

**ORION MINERALS GROUP LIMITED**

**Notice of Special Meeting**

**To be held at The Sutherland Room, Quay West, 8 Albert Street, Auckland on  
17 July 2013, at 10.00 am**

## IMPORTANT INFORMATION

Notice is hereby given that a Special Meeting of the shareholders of Orion Minerals Group Limited (“the Company” and “OMG”) will be held at The Sutherland Room, Quay West, 8 Albert Street, Auckland on 17 July 2013, at 10.00 am.

The Board of the Company has called this Special Meeting to obtain shareholder approval for the implementation of a new commercial initiative which has been developed and is endorsed by the Board of the Company, subject to shareholder approval. In addition, a shareholder of the Company has also requisitioned the Company to table a number of additional resolutions to be considered at the Special Meeting. The detail of those requisitioned resolutions are provided below.

### **Approval of the implementation of a scrap metal operation by the Company**

The Company is currently an investment company whose principal asset is approximately USD\$8.1 million of cash reserves.

The Company has been investigating a number of potential business acquisition opportunities to invest in.

The Board of Directors of the Company has undertaken due diligence investigations in respect of the prospective development of a scrap metal operation in Geelong, Australia. Subject to the approval by shareholders of resolution 1, the Company proposes to commence the operation of a scrap metal business in the immediate future (“Proposed Initiative”). The initial costs of the Proposed Initiative to OMG are anticipated to be approximately USD\$3.5 million. However, the actual costs of the Proposed Initiative could be higher or lower than USD\$3.5 million. The Board will not be required to obtain further approval of the shareholders for the Proposed Initiative unless shareholder approval is required in accordance with section 129 of the Companies Act 1993.

### **Resolutions put by APZ Limited**

APZ Limited (**APZ**), which holds approximately 5.42% of the shares in OMG, has requested that the following resolutions be tabled at the Special Meeting for consideration by the OMG shareholders:

- The removal of three of OMG’s directors, Mr Roger Gower, Ms Ping Li and Ms Yanyi Shi;
- The appointment of two new directors, Mr John Sheffield and Mr Stuart Macintosh;
- That the Company undertake a pro rata buyback of up to 90% of the ordinary shares on issue at a price equal to the net asset backing per share; and
- That OMG be placed into liquidation and the net proceeds of liquidation be distributed to shareholders.

APZ is entitled under the Companies Act to requisition a meeting and request that Resolutions 2-8 (inclusive) be considered by the shareholders of OMG. The Board requests that OMG shareholders carefully consider all the information that is available that relates to the Resolutions in question before resolving how to vote on those Resolutions.

### **Board’s perspective on resolutions put by APZ**

APZ’s sole shareholder is John Sorensen. Mr Sorensen has recently expressed his desire to the Board to liquidate his investment in OMG via the liquidation of OMG. The Directors looked at this course of action and formed the view that OMG and its shareholders would be better served by applying its capital resources towards the investment in business opportunity, such as the Proposed Initiative.

It is the opinion of the Board that APZ is seeking to implement Resolutions 2-8 (inclusive) with a view to facilitating a return of capital to OMG shareholders via either a capital buyback or the liquidation of the Company.

The Board do not believe that undertaking a capital buyback, nor the liquidation of the Company is in the best interests of OMG or all of its shareholders.

### **Explanatory Notes**

The Explanatory Notes which accompany this Notice of Meeting sets out the details of the transaction which is the subject of the resolution 1, the background information pertaining to resolutions 2-8 (inclusive) which have been requisitioned for inclusion in the business of the Special Meeting by APZ Limited, and the approval required for the resolution by the shareholders of the Company pursuant to the NZAX Listing Rules (“Listing Rules”) and the constitution of the Company .

### **PROXY FORM**

Accompanying this document is a proxy form, to enable shareholders to vote on the resolutions either by:

- attending the Special Meeting; or
- appointing a proxy to vote on their behalf at the Special Meeting.

Shareholders are urged to complete and return the proxy form as soon as possible if they do not plan to attend the Special Meeting. A shareholder wishing to appoint a proxy should complete the enclosed proxy form and send it to the office of the Share Registrar, Link Market Services Limited. The completed proxy form must be received no later than 48 hours before the meeting is due to begin, in accordance with the instructions in the notes to the proxy form accompanying this Notice.

A shareholder may, if he/she/it wishes, appoint the Chairman of the Special Meeting as proxy, as described further in the procedural notes to resolution 1.

Proxy forms should be returned to Link Market Services Limited in one of the following ways;

<b>Mail:</b>	If mailing Proxy Form from within New Zealand, please use the reply-paid envelope provided.  If mailing Proxy Form from outside New Zealand, place in an envelope, address to Link Market Services Limited, PO Box 91976, Auckland 1142, New Zealand and affix the necessary postage from the country of mailing.
<b>Deliver:</b>	Link Market Services Limited, Brookfields House, Level 16, 19 Victoria Street, Auckland.
<b>Fax:</b>	09 375 5990
<b>Scan and email:</b>	Lmsenquiries@linkmarketservices.com (please put the words “ <i>OMG Proxy Form</i> ” in the subject line for easy identification).

