



ASX ANNOUNCEMENT

27 October 2016

## NOTICE OF ANNUAL GENERAL MEETING

The VDM Group Limited (**VDM**) Annual General Meeting will be held at 10:00am (AWST) on Monday, 28 November 2016 at the following address:

Level 1,  
Fortescue Centre,  
30 Terrace Road,  
East Perth, Western Australia

The Notice of Meeting, Explanatory Memorandum, Independent Expert's Report and Proxy Form are being despatched to shareholders today. Copies of these documents follow this announcement.

The 2016 Annual Report is also being despatched today to shareholders who elected to receive a printed copy. It was previously lodged with the ASX and is available on VDM's website.

### For further information please contact:

Sam Diep  
Chief Executive Officer  
VDM Group Limited  
(08) 9265 1100

Padraig O'Donoghue  
CFO & Company Secretary  
VDM Group Limited  
(08) 9265 1100

### BOARD & MANAGEMENT

Mr Luk Hiuming  
NON-EXECUTIVE CHAIRMAN

Dr Dongyi Hua  
EXECUTIVE DIRECTOR  
OF MINING

Mr Michael Fry  
NON-EXECUTIVE DIRECTOR

Mr Sam Diep  
CHIEF EXECUTIVE OFFICER

Mr Padraig O'Donoghue  
CHIEF FINANCIAL OFFICER  
COMPANY SECRETARY

### REGISTERED OFFICE

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

### POSTAL ADDRESS

PO Box 3347  
East Perth, WA 6892

### CONTACT DETAILS

Tel: (08) 9265 1100

### WEBSITE

[vdmgroup.com.au](http://vdmgroup.com.au)

### SHARE REGISTRY

Computershare Investor  
Services Pty Limited  
GPO Box 2975  
Melbourne, VIC 3001  
Tel: 1300 850 505

### ASX CODE

VMG



**VDM GROUP LIMITED**

ABN 95 109 829 334

**NOTICE OF ANNUAL GENERAL MEETING**

**EXPLANATORY MEMORANDUM, PROXY FORM &  
INDEPENDENT EXPERT'S REPORT**

**Date of Meeting**

Monday, 28 November 2016

**Time of Meeting**

10:00am (AWST)

**Place of Meeting**

Level 1, Fortescue Centre, 30 Terrace Road, East Perth, Western Australia

An Independent Expert's Report accompanies this document.  
The Independent Expert has concluded that the terms of the Security are fair and  
reasonable to Shareholders not associated with Kengkong.

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## **2016 Annual General Meeting**

24 October 2016

Dear Shareholder,

I am pleased to invite you to the 2016 Annual General Meeting (AGM) of VDM Group Limited. The 2016 AGM will be held on Monday, 28 November 2016 at VDM's offices located at Level 1, Fortescue Centre, 30 Terrace Road, East Perth, Western Australia.

Enclosed is the Notice and Explanatory Memorandum containing information regarding the Resolutions to be considered at the AGM.

The VDM Board encourages you to participate in the vote. The Directors, with the exception of:

- Mr Hiuming Luk, who does not make a recommendation in relation to Resolution 3 due to his interest in the outcome of that Resolution; and
- Dr Dongyi Hua, who does not make a recommendation in relation to Resolutions 2 and 6 due to his interest in the outcome of those Resolutions,

consider that the approval of the Resolutions is in the best interests of the Company and accordingly recommend that Shareholders vote in favour of the Resolutions.

Please refer to the proxy voting instructions in the enclosed Notice. You can also vote in person at the AGM.

On behalf of my fellow Directors, I look forward to welcoming you at the 2016 AGM.

Yours sincerely

**HIUMING LUK**  
Chairman  
VDM Group Limited

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## **Notice of Annual General Meeting**

VDM Group Limited (**VDM or the Company**) will hold its Annual General Meeting on Monday, 28 November 2016 at 10:00am (AWST) at Level 1, Fortescue Centre, 30 Terrace Road, East 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 2016.

