



ASX ANNOUNCEMENT

VDM GROUP LTD COMPANY UPDATE

Perth, 24 December 2013: VDM Group Ltd (ASX: VMG; "VDM" or "the Company") wishes to advise that the Company continues to be in dispute with BHP, in relation to the termination of its Jimblebar Ammonium Nitrate Storage Facility Contract ("Jimblebar Contract").

Following several successful adjudication determinations, VDM had been awarded and received approximately \$4 million from BHP as previously announced.

VDM asserts that it is entitled to around \$10 million for variations, delay damages and other payments under the Jimblebar Contract. In addition, VDM claims that the Jimblebar Contract was repudiated by BHP when BHP took action to take out of VDM's hands all remaining work on 21 August 2013. As a result of VDM's view that the Jimblebar Contract had been repudiated, VDM elected to treat the Jimblebar Contract as at an end.

Since the termination of VDM's engagement under the Jimblebar Contract on 21 August 2013, VDM has received various claims from BHP for the costs of rectification of defective works, liquidated damages, costs to complete and monies otherwise due under the Jimblebar Contract. The total amount claimed is in the vicinity of \$9.27 million. All claims are disputed by VDM.

On 19 December 2013, without any notice (none being required under the Jimblebar Contract) and notwithstanding that the amounts claimed against VDM were disputed, VDM's bond provider, Asset Insure on behalf of Swiss Re ("Asset Insure") received a demand from, and paid, BHP \$2.42 million under two bond securities provided by VDM under the Jimblebar Contract.

As the sum of \$2.42 million is payable immediately, in order to assist the Company in managing its cashflow, Asset Insure has agreed that the amount will be repaid as follows:

- \$1.453 million now (such amount to be released from a segregated account that VDM already has in place in respect of the Asset Insure bond facility);
- \$20,000 payable immediately as an extension fee; and

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Mrs Samantha Drury
CHIEF FINANCIAL OFFICER
COMPANY SECRETARY

REGISTERED OFFICE

Level 1
Fortescue Centre
30 Terrace Road
East Perth, WA 6004

POSTAL ADDRESS

Locked Bag 8
East Perth, WA 6892

CONTACT DETAILS

Tel: (08) 9265 1100

WEBSITE

vdmgroup.com.au

SHARE REGISTRY

Computershare Investor
Services Pty Limited
GPO Box 2975
Melbourne, VIC 2975
Tel: 1300 850 505

ASX CODE

VMG

- \$969,435.70 (plus accrued interest) payable on completion of the rights issue.

VDM will be required to deposit \$2.5 million in the segregated account on completion of the rights issue, resulting in an overall impact of approximately \$3.49 million being utilised from the proceeds of the rights issue to settle the bond repayment and replenish the segregated account.

The Company continues to seek full resolution of all outstanding matters and will continue to pursue remaining unapproved claims and variations including the reimbursement of these bonds.

The above circumstances have potentially triggered termination events in the Underwriting Agreement and Convertible Loan, Debt Loan and Facility Agreement, both agreements between the Company and H&H. H&H is therefore potentially entitled to terminate one or both of those agreements, which would place the success of the Company's current rights issue at significant risk.

However, H&H continues to support the Company, its initiatives and the rights issue. The Company is pleased to announce that H&H has confirmed that it will not terminate either of the agreements as a result of the above events, or the payment arrangements agreed with Asset Insure.

The Company expects to lodge a Supplementary Prospectus with ASIC and ASX later today providing further detail on these matters in relation to the rights issue, following which it will be despatched to shareholders.

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