## **BUSINESS OF THE SPECIAL MEETING**

### **RESOLUTION TABLED BY THE BOARD OF THE COMPANY**

#### **Resolution 1 – Approval to commence new business operations in Australia – Listing Rule 9.1.1 - Ordinary resolution**

To consider and, if thought fit, pass the following resolution as an ordinary resolution for the purposes of NZAX Listing Rule 9.1.1:

*That:*

- (a) the Company, via a wholly owned subsidiary company, commence the scrap metal business operations in Australia, the detail of which is provided in the Explanatory Notes to this resolution 1 (“Business Initiative”); and*
- (b) the Directors be authorised to take all action, do all things and execute all documents and agreements necessary or considered by them to be expedient to implement the Business Initiative.*

Further information concerning this resolution is provided in the Explanatory Notes to this Notice of Meeting.

### **RESOLUTIONS TABLED BY APZ LIMITED**

#### **Resolution 2 – Removal of Yanyi Shi as a director – Ordinary resolution**

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

*That Yanyi Shi be removed as a director of the Company effective immediately*

Further information concerning this resolution is provided in the Explanatory Notes to this Notice of Meeting.

#### **Resolution 3 – Removal of Ping Li as a director – Ordinary resolution**

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

*That Ping Li be removed as a director of the Company effective immediately*

Further information concerning this resolution is provided in the Explanatory Notes to this Notice of Meeting.

#### **Resolution 4 – Removal of Roger Gower as a director – Ordinary resolution**

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

*That Roger Gower be removed as a director of the Company effective immediately*

Further information concerning this resolution is provided in the Explanatory Notes to this Notice of Meeting.

**Resolution 5 – Appointment of John Sheffield as a director – Ordinary resolution**

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

*That John Sheffield be appointed as a director of the Company effective immediately*

Further information concerning this resolution is provided in the Explanatory Notes to this Notice of Meeting.

**Resolution 6 – Appointment of Stuart Macintosh as a director – Ordinary resolution**

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

*That Stuart Macintosh be appointed as a director of the Company effective immediately*

Further information concerning this resolution is provided in the Explanatory Notes to this Notice of Meeting.

**Resolution 7 – Buyback of Shares – Ordinary resolution**

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

*That the Company has a pro rata buy-back of up to 90% of the ordinary shares on issue at a price equal to the net asset backing per share.*

Further information concerning this resolution is provided in the Explanatory Notes to this Notice of Meeting.

**Resolution 8 – Liquidation of the Company – Special resolution**

To consider and, if thought fit, pass the following resolution as a special resolution:

*That the Company be placed into liquidation and the net proceeds of liquidation be distributed to shareholders*

Further information concerning this resolution is provided in the Explanatory Notes to this Notice of Meeting.

**Procedural Notes**

1. Resolutions 1-7 (inclusive) are ordinary resolutions. An ordinary resolution is required to be passed by a majority of 50% or more of the votes of those shareholders entitled to vote and voting on that resolution. Resolution 8 is a special resolution. A special resolution is required to be passed by a majority of 75% or more of the votes of those shareholders entitled to vote and voting on that resolution.
2. The persons who will be entitled to vote on the resolution at the Special Meeting are those persons who were shareholders at 5.00 pm on Tuesday 16 July 2013, and only the shares registered in those shareholders' names may be voted at the Special Meeting, subject to the restrictions on voting set out below.
3. No shareholder is restricted from voting on resolutions 1-8 (inclusive).

4. The accompanying proxy form should be used to appoint a proxy to vote if a shareholder cannot attend the Special Meeting in person. Shareholders can participate by proxy or by casting their vote in person at the Special Meeting.
5. Any shareholder who is entitled to attend and vote at the Special Meeting may appoint a proxy to attend and vote in his / her / its place. A shareholder wishing to appoint a proxy should complete the enclosed proxy form and send it to the office of the Company's Share Registrar, Link Market Services Limited in accordance with the requirements contained in the accompanying Proxy Form. The completed proxy form must be received no later than 48 hours before the meeting is due to begin, in accordance with the instructions in the notes to the proxy form accompanying this Notice. The form allows shareholders to determine whether the proxy votes at the proxy's discretion or votes in accordance with the shareholder's wishes. If the form is returned without a direction as to how the proxy shall vote on any particular resolution, then the proxy will exercise his or her discretion as to whether to vote and if so, how.
6. A proxy does not have to be a shareholder in the Company. A shareholder may appoint the Chairman of the Special Meeting to act as his / her / its proxy, or another person. The Chairman has advised that it is his intention to vote undirected proxies received by him as follows:
  - In favour of resolution 1;
  - Against resolutions 2, 3, 5-8 (inclusive).

The Board has determined that the Chairman is unable to vote undirected proxies in respect of resolution 4 given he is interested in that resolution.

7. All joint shareholders must sign the proxy form. If the person appointing a proxy is a corporation, the proxy must be signed for and on behalf of that corporation by two directors or otherwise in accordance with the constitution of that corporation. If the proxy form is signed by an attorney, the attorney must have been authorised in writing.
8. This Notice of Special Meeting has been approved by the NZX in accordance with NZAX Listing Rule 6.1.1.

By Order of the Board

Auckland  
1 July 2013

## EXPLANATORY NOTES

A summary of, and the reasons for, resolutions 1-8 (inclusive) are set out at the front of this Notice under the heading “Important Information”. These Explanatory Notes give more detail in relation to the resolutions to be voted on by shareholders at the Special Meeting.