#### **2. Remuneration Report**

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

##### **Resolution 1**

*"That for the purposes of section 250(R) of the Corporations Act and for all other purposes, the Remuneration Report be adopted."*

#### **3. Election of Dr Dongyi Hua as a Director**

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

##### **Resolution 2**

*"That Dr Dongyi Hua, being a Director, who retires in accordance with rule 8.1(d) of the Constitution and being eligible for election, is hereby elected as a Director."*

### **SPECIAL BUSINESS**

#### **4. Approval of the Security for the Secured Loan Agreement**

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

##### **Resolution 3**

*"That for the purposes of Listing Rule 10.1 and for all other purposes, approval is given for the Company and the Guarantors to provide the Security to Australia Kengkong Investments Co Pty Ltd in respect of the Secured Loan Agreement on the terms and conditions set out and as described in the Explanatory Memorandum accompanying this Notice of Annual General Meeting (including to enter into, and to perform its obligations under the Secured Loan Agreement to the extent that they relate to the Security)."*

***Voting exclusion: For the purposes of the Listing Rules and for all other purposes, the Company will disregard any votes cast on Resolution 3 by Kengkong and any of its Associates. However, the Company need 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 a 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.***

**5. Approval of Future Placement Shares**

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

**Resolution 4**

*"That, for the purpose of Listing Rule 7.1 and for all other purposes, approval is given for the Company to allot and issue up to 1,360,000,000 Shares within three months from the date of this Meeting, at a price not lower than 80% of the volume weighted average market price of the Shares over the five days on which sales were recorded before the day on which the issue will be made, for the purposes and 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 a person who may participate in the issue of the Future Placement Shares (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 Resolution 4 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.

**6. 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 5**

*"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 Resolution 5 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 Resolution 5 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.

**7. Approval of grant of Options to Dr Hua**

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

**Resolution 6**

*"That for the purposes of Listing Rule 10.11 and for all other purposes, approval is given for the Company to grant 30,000,000 options to Dr Dongyi Hua (or his nominee) 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 6 by Dr Dongyi Hua and any of his 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.

### ***Additional Information***

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.

An electronic copy of this Notice and Independent Expert's Report is available from the Company's website at [www.vdmgroup.com.au](http://www.vdmgroup.com.au).

### ***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 10 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 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 refer to the Proxy Form that accompanies this Notice and Explanatory Memorandum for more information about submitting your proxy voting instructions.

Proxy Forms must be submitted by 10:00am (AWST) on 26 November 2016 to be effective. Any Proxy Form received after that time will not be valid for the Meeting.

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

### ***Proxy voting on Resolution 1 (Remuneration Report)***

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, 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, your vote will not be counted in determining the required majority for Resolution 1.

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, 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.



**Proxy Forms may be submitted:**

- ONLINE                      [www.investorvote.com.au](http://www.investorvote.com.au)
- BY MOBILE                      Scan the QR Code on the Proxy Form and follow the prompts

**Documents and Proxy Forms may also be lodged:**

- BY MAIL                      Computershare Investor Services Pty Limited  
GPO Box 242, Melbourne VIC 3001, Australia
- BY FAX                      1800 783 447 (within Australia)  
+61 3 9473 2555 (outside Australia)
- By HAND:                      Computershare Investor Services Pty Limited  
Level 11, 172 St Georges Terrace, Perth WA 6000, Australia
- CUSTODIAN VOTING      For Intermediary Online subscribers only (custodians) please visit  
[www.intermediaryonline.com](http://www.intermediaryonline.com) to submit your voting intention.

***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 26 November 2016 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 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**



**PADRAIG O'DONOGHUE**  
Company Secretary  
VDM Group Limited

24 October 2016

## ***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 document 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.

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 document will actually occur and you are cautioned not to place undue reliance on those forward looking statements.

