.

We consider the value of security provided to be less than or equal to the value of the liabilities settled.

12.2 Value of liabilities settled by the provision of the security

H&H has agreed to provide the Additional Loan Facility to VDM, which may, subject to the necessary approvals being obtained, be secured by the Secured Assets.

Interest is calculated at a rate of 8% per annum until the repayment date, being 6 months from the date of the draw down of the Additional Loan Facility.

The nominal value of the total secured amounts (including amounts relating to the principal funds drawn down and interest) represents the valuation of liabilities settled by provision of security.

13. Are the Transactions fair?

13.1 Conversion

The value of the Conversion is compared below:

	Section	Low \$	Preferred \$	High \$
Value of a VDM share	10	0.0021	0.0072	0.0124
Conversion price	11	0.0100	0.0100	0.0100

Source: BDO analysis



The above pricing indicates that the Conversion price is within the range of values of a VDM share prior to the Conversion, and the conversion price is higher than the midpoint value of a VDM share prior to the Conversion. Therefore, we conclude that the Conversion is fair for Shareholders.

13.2 Security Transaction

As stated in section 12, the Security Transaction is fair if the value of the security provided is equal to or less than the value of the liabilities settled in the event of default under the Additional Loan Facility.

In the scenario that the value of the Secured Assets is greater than or equal to the amounts owed to H&H, and there is an event of default, then H&H would only be entitled to recover the principal and interest outstanding under the Convertible Loan.

In a scenario that the value of Secured Assets is less than the amounts owed to H&H, in an event of default, then the Secured Assets would be sold and the proceeds provided to H&H. This can be summarised as follows:

Scenario			Consequence			Fairness
Secured Assets	>	Liabilities to be settled	Security provided	=	Liabilities Settled	Fair
Secured Assets	=	Liabilities to be settled	Security provided	=	Liabilities Settled	Fair
Secured Assets	<	Liabilities to be settled	Security provided	<	Liabilities Settled	Fair

If there is an event of default, then H&H is only entitled to be repaid the principal and interest outstanding under the Additional Loan Facility, we consider that the Security Transaction is fair in all scenarios.

13.3 Pre and Post Transaction Analysis

In carrying out our pre and post transaction analysis, we considered how the value of a VDM share (under the NAV valuation approach) prior to the Transaction on a controlling basis compares to the value of a VDM share following the Transaction on a minority interest basis.

	Section	Low	Midpoint	High
		\$	\$	\$
Pre-transaction value (controlling interest)	10.1	0.0011	0.0021	0.0030
Post-transaction value (including minority discount)	10.2	0.0029	0.0035	0.0042

Source: BDO analysis

The above analysis shows that, under the NAV valuation approach, the post-transaction value of a VDM share, on a minority interest basis, is higher than the pre-transaction value of a VDM share, on a controlling basis. Therefore, we conclude that the Transaction is fair for Shareholders.



14. Are the Transactions reasonable?

14.1 Advantages of approving the Transactions

Conversion

14.1.1 The Conversion is fair

The Conversion is fair. RG111 states that an offer is reasonable if it is fair.

14.1.2 Convertible Loan was necessary as a quicker funding mechanism

The Convertible Loan provided VDM with an immediate cash injection which was critically needed for working capital purposes and to maintain the Company's ability to continue as a going concern. The Convertible Loan was necessary as a quicker mechanism to obtain much needed funding than if it had renegotiated an equivalent placement with H&H which would have required Shareholders' approval before funds can be received.

If the Conversion is not approved, VDM may have to re-negotiate or obtain alternative funding, as it will likely have to repay the Convertible Loan six months from the date of its issue.

14.1.3 Conversion will put the Company under less cash flow strain

The Conversion under the Convertible Loan is at \$0.01 per share. For a face value of \$5 million, the Conversion will result in the issue of an additional 500,000,000 shares. Upon the Conversion, the Convertible Loan will be deemed as having been repaid. Accordingly, the Company will not have to repay the Convertible Loan in cash, which puts the Company under less cash flow strain.

If the Conversion is not approved, VDM may have to re-negotiate or obtain alternative funding, as it will likely have to repay the Convertible Loan immediately.

14.1.4 Major shareholder support

As at the date of our Report, H&H and its associates hold 17.24% of the shares of VDM. The Conversion will result in H&H increasing its shareholding to 43.53%, which accordingly, is likely to increase its support of VDM in the future.

Additionally, Dr Dongyi Hua took on the role as Managing Director of VDM from 9 September 2013. Whilst this gives Dr Hua significant control over the Company, his vested interest in being a major shareholder will incentivise him to make decisions in the Company's interest, which will align with the interests of Shareholders.