### Listing Rules and Constitution

The Company is listed on the New Zealand Alternative Market and must comply with the Listing Rules. In addition, various provisions of the Listing Rules are included in the constitution of the Company. The constitution of the Company and the Listing Rules contain specific requirements which are relevant to the resolutions comprised in this Notice. The implications of the Listing Rules and the constitution, insofar as they relate to each resolution, are addressed in these Explanatory Notes.

### RESOLUTION 1 – APPROVAL TO COMMENCE NEW BUSINESS OPERATIONS IN AUSTRALIA – LISTING RULE 9.1.1 - ORDINARY RESOLUTION

#### BACKGROUND

Orion Minerals Group Limited (“OMG”) is currently an investment company whose principal asset is approximately USD\$8.1 million of cash reserves.

OMG has been investigating a number of potential business acquisition opportunities to invest in.

The Board of Directors of OMG has undertaken due diligence investigations in respect of the prospective development of a scrap metal operation in Geelong, Australia. Subject to the conditions contained in this Notice of Meeting, OMG proposes to commence the operation of a scrap metal business in the immediate future (“Proposed Initiative”). The initial costs of the Proposed Initiative to OMG are anticipated to be approximately USD\$3.5 million. However, the actual costs of the Proposed Initiative could be higher or lower than USD\$3.5 million. The Board will not be required to obtain further approval of the shareholders for the proposed Initiative unless shareholder approval is required in accordance with section 129 of the Companies Act 1993.

In terms of the NZAX Listing Rules, NZAX Listing Rule 9.1.1 provides that an NZAX Issuer shall not enter into any transaction or series of linked or related transactions to acquire, sell, lease, exchange or otherwise dispose of assets of that issuer, or assets to be held by that issuer which would change the essential nature of the business of that issuer without first obtaining the approval of shareholders by an ordinary resolution. Given OMG is currently a non-trading investment company, the undertaking of the Proposed Initiative would constitute a change in the essential nature of the business of OMG, and therefore shareholder approval is required before OMG can implement the Proposed Initiative.

#### PRINCIPAL COMMERCIAL COMPONENTS OF THE PROPOSED INITIATIVE

The key components of the Proposed Initiative are as follows:

- OMG will set up an Australian incorporated company to undertake the business operations in Australia (“OMG SubCo”). OMG SubCo will be a wholly owned subsidiary of OMG;
- OMG SubCo will enter into a lease arrangement (“Lease”) to lease a 4.5 hectare industrial site located in Geelong, Melbourne to operate the Proposed Initiative from. The leased premises are located approximately 9 km from the Geelong Port, Victoria's second largest port and premier regional gateway to shipping, import and export clients;

- It is anticipated that the rental for the Lease will be AUD\$195,000 per annum, plus operating expenses. The Lease will have an initial term of two years, with a further right of renewal of two years. The rental will be reviewed annually in accordance with the increase in the CPI index during the relevant period. OMG will be granted an option to acquire the leased premise at a market value during the renewed term of the Lease should OMG renew the Lease;
- Geelong Port is the largest regional port in Victoria and continues to experience stable trade growth. Clients are able to take advantage of a broad range of port, ship and wharf-side services, with multiple stevedoring businesses operating within Geelong Port;
- OMG SubCo will acquire the following specialised plant and equipment (“Plant and Equipment”) required to process, weigh and transport the scrap metal:
  - two Hydraulic material handlers;
  - two multi-time grabbers with side cutters;
  - two electromagnetic chucks;
  - two briquetting machines;
  - one forklift;
  - one weighbridge;
  - one cutting machine.
- It is anticipated that the capital costs of acquiring the Plant and Equipment will be approximately USD\$746,000;
- OMG SubCo will employ several key staff to operate the scrap metal facility. It is anticipated that two drivers, one administrator and one purchasing manager will be hired at the outset of the Proposed Initiative. The annual aggregate salary costs for those new employees is budgeted as being approximately AUD\$410,000;
- OMG SubCo will aggregate scrap metal at its premises, sort the scrap into the various categories of scrap, and then ultimately market the scrap into the international scrap metal markets;
- It is anticipated that scrap metal will be sourced from Geelong scrap metal market and some of the surrounding Melbourne city scrap metal markets;
- Of critical importance to the success of the business is for the business to develop strong working relationships with scrap metal providers in the region;
- OMG SubCo will market and sell the scrap metal to the international markets, with a particular focus on the Chinese market, where the scrap metal market is particularly buoyant;
- The current intention is that the business operation will primarily be an aggregation business, rather than a processing business. It is anticipated that the scrap metal would ultimately be processed by the international buyers in their own jurisdiction;
- Geelong is a port city located on Corio Bay and the Barwon River, in the state of Victoria, Australia, 75 kilometres (47 mi) south-west of the state capital, Melbourne. It is the second most populated city in Victoria and the fifth most populated non-capital city in Australia. The urban area runs from the plains of Lara in the north to the rolling hills of Waurin Ponds to the south, with the bay to the east and hills to the west, an area with an estimated population of



160,891 people. It is the administrative centre for the City of Greater Geelong municipality which covers the urban and surrounding areas and is home to over 181,000 people.