The forward looking statements in this document reflect views held only as at the date of this document. The Company has no obligation to disseminate after the date of this document any updates or revisions to any such statements to reflect any change in expectations in relation to those statements or any change in events, conditions or circumstances on which any of those statements are based unless it is required under the Corporations Act to update or correct this document, or pursuant to any disclosure obligations under the Corporations Act or the Listing Rules.

### ***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.

Information concerning Kengkong and its Associates in this document, including information as to the intentions of Kengkong, has been provided by Kengkong and is the responsibility of Kengkong. None of the Company, its related bodies corporate, or any of their advisers assumes any responsibility for the accuracy or completeness of that information.

RSM Corporate Australia Pty Ltd has prepared the Independent Expert's Report and takes responsibility for that report and has consented to the inclusion of that report in this document. RSM Corporate Australia Pty Ltd is not responsible for any other information contained within this document. The full Independent Expert's Report is enclosed. The Company and its related bodies corporate do not assume any responsibility for the accuracy and completeness of the Independent Expert's Report, except to the extent that any inaccuracy or incompleteness in that document arises directly from the inaccuracy or incompleteness of information given to the Independent Expert by the Company. The Company's advisers do not assume any responsibility for the accuracy and completeness of the Independent Expert's Report.

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

***ASX involvement***

A copy of the document has been lodged with the ASX pursuant to the Listing Rules. ASX and its officers do not take any responsibility for the contents of this document.

***Definitions***

Capitalised terms used in this document are defined in the glossary in section 9 of this document.

## Table of Contents

1. Frequently asked questions (FAQs).....	12
2. VDM's Financial Report.....	17
3. Resolution 1 - Remuneration Report.....	17
3.1. Background .....	17
3.2. Board recommendation .....	18
3.3. Voting exclusion .....	18
4. Resolution 2 - Election of Dr Dongyi Hua as a Director .....	18
4.1. Board Recommendation.....	18
5. Resolution 3 - Approval of the Security for the Secured Loan Agreement .....	19
5.1. Background of the Framework Loan Agreement .....	19
5.2. Overview of the Secured Loan Agreement .....	19
5.3. Description of the Security .....	21
5.4. Reason for seeking Shareholder approval of Resolution 3.....	22
5.5. Background to Chapter 2E of the Corporations Act.....	22
5.6. Specific information required by Chapter 2E of the Corporations Act.....	23
5.7. Rationale for granting the Security .....	24
5.8. Consequence of not approving Resolution 3 .....	24
5.9. Overview of Kengkong .....	24
5.10. Independent Expert's Report .....	24
5.11. Directors' recommendations .....	25
5.12. Voting exclusion .....	25
6. Resolution 4 – Approval of Future Placement Shares .....	25
6.1. Background .....	25
6.2. Rationale .....	26
6.3. Application of Listing Rule 7.1 .....	26
6.4. Specific information required by Listing Rule 7.3 .....	26
6.5. Directors' recommendation.....	27
6.6. Voting exclusion .....	27
7. Resolution 5 - Approval of 10% Enhanced Placement Facility .....	28
7.1. Background .....	28
7.2. Specific information required by Listing Rule 7.3A.....	30
7.3. Directors' recommendation.....	33
7.4. Voting exclusion .....	33
8. Resolution 6 - Approval of grant of Options to Dr Dongyi Hua .....	33
8.1. Description of the Options to be granted.....	33
8.2. Disclosures required by Listing Rule 10.13.....	34
8.3. Purpose and effect .....	34