This also reduces the agency problem that corporates commonly face, when management may act in its own self interest and not necessarily in the interest of its shareholders.

14.1.5 No alternative offer could have been obtained within such a short period of time

The Dispute has the potential to materially impact operating performance and short term cash flows of VDM. The Company's operating result for the second half of the financial year ended 30 June 2013 was adversely impacted by the non-recognition of revenue on the construction project relating to the Dispute.



The majority of the loss in the second half of the financial year ended 30 June 2013 of \$24.3 million related to the Dispute.

There were already going concern issues for VDM as stated in its half year report for the period to 31 December 2012. The impact of the Dispute has compounded the going concern issues. Therefore, the immediate cash injection was critically needed for working capital purposes and to maintain the Company's going concern.

Given the urgent need for funds, the new funding arrangement with H&H was entered into within six days of VDM receiving notice from the Disputing Party. It is unlikely that any alternative offer could possibly have been obtained within such a short period of time.

Security Transaction

14.1.6 The Security Transaction is fair

The Security Transaction is fair. RG 111 states that an offer is reasonable if it is fair.

14.1.7 Supports debt funding

The provision of security enables the Company to obtain the debt funding that it requires. If VDM seeks alternative funding through bank debt, it is most likely that there will be a requirement by bank lenders to request the provision of security to secure the bank debt it seeks. Therefore, the provision of security for debt funding purposes is not unusual.

14.2 Disadvantages of approving the Transactions

Conversion

14.2.1 Dilution of existing Shareholders' interest

If the Conversion is approved, Shareholders' interest will be diluted from approximately 82.76% of the issued capital of VDM to approximately 56.47%. This will dilute Shareholders' interests and their level of collective influence on the operations of the Company.

14.2.2 Decreases the likelihood of a takeover offer

If the Conversion is approved, H&H will hold approximately 43.53% 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.

14.2.3 Potential lower liquidity of shares

If the Conversion is approved then trading in VDM shares may be negatively affected by the presence of a major shareholder with a 43.53% ownership. The existing shares will therefore have a materially lower free float on a proportional basis which may reduce liquidity.



Security Transaction

14.2.4 Onerous restrictions on dealing with the Company's assets

The general security deed that VDM and H&H may potentially enter into, and common to most security deeds, place onerous restrictions on the Company's ability to deal with its assets.

14.3 Other considerations

14.3.1 Alternative Proposal

VDM has previously 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 the previous placement to H&H approved by Shareholders on 16 August 2013.

Given the urgent need for funds, the new funding arrangement with H&H was entered into within six days of VDM receiving notice from the Disputing Party. There was no alternative offer available to the Company at that time. Moreover, it is unlikely that any alternative offer could possibly have been obtained within such a short period of time.

14.3.2 Practical Level of Control

If the Conversion is approved then H&H will hold an interest of approximately 43.53% in VDM.

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 Conversion 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 6.5%, it will also be able to block and pass general resolutions.

VDM's Board currently comprises six directors. Following the \$1.4 million placement, Dr Dongyi Hua and Mr Xiangyang Ru joined the Board as directors. In time, VDM expects to retain only two of the current four independent non-executive directors and H&H will be entitled to nominate a further director. Accordingly, Dr Hua and Mr Ru, together with an additional director nominated by H&H will make up 60% of the Board. Dr Hua will eventually also take on the role as Executive Chairman while Mr Michael Perrott takes on the role as Deputy Non-Executive Chairman.

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 43.53% interest and will control 60% of the Board.

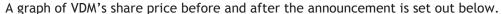
14.3.3 Consequences of not approving the Transactions

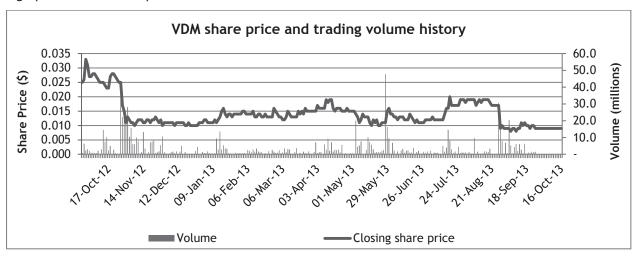
Potential decline in share price

VDM's share price fell 47% on the day that the Dispute and the new funding arrangement with H&H was announced and has remained stable at the level of \$0.009 and \$0.010 over the 22 days up to 26 September 2013, except in three trading days between 13 September 2013 and 17 September 2013 where the share price reached a high of \$0.011. Despite the material financial impact that the Dispute will have on the Company, this was counterbalanced by the financial support offered by H&H. Therefore, it is possible that



if the Transactions are not approved and this financial support is removed, then VDM's share price may decline.