### **FINANCIAL IMPLICATIONS OF THE PROPOSED INITIATIVE**

The Board anticipates that the funds to be deployed in implementing the Proposed Initiative will be approximately USD\$3.5 million.

In the first six months of trading, OMG would aim to:

- acquire 30,000 tonnes of scrap metal from the local Melbourne/Geelong market. OMG has forecast an aggregate purchase price of AUD\$242 per tonne during this period. The actual cost price to OMG during this period is subject to variations in the prevailing price for scrap metal in the market at the time of acquisition;
- sell 28,000 tonnes of scrap metal internationally at a forecast sale price of AUD\$380 per tonne during this period. The actual sale price that OMG will achieve during this period is subject to variations in the prevailing price for scrap metal in the market at the time of the disposal;
- achieve a gross sales margin of approximately 30% on the sale of the scrap metal, before the deduction of the costs of sale and tax.

The Board considers that the above objectives are reasonably achievable, subject to the successful implementation of the Proposed Initiative, and the non-occurrence of the risk factors that are delineated elsewhere in this Notice of Meeting. The above financial information is not a guarantee that the Proposed Initiative will attain the above financial performance. Instead the information is provided to provide an indicative illustration as to how the financial model for the Proposed Initiative may work having regard to the current market for scrap metal. Any material adverse changes in the acquisition cost, sale price and operating expenses of the Proposed Initiative will have a negative impact upon the gross sales margin referred to above.

The Board considers that given OMG has yet to implement the Proposed Initiative, it is too early to provide any additional financial information, including the expected impact of the Proposed Initiative on OMG's financial statements.

### **CONDITIONS PRECEDENT TO COMMENCEMENT OF THE PROPOSED INITIATIVE**

The principal commercial conditions that are required to be satisfied before OMG will commence the Proposed Initiative are as follows:

- OMG entering into a deed of lease for the proposed business premises on terms satisfactory to OMG;
- OMG obtaining all town planning consents required to operate the business operation from the leased premises. The primary consent required to be obtained is the planning permit for the permitted use to be issued by the City of Greater Geelong.

### **RATIONALE FOR THE PROPOSED INITIATIVE**

The Board of OMG has been seeking to identify a low capital cost initiative to invest in so as to maximise returns to OMG shareholders on OMG's capital resources.

The Board of OMG believe that this Proposed Initiative represents a very positive opportunity for OMG for the following reasons:

- The Proposed Initiative provides an opportunity for OMG to invest in, and develop a new business from the “ground up” without any requirement to deploy capital on acquiring goodwill, as would be the case if OMG were to acquire an existing business;
- OMG is not generating any significant income off its current capital other than via interest accruing on that capital, and any material positive changes in foreign currency exchange rates (when OMG has its funds held in US dollars);
- OMG is not currently utilising its capital efficiently, and believes that the Proposed Initiative will generate positive returns on its capital for shareholders – please refer to the section headed “Financial implications of the Proposed Initiative” above for information regarding the potential returns of the Proposed Initiative. The OMG Board believes that it is as yet too early to provide any guidance to shareholders and the market regarding the possible financial returns that may be generated from the Proposed Initiative in dollar terms given the early stage in the implementation of the Proposed Initiative;
- In the Board’s opinion, the scrap metal sector is a well performing sector internationally. The demand for scrap metal in Asia, and in particular China is well documented. The cost for scrap metal in Australia is moderately priced, and is sufficient, in the Board’s opinion, to afford OMG with a meaningful sales margin having regard to the current purchase and sale prices for scrap metal – please refer to the section headed “Financial implications of the Proposed Initiative” above for information regarding the potential sales margin that may be generated from the Proposed Initiative;
- In the Board’s view, Chinese steel mills will gradually increase the use of scrap steel to produce steel, as opposed to the processing of iron ore to satisfy the demands being placed on steel manufacturers as a consequence of adverse environmental issues and requirements. The basis for the Board’s opinion is as follows:
  - Steel scrap is a genuine substitute for iron ore, especially when iron ore is trading at expensive rates;
  - The State Council of China has developed a strategic plan to reduce the emission of pollution from steel mills in China. The time frame for the implementation of this plan is 5-10 years. The plan involves reducing the quantum of emissions from steel mills operating in China. Those steel mills that do not attain the reduced emissions levels set at a regional level will risk being shut down or levied with financial sanctions from the Chinese Government;
  - Given the processing of scrap metal involves the production of less pollution than the processing of iron ore, it is anticipated that many steel mills will move towards the processing of scrap metal as a core component of their production so as to reduce their pollution emissions, and therefore reduce the financial costs imposed on their businesses;
  - The Chinese Government is also working on a scheme to reduce the tariff applicable to scrap steel processing companies to make the processing of scrap metal more competitive with the processing of iron ore;