8.4. Corporation Act – treatment of remuneration matters ..... 35

8.5. Directors' recommendation..... 35

8.6. Voting exclusion ..... 36

9. Glossary ..... 36

Appendix A – Independent Expert's Report ..... 39

## 1. Frequently asked questions (FAQs)

<p><b>Why did I receive this document?</b></p>	<p>This document contains information relating to the Resolutions to be considered at the Annual General Meeting on 28 November 2016.</p> <p>Under the Listing Rules, certain transactions require your approval at a general meeting of Shareholders before they can be implemented.</p> <p>The information set out in this document will assist you, as a Shareholder, to decide how you wish to vote on the Resolutions.</p> <p>This FAQ is a summary only and does not include all of the relevant information in relation to the Resolutions.</p> <p>Further information regarding the Resolutions are set out in sections 2 to 8 of this Explanatory Memorandum. Shareholders are strongly encouraged to read this document in its entirety before making a decision as to how to vote at the Meeting.</p> <p>If you have any doubt as to what you should do, you should consult your legal, financial or other professional adviser.</p>
<p><b>Resolution 3</b></p>	
<p><b>What is Resolution 3 asking me to vote on?</b></p>	<p>Shareholders are being asked to vote on Resolution 3 to approve the granting of the Security to Kengkong in respect of a secured loan facility provided by Kengkong (the “<b>Secured Loan Agreement</b>” or “<b>SLA</b>”).</p>
<p><b>What is the Security?</b></p>	<p>The Security is expected to include but is not limited to the following key components:</p> <ul style="list-style-type: none"> <li>• A general security deed with a first priority fixed and floating security over all of the Australian assets of VDM and its 100% owned Australian subsidiaries, excluding cash collateral deposits with banks.</li> <li>• A mortgage over VDM’s strata-titled apartment located in Mandurah Western Australia.</li> <li>• A power of attorney, to be legalized under Angolan law, that will give authority to sign all documents for the transfer, assignment or sale of VDM’s interest in the Cachoeiras do Binga copper exploration project located in the Republic of Angola.</li> </ul> <p>If an event of default is continuing under the Secured Loan Agreement, Kengkong may exercise the Security in accordance with its terms.</p>
<p><b>What is the Secured Loan Agreement?</b></p>	<p>The Company and Kengkong have substantially finalised the documents for the Secured Loan Agreement. However, as at the date of this Notice, the SLA was not yet executed.</p> <p>The SLA, when executed, is expected to comprise the following terms:</p> <ul style="list-style-type: none"> <li>• \$18 million limit inclusive of advances that have already been provided under the Framework Loan Agreement;</li> <li>• 6% interest rate;</li> <li>• 20% default interest rate;</li> </ul>

	<ul style="list-style-type: none"> <li>• mandatory repayment one year after the date of the SLA; and</li> <li>• typical events of default, undertakings and representations and warranties.</li> </ul> <p>Refer to section 5.2 of this Notice for a more fulsome description of the key terms of the SLA.</p>
<b>Who is Kengkong?</b>	<p>Kengkong is a private investment company, controlled by Mr Hiuming Luk, a non-executive Director and the Chairman of VDM. Therefore, in this context, Kengkong is a Related Party of the Company.</p> <p>As at the date of this Notice, the number of Shares currently held by Kengkong is 2,070,000,000, which is equivalent to Voting Power of 37.79% in VDM.</p>
<b>Why is my approval required to grant the Security?</b>	<p>You are a Shareholder and the approval of Shareholders is required under Listing Rule 10.1 for VDM and its subsidiaries to provide the Security to Kengkong.</p>
<b>If Resolution 3 is approved what will happen?</b>	<p>If Resolution 3 is approved then VDM proposes to execute and give effect to the SLA (if it has not already done so before the Meeting) and the Security.</p>
<b>If Resolution 3 is not approved what will happen?</b>	<p>If Resolution 3 is not approved then the Company and its subsidiaries will not be permitted to grant the Security. The consequence of this situation depends on whether the SLA has been entered into prior to the date of the Meeting.</p> <p>a) If the SLA has been entered into before the Meeting then the terms of the SLA will apply and:</p> <ul style="list-style-type: none"> <li>• an event of default will occur and will be continuing;</li> <li>• interest and advances under the FLA or otherwise advanced under the SLA will immediately become due and payable;</li> <li>• a 20% per annum default rate of interest rate will apply on any amounts owing to Kengkong which are not paid in full on their due date; and</li> <li>• VDM will be liable to indemnify Kengkong in respect of its costs under the SLA.</li> </ul> <p>b) If the SLA has not been entered into before the Meeting then the terms of the FLA will apply and:</p> <ul style="list-style-type: none"> <li>• Kengkong may be unwilling to continue to be an unsecured lender and accordingly could exercise its right under the FLA to require all amounts due under the FLA to be immediately repayable by VDM; and</li> <li>• a 20% per annum default rate of interest rate would commence to apply on the FLA liabilities.</li> </ul> <p>In both above scenarios, if Shareholders do not approve Resolution 3 there is a material risk that Kengkong may exercise its rights under the SLA or FLA (as relevant) to require the immediate repayment of all loaned funds. In those circumstances, unless VDM obtains alternative funding to promptly repay the liabilities to Kengkong then the Company would become insolvent and/or placed into voluntary administration as a result of its inability to repay its debts as and</p>