Source: Bloomberg

14.3.4 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.

14.3.5 Recoverability of claims from Disputing Party

The financial position of VDM as at 30 June 2013 reflects no claims being recoverable from the Disputing Party. This will depict the worst case scenario, which is reflected in the 30 June 2013 contracts-in-progress position. This is based on the Company's assessment of the low probability of recovery of claims to be made by VDM for the work done under that contract, in view of negotiation attempts with the Disputing Party not having advanced positively since the Dispute.

However, if any of the claims are recovered, this would have a material positive impact on the value of VDM's contracts-in-progress and the value of the Company as a whole. As this is highly uncertain, there are no reasonable grounds to assume that they are recoverable.

14.3.6 Change in risk profile of the investment

If the Conversion is approved, H&H will have significant control over the Company. 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.

15. Conclusion

We have considered the terms of the Transactions as outlined in the body of our Report and have concluded that:

- In the absence of a superior offer, the Conversion is fair and reasonable to Shareholders
- In the absence of any other relevant information, the Security Transaction is fair and reasonable to Shareholders.

16. 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 27 August 2013;
- Audited financial statements of VDM for the years ended 30 June 2011and 30 June 2012;
- Preliminary final report of VDM for the year ended 30 June 2013;
- Material changes in balance sheet items between 30 June 2013 and 16 October 2013;
- Property asset valuations (the property value was not material therefore we have not included them as appendices to our Report);
- Share registry information;
- List of asset disposals from July 2012 to August 2013;
- Asset listings as at 31 August 2013;
- Information in the public domain;
- Discussion with advisers to VDM; and
- Discussions with Directors and Management of VDM.

17. Independence

BDO Corporate Finance (WA) Pty Ltd is entitled to receive a fee of \$25,000 (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.

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).

18. 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.



19. 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 the potential conversion of shares under the Convertible Loan of \$5 million issued to H&H with a conversion price of 1.0 cent per share and the grant of security on the Additional Loan Facility.

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 Transactions, 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.

Adam Myers

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

Director Director



Appendix 1 - Glossary of Terms

Reference	Definition
AASB 111	Australian Accounting Standards Board 111 'Construction Contracts
The Act	The Corporations Act 2001 (Cth)
Additional Loan Facility	An additional unsecured \$4 million loan facility provided by H&H to VDM, which may, subject to the Conversion occurring and upon Shareholders approving resolutions 3, 4, 5 and 6 of the Notice of Meeting and Explanatory Memorandum be secured by way of a general security deed from VDM to H&H.
APES 225	Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services'
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
ASX Listing Rule	A set of requirements that all listed corporations must continue to meet in order to be listed on the ASX
BDO	BDO Corporate Finance (WA) Pty Ltd
Como Engineers	Como Engineers Pty Limited
The Company	VDM Group Limited
Conversion	The potential conversion of the Convertible Loan at \$0.01 per share under a Convertible Loan and Facility Agreement dated 27 August 2013
Convertible Loan	A convertible loan of \$5 million issued to H&H with a conversion price of \$0.01 per share under a Convertible Loan and Facility Agreement dated 27 August 2013
Convertible Loan Agreement	Convertible Loan agreement entered into between VDM and H&H on 27 August 2013 for \$5 million convertible at a conversion price of \$0.01 per share
DCF	Discounted Future Cash Flows
Disposal Multiple	The multiple of proceeds received over the written down values of each property, plant and equipment sold
Dispute	The dispute with a major customer on a material contract regarding the status of the contract announced by VDM on 27 August 2013



Reference	Definition
Disputing Party	A major customer with whom VDM has had a dispute, on a material contract regarding the status of the contract, and in which VDM has been removed from the site.
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
FME	Future Maintainable Earnings
Н&Н	H&H Holdings Australia Pty Ltd
Mandurah Apartment	Apartment 20/15 The Palladio, Mandurah
NAV	Net Asset Value
Our Report	This independent expert's report prepared by BDO
RG 74	Acquisitions approved by members (December 2011)
RG 111	Content of expert reports (March 2011)
RG 112	Independence of experts (March 2011)
Secured Assets	The security granted by VDM to H&H under a general security deed to secure repayment of an additional \$4 million loan facility agreed to be provided to VDM by H&H
Security Transaction	The provision of security under a general security deed for an additional \$4 million loan facility agreed to be provided to VDM by H&H
Shareholders	Non-associated shareholders of VDM Group Limited
The Transactions	The Conversion and Security Transaction collectively
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.