- In many developed countries, the ratio of scrap metal processed in those countries steel mills ranges anywhere from between 50-70% of steel processed through those mills. In China however, the ratio is only 10-15%. This low rate of scrap metal processing relates to the fact that scrap metal is in short supply in China, and this fact provides OMG with an opportunity to aggregate and sell scrap metal into the Chinese market;
- The Board believes that the business can also leverage off the scrap metal industry expertise that cornerstone shareholder Fengli Group has in China and throughout the Asia/Pacific region;
- The Board believes that OMG can develop the Proposed Initiative into a potentially cash flow positive and profitable business within a relatively short time frame – please refer to the section headed “Financial implications of the Proposed Initiative” above for information regarding the potential returns of the Proposed Initiative. Please also refer to the section below headed “Material Risks” which delineate the material risks associated with the Proposed Initiative which could have a material adverse effect on the financial performance on the Proposed Initiative;
- Having regard to the financial resources of OMG, the relatively low entry cost to develop the Proposed Initiative which are delineated above in the section headed “Principal commercial components of the Proposed Initiative”, and the business opportunity afforded to OMG with the Proposed Initiative, the Board believes that the Proposed Initiative represents a responsible development prospect in a solid well performing business sector, and presents a very positive opportunity for OMG and its shareholders

The Board of OMG has considered several other business opportunities for OMG. However, the Board of OMG have unanimously endorsed and approved this business development strategy for the abovementioned reasons. In addition, the Board has had discussions with two of OMG’s major shareholders, Fengli and Marvel Fantasy (both of which companies are represented on the Board of OMG), who have both expressed their unqualified support for this initiative. Fengli holds 30.15% of the total number of shares on issue in OMG, and Marvel holds 24.12% of the total number of shares on issue in OMG.

#### **DUE DILIGENCE INVESTIGATIONS**

The OMG Board has undertaken and completed its due diligence investigations in respect of the Proposed Initiative. Those due diligence investigations included:

- A member of the Board and representatives of OMG spending two weeks in Australia undertaking commercial due diligence investigations of the Proposed Initiative;
- Visiting a number of potential locations for the Proposed Initiative to be based;
- Assessing shipping costs from various locations in the greater Melbourne area to the port;
- Assessing the logistics of shipping scrap metal to and from various locations in Melbourne to international locations;
- An analysis of the supply chain logistics;
- An assessment of the Melbourne scrap metal market and the opportunities available;
- Retaining Australian lawyers and advisers to assist with these investigations.

- The preparation of a feasibility analysis of the costs of acquiring the scrap metal, processing the scrap metal, and the prospective sale price that could be achieved for the product;
- Developing a financial feasibility model for the Proposed Initiative.

## **MATERIAL RISKS**

The future operational and financial performance of the Proposed Initiative may be affected by a number of risk factors which are set out below.

**Availability of Materials** – The ability for the Proposed Initiative succeed will in large depend upon the ability of OMG to secure the supply of scrap metal from the local Melbourne market. In the event that OMG is unable to secure sufficient volumes of scrap metal to process and re-sell in the international markets, this will have an adverse material effect on the business operations.

**Competition in the market** – The scrap metal market in Australia is a competitive sector. There are several large industry participants with whom OMG will be competing with to acquire scrap metal. The ability to secure scrap metal from the market will often depend upon the competitiveness of the price that an acquirer is prepared to pay. Competition in the market may drive up the cost price of scrap metal to OMG. If this occurs it is possible that this will have a negative effect on the margin that OMG may generate on the sale of the scrap metal acquired if it is not able to pass on the increased cost price to its customers.

**Fluctuations in scrap metal price** – in general terms if OMG acquires scrap metal and sells that product in the same market, the risk of losing margin/profit is minimised. However, given that OMG plans to aggregate the acquisition of scrap metal over a period of time, say 2-3 months, before selling that scrap metal, there is a risk that the sale price that OMG can realise for the scrap metal may depreciate from the original price paid by OMG to acquire that scrap metal during that aggregation period. If this were to occur there is a risk that OMG's profit margin on the sale of that product may be reduced or lost.

**Debtor Risk** - OMG will sell the scrap metal to a number of international customers, sometimes against deferred payment. There is always a risk that one or more of OMG's customers may default on the payment of the purchase price and be unable to pay the purchase price to OMG. In the event that a significant payment of the purchase price for products supplied was unable to be recovered by OMG, this event may have a material adverse effect on OMG. OMG will seek to mitigate this risk by shipping product against irrevocable letter of credit letters issued by the purchaser's bank.

**Economic Downturn** – OMG will be exposed to the risk of a down turn in the economic markets generally. A downturn in the international economic markets may affect OMG's potential customers' ability or willingness to purchase scrap metal from OMG.

**Reliance on certain suppliers of Scrap Metal** – it is likely that OMG will seek to secure mid to long term relationships with key suppliers of scrap metal in Melbourne. There is a risk that OMG could become reliant on the continued supply of scrap metal from those counterparties. In the event that those supplier counterparties elected to sell their product to OMG's competitors, or ceased carrying out business, this could have a material adverse effect on the financial performance of the business.

**Exchange Rates** – It is anticipated that the majority, if not all, of OMG's scrap metal will be sold outside of Australia. Consequently, if the Australian dollar appreciates against the currency in which the scrap metal is sold in then that may impact upon the profit margin ultimately derived by OMG.

Currently, the functional currency of OMG is United States dollars. If the USD appreciates against the Australian dollar that may impact adversely on the United States dollar profitability that OMG accounts for in its financial statements.

**Unsuccessful marketing of product** - It is possible that OMG's initiatives to market its scrap metal in international markets could fail or not produce the volumes of sales anticipated. This would have an adverse impact on the financial position and performance of OMG.