	when they fall due. VDM's ability to obtain alternative funding within such a short timeframe is uncertain.
<b>Why should I vote to approve Resolution 3?</b>	The amount to be made available to VDM under the SLA is significantly more than the net asset balance of VDM as reported on the 30 June 2016 Consolidated Statement of Financial Position. In transactions of this nature, the Board considers that it is usual and expected for a lender to be granted a first ranking security to secure the repayment of the loan.
<b>What is the opinion of the Independent Expert?</b>	<p>Listing Rule 10.10 provides that a notice of meeting under Listing Rule 10.1 must include, among other things, a report on the transaction from an independent expert.</p> <p>The terms of the Security and the relevant proposed transaction have been reviewed by the Independent Expert, RSM Corporate Australia Pty Ltd.</p> <p>The Independent Expert has concluded that the terms of the Security are fair and reasonable to Shareholders not associated with Kengkong.</p> <p>The Independent Expert's Report is set out in Appendix A of this Explanatory Memorandum.</p>
<b>Resolution 4</b>	
<b>What is Resolution 4 asking me to vote on?</b>	Shareholders are being asked to vote on a resolution to approve the allotment and issue of the Future Placement Shares to sophisticated and professional investors who are not Related Parties or Associates of Related Parties of the Company.
<b>Why is my approval required?</b>	<p>Listing Rule 7.1 provides that a company must not, subject to certain exceptions, issue during any 12 month period any equity securities if the number of those securities exceeds 15% of the total ordinary securities on issue at the commencement of that 12 month period.</p> <p>The Company is seeking approval of the proposed issue of the Future Placement Shares under Listing Rule 7.1.</p>
<b>If Resolution 4 is approved what will happen?</b>	<p>If Resolution 4 is approved by Shareholders, VDM will be able to issue the Future Placement Shares without using the Company's 15% annual placement capacity under the Listing Rules or, assuming that Resolution 5 is approved, the 10% Enhanced Placement Facility.</p> <p>If the SLA is executed then it is expected that any Future Placement will be an "Investment Event" under the SLA and accordingly, the proceeds of the issue of the Future Placement Shares will, if required by Kengkong, have to be used to pre-pay the SLA loan principal.</p>
<b>If Resolution 4 is not approved what will happen?</b>	If Resolution 4 is not approved by Shareholders, any capital raising that VDM seeks to undertake will either have to be within the Company's 15% annual placement capacity under the Listing Rules and, assuming that Resolution 5 is approved, the 10% Enhanced Placement Facility or be subject to future shareholder approval.