**Logistics** – OMG will be reliant on third parties to deliver its scrap metal to its customers around the world. Industrial relations at seaports and airports are traditionally volatile. There is a risk that delivery of its products may be delayed by reason of industrial dispute or other factors affecting the transport arrangements. This may affect OMG's ability to deliver scrap metal to customers which may adversely affect business and earnings.

**Lease** – The leased premises for the business are of strategic importance for OMG, given their proximity to the city and the port. In the event that the lease is terminated or expires this would prevent OMG from operating its business from these premises. The lease has an initial term of two years, with a right of renewal for a further two years. In addition, OMG has the right to acquire the leased premises which mitigates in part this risk.

#### **EFFECT OF THE PROPOSED INITIATIVE**

In the event that the shareholders approve resolution 1 and the commercial conditions are satisfied, then the Board will proceed to implement the Proposed Initiative as outlined above.

Once the Proposed Initiative has been implemented, then OMG will via OMG SubCo undertake the operating of a scrap metal aggregation, sales and marketing business. This development will represent a material change in the essential nature of the business of OMG. OMG is currently a non-trading entity with cash reserves whose principal income derives from the interest accrued on those funds, and any foreign currency gains or losses relating to those funds, depending upon which currency those funds are denominated in. As a consequence of the proposed change in OMG's business model, OMG's risk profile will change also. Going forward:

- OMG will, via OMG SubCo, have an exposure to the international scrap metal market. Material changes in that market may have a corresponding material impact upon the performance of the scrap metal operations owned by OMG, and may impact upon the financial returns which OMG will ultimately derive from those operations;
- At this stage, OMG has no plans to deploy the balance of its cash reserves, and these funds will continue to be held in an interest bearing bank account;
- OMG will continue to assess any other business opportunities that arise post the completion of the implementation of the Proposed Initiative.

#### **APPROVALS SOUGHT**

The Company seeks the approval of shareholders to implement the Proposed Initiative. The Board intends to implement the Proposed Initiative immediately after the approval of Resolution 1, if such approval is obtained.

## **CONSEQUENCES OF RESOLUTION 1 BEING APPROVED BY SHAREHOLDERS**

In the event that resolution 1 is approved by shareholders, then:

- The Board of Directors will proceed to implement the Proposed Initiative without requiring further consultation with, or obtaining any further approvals from, the shareholders of OMG; and
- The Board will not expend an amount exceeding 50% of the total assets of OMG at any point in time in respect of the Proposed Initiative; and
- OMG will release any Material Information relating to the Proposed Initiative in accordance with NZAX Listing Rule 10.1, and will include information on the Proposed Initiative in its Annual Reports.

Theoretically the situation may arise where resolutions 1, 7 and 8 are all approved in which case the Board of OMG would have conflicting mandates to undertake certain courses of action. However, given the Board has received absolute assurances from each of Fengli and Marvel that they each intend to vote in favour of resolution 1 and vote against resolutions 7 and 8, the Board is of the view that the prospect of all three of resolutions 1, 7 and 8 being approved is not possible in the circumstances.

## **CONSEQUENCES OF RESOLUTION 1 NOT BEING APPROVED BY SHAREHOLDERS**

In the event that resolution 1 is not approved by shareholders, then:

- The Proposed Initiative will not be implemented; and
- The OMG Board will seek to identify alternative business opportunities, and where appropriate present those opportunities to the shareholders of OMG for their consideration, and where appropriate, their approval. The OMG Board has not identified any alternative business opportunities that could be viable options for OMG if the Proposed Initiative is not approved;
- The Board's decision as to the future direction of the Company will depend upon whether resolutions 7 and/or 8 are approved by shareholders. Further information about the inter-relationships of resolutions 7 and 8 are provided in the Explanatory Notes to those resolutions below.

## **RESOLUTION REQUIRED**

The NZAX Listing Rules (NZAX Listing Rule 9.1.1) provide that an NZAX Issuer shall not enter into any transaction or series of linked or related transactions to acquire, sell, lease, exchange or otherwise dispose of assets of that issuer, or assets to be held by that issuer:

- which would change the essential nature of the business of that issuer; or
- in respect of which the gross value is in excess of 50% of the average market capitalisation of OMG,

except with (i) the prior approval of an ordinary resolution of shareholders, or (ii) following a "pre-break announcement" and the satisfaction of the other requirements of NZAX Listing Rule 10.2.

Given OMG is currently a non-trading investment company, the undertaking of the Proposed Initiative would constitute a change in the essential nature of the business of OMG. In addition, the value of the combined transactions proposed to be undertaken in respect of the Proposed Initiative are expected to exceed 50% of the average market capitalisation of OMG during the course of the implementation of the Proposed Initiative. It is not anticipated however that any single transaction associated with the Proposed Initiative, nor the total value of capital deployed at any one time will exceed an amount greater than 50% of the value of the total assets of OMG.

Accordingly, before the Board can proceed to implement the Proposed Initiative, the provisions of NZAX Listing Rule 9.1.1 must be complied with.

OMG previously issued a “pre-break announcement” to the market with a view to proceeding with the implementation of the Proposed Initiative via this avenue. However, during the course of the notice period required to be complied with as part of the “pre-break announcement” process, OMG received a requisition from a shareholder holding not less than 5% of the shares on issue in OMG requisitioning that a special meeting of shareholders of OMG be called to consider the implementation of the Proposed Initiative. Consequently, the Board of OMG has called this Special Meeting to obtain shareholder approval so as to comply with Listing Rule 9.1.1.

#### **RESOLUTIONS 2, 3, 4, 5, 6, 7 AND 8**

After the issue of the pre-break announcement in respect of the Proposed Initiative by OMG, OMG received a notice from APZ Limited (“APZ”), the holder of approximately 5.42% of the shares of OMG, that, in accordance with section 121 of the Companies Act, APZ required the Directors to convene a meeting of shareholders. The business required by APZ to be considered at the meeting was:

- The removal of three of OMG’s directors, Mr Roger Gower, Ms Ping Li and Ms Yanyi Shi effective immediately;
- The appointment of two new directors, Mr John Sheffield and Mr Stuart Macintosh effective immediately;
- That the Company undertake a pro rata buyback of up to 90% of the ordinary shares on issue at a price equal to the net asset backing per share; and
- That OMG be placed into liquidation and the net proceeds of liquidation be distributed to shareholders.

APZ stated in the requisition notice that it anticipated that the above business would be dealt with at the next meeting of shareholders of OMG.

Accordingly, the resolutions which were the subject of the requisition from APZ have been incorporated into the business to be considered and voted on at this Special Meeting.

Resolutions 2,3,4,5, 6, 7 and 8 are not interdependent or conditional on each other. Therefore, for the avoidance of doubt, if Resolutions 2, 3 and 4 are not passed i.e. Mr Gower, Ms Shi and Ms Li are not removed as Directors, and resolutions 5 and 6 are passed i.e. Mr Sheffield and Mr Macintosh are appointed to the board of OMG, then the Board will comprise seven members: Mr Shi, Mr Joyce, Mr Gower, Ms Shi, Ms Li, Mr Sheffield and Mr Macintosh.

It is noted that in the event that Resolutions 2, 3 and 4 are passed and Resolutions 5 and 6 are not passed i.e. Mr Joyce and Mr Shi will remain the only two directors of OMG after the Special Meeting, OMG will be in breach of Listing Rule 3.3.1. Listing Rule 3.3.1 requires that a company listed on the NZAX have at least three directors two of which must be ordinarily resident in New Zealand. In this instance, Mr Joyce will be the only director resident in New Zealand. Accordingly, after the Special

Meeting, if the three directors are removed, the Board will have to appoint at least one new director who is ordinarily resident in New Zealand so as to ensure that OMG complies with Listing Rule 3.3.1.

### **Position of Major Shareholders**

The Board of OMG understands that the two largest shareholders of OMG, namely Marvel Fantasy Limited and Fengli Group (Hong Kong) Co. Limited, will vote against the resolutions proposed by APZ. Mr Shi, and Ms Li, who are directors of the Company, are related to Fengli Group. Ms Shi is related to Marvel Fantasy Limited.

Marvel Fantasy holds 100 million shares in the Company representing 24.12% of the total number of shares on issue.

Fengli Group holds 125 million shares in the Company representing 30.15% of the total number of shares on issue.

In the event that these two shareholders do in fact vote against Resolutions 2-8 (inclusive), then those resolutions will not be capable of being approved. The decision as to whether Marvel Fantasy and Fengli Group vote in favour of against resolutions 2-8 (inclusive) is entirely at the discretion of each of those parties.

### **Additional information relating to Resolution 7 – Capital Buyback**

The Board of Directors of OMG has resolved to provide the following additional information in respect of resolution 7:

- APZ seeks the approval of shareholders to buy back and cancel up to 90% of the share capital of OMG, which represents 373,095,000 ordinary shares;
- Before the capital buyback could proceed, notwithstanding that the shareholders approve the proposed buyback, the proposed buyback would need to be approved by the Board of OMG in accordance with the provisions of section 60 of the Companies Act. The current Board of OMG are not of a mind to approve the proposed buyback. The reason for this current position is that they consider the Proposed Initiative to be a preferred direction for the Company to take than a capital buyback alternative. The decision of the shareholders to approve a buyback does not compel the Board to pass the resolutions necessary to implement the proposed Buyback. In addition, the two major shareholders of OMF, Fengli and Marvel have advised the Company that they do not intend to approve the proposed buyback;
- In terms of the Listing Rules, Listing Rule 7.6.5 provides that an NZAX issuer may acquire or redeem equity securities in the circumstances proposed by APZ only if the precise terms and conditions of the specific proposal to acquire those equity securities have been approved by an ordinary resolution;
- APZ proposes that the buyback be undertaken at a price per share equal to the net asset backing per share. OMG currently has approximately NZD10 million in cash and no debt, which represents a net cash asset backing per share of 2.4 cents per share. This cash asset backing position constitutes a premium to the last price at which the shares in the Company traded at on the market - 1.9 cents;



- In the unlikely event that the capital buyback proceeded fully, and the Company acquired 90% of the total number of shares on issue then post the completion of the acquisition, OMG would have approximately NZD\$1 million in cash in the bank and 41.5 million shares on issue.

In the event that resolution 1 is not approved by shareholders and resolutions 7 and 8 are both passed then the Board will be obliged to proceed to liquidate the Company for the following reasons:

- Before the capital buyback could proceed, notwithstanding that the shareholders approve the proposed buyback, the proposed buyback would need to be approved by the Board of OMG in accordance with the provisions of section 60 of the Companies Act. The current Board of OMG are not of a mind to approve the proposed buyback. The decision of the shareholders to approve a buyback does not compel the Board to pass the resolutions necessary to implement the proposed Buyback. In addition, the two major shareholders of OMF, Fengli and Marvel have advised the Company that they do not intend to approve the proposed buyback;
- the Board do not currently intend to approve the buyback;
- the Board would be obliged to liquidate the Company given the approval of resolution 8 would be binding on the Board of OMG;
- the liquidation of OMG would achieve a similar outcome to that proposed in respect of resolution 7 given the capital of OMG will be returned to its shareholders if the Company is liquidated in any event.

In the event that resolutions 1 and 8 are not approved, and resolution 7 was approved, the OMG Board would need to consider its position further regarding whether it is to pass the requisite resolutions required to effect the capital buyback. In the event that the Board resolved to approve the capital buyback, there would be approximately NZD\$1 million in cash left in the Company post buyback. Post completion of the buyback, the Board would then need to turn its mind to options available to it, which may include liquidating the Company, or looking for investment opportunity for OMG, given the Company would still remain a listed vehicle and hold approximately NZD\$1 million in cash reserves.

#### **Statement of APZ in respect of Resolution 8 – Liquidation of the Company**

In addition to the requisition, APZ also requested that the following statement be included in this Notice of Meeting:

*“The meeting is called following the requisition by APZ Limited, a shareholder holding 5.42% of the issued share capital and voting rights of the Company, to put the special resolution for winding up the Company. APZ Limited considers that it is appropriate to liquidate the Company for the following reasons:*

1. *There is no business case for the Company continuing to exist.*
2. *The Company has no business. It is simply a shell company whose only asset is a relatively small amount of cash. Its history is marked by failure of business ventures. Shareholders can have no confidence that any “new” venture will fare better. History dictates further loss.*
3. *The maintenance of the Company in these circumstances has no benefit for shareholders. The costs of the continuing administration of the Company including listing fees and*

*directors fees is to the direct cost of the shareholders diminishing the only asset in which they have any interest;*

4. *Shareholders can quite reasonably have no confidence in the prospect of a “new” business venture which given its history will be at the expense of shareholder funds;*
5. *Shareholders will be much better off receiving their pro rata entitlement to the net cash assets following liquidation.”*

#### **The Board’s response to the APZ’s statement**

The Board wishes to make the following observations about the narrative required to be inserted into this Notice of Meeting by APZ:

1. To date the Company has invested in only one initiative – Minera Varry Minerals Limited. That business was not successful, but the cost to OMG and its shareholders was significantly mitigated by the cancellation of the majority of shares previously issued to the vendor of the Minera Varry business, and the Board has successfully retained a significant amount of cash;
2. The Company currently holds approximately NZD\$10 million of cash in its bank account as at the date of this Notice of Meeting. The only asset of the Company currently is cash. The OMG Board considers that this is a significant sum of money in the context of the Company;
3. The Board is not of the view that “history dictates failure”. The Board considers it appropriate to safeguard the Company’s cash and to not commit it to any venture that it is not comfortable in investing into.
4. The Board has identified the Proposed Initiative which is the subject of resolution 1 as being a suitable investment opportunity for OMG for the reasons set out in the Explanatory Notes to Resolution 1.

In the event that resolutions 1 and 7 were not approved, and resolution 8 was approved then OMG will be liquidated and the Board will not seek to identify other business opportunities.

#### **Consequences of Liquidation**

Currently the Company has approximately NZD\$10 million of cash in the bank as at the date of this Notice of Meeting. In the event that Resolution 8 was approved, and assuming liquidation costs were in the vicinity of, say \$50,000 (which sum includes the costs of the liquidator, share registry expenses and collateral administration expenses such as postage and printing communications to shareholders), the amount of surplus cash available for distribution to shareholders would be NZD\$9,950,000. This would equate to a distribution to shareholders of approximately NZD 2.4 cents per share. As at the date of this Notice the available information confirms that shares in OMG last traded at 1.9 cents per share. However, it is important to note that the last trade in OMG shares occurred several months ago, and the volume of OMG shares traded in the last 24 months has been very low.

In the event that resolution 8 is passed, then it will be incumbent on the Board to commence the liquidation process. As part of this process the Board would seek to appoint a liquidator to facilitate the liquidation process. It is likely that the liquidator would proceed to de-list the Company from the NZAX. There is a de-listing fee of \$16,100 plus GST payable to NZX Limited, which sum is in addition to the projected liquidation costs referred to in the preceding paragraph.

In the event that Resolution 8 is not passed, and Resolution 1 is passed then the Board will proceed to implement the Proposed Initiative.

**Board recommendation**

It is the opinion of the Board of OMG that the shareholders of OMG are best served in the mid to long term by proceeding with the Proposed Initiative.

The Board do not believe that the liquidation of OMG is in the best interests of OMG or all of its shareholders.

The Board's recommendation is to not vote in favour of Resolution 8.