<p><b>Why should I vote to approve the issue of the Future Placement?</b></p>	<p>The Company requires funds to repay the loans from Kengkong (FLA or SLA depending on whether the SLA is executed); for the Company's ordinary operating costs; to undertake the exploration and feasibility work for the Cachoeiras do Binga copper exploration project; and for other future growth opportunities that may arise.</p> <p>If Resolution 4 is approved, it will give the Company the opportunity to raise the required funds without using the Company's 15% annual placement capacity under the Listing Rules or, assuming that Resolution 5 is approved, the 10% Enhanced Placement Facility. This will provide the Company with the flexibility to raise funds in the future without Shareholder approval.</p>
<p><b>Resolution 5</b></p>	
<p><b>What is Resolution 5 asking me to vote on?</b></p>	<p>Shareholders are being asked to vote on a resolution to approve the Company's ability to issue Equity Securities under the 10% Enhanced Placement Facility.</p>
<p><b>Why is my approval required?</b></p>	<p>The ability to issue Equity Securities under the 10% Enhanced Placement Facility is subject to Shareholder approval by way of a special resolution at an Annual General Meeting 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).</p>
<p><b>If Resolution 5 is approved what will happen?</b></p>	<p>If Resolution 5 is approved, the Directors will be able to issue 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.</p>
<p><b>If Resolution 5 is not approved what will happen?</b></p>	<p>If Resolution 5 is not approved, VDM will be unable to use the 10% Enhanced Placement Facility.</p>
<p><b>Why should I vote to approve the 10% Enhanced Placement Facility?</b></p>	<p>If Resolution 5 is approved, it will provide the Company with the opportunity to issue Equity Securities under the 10% Enhanced Placement Facility for the following purposes:</p> <p>(i) to raise cash:</p> <ul style="list-style-type: none"> <li>• to repay the loans from Kengkong (FLA or SLA depending on whether the SLA is executed);</li> <li>• for the Company's ordinary operating costs;</li> <li>• to undertake the exploration and feasibility work for the Cachoeiras do Binga copper exploration project;</li> <li>• for other future growth opportunities that may arise; or</li> </ul> <p>(ii) 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.</p>

<b>Resolution 6</b>	
<b>What is Resolution 6 asking me to vote on?</b>	Shareholders are being asked to vote on a Resolution to grant 30,000,000 Options to Dr Dongyi Hua, Executive Director of the Company (or his nominee).
<b>Why is my approval required?</b>	<p>Under ASX Listing Rule 10.11, unless a relevant exception applies, a company must not issue or agree to issue equity securities to a Related Party without the approval of the holder of the company's ordinary securities.</p> <p>A Director (including an Executive Director such as Dr Dongyi Hua), is considered to be a Related Party of the Company.</p>
<b>Purpose and consequences of granting the Options to Dr Dongyi Hua</b>	<p>The purpose of the grant of the Options to Dr Dongyi Hua is for the Company to appropriately incentivise and provide cost effective remuneration to him for his ongoing commitment and contribution to the Company.</p> <p>His cash remuneration, together with the Options are intended to provide a competitive remuneration package to Dr Dongyi Hua and to provide an incentive which aligns his interest with those of Shareholders.</p> <p>If the Options are not granted, the Company could remunerate Dr Dongyi Hua for additional amounts of cash. However, the Company considers cash preservation to be important, and the replacement or supplementation of cash remuneration with Options is part of the Company's cash preservation plan.</p> <p>A potential disadvantage of the Shareholders approving the issue of Options to Dr Dongyi Hua is the potential dilution of Shareholder interests if the Options are exercised.</p>
<b>General questions</b>	
<b>How does the Board recommend that I vote on the Resolutions?</b>	<p>The Board, with the exception of:</p> <ul style="list-style-type: none"> <li>• Mr Hiuming Luk, who does not make a recommendation in relation to Resolution 3 due to his interest in the outcome of that Resolution; and</li> <li>• Dr Dongyi Hua, who does not make a recommendation in relation to Resolutions 2 and 6 due to his interest in the outcome of those Resolutions,</li> </ul> <p>recommends that Shareholders vote in favour of the Resolutions.</p>
<b>When and where will the Meeting be held?</b>	The Meeting will take place on Monday, 28 November 2016 at 10:00am (AWST) at Level 1, Fortescue Centre, 30 Terrace Road, East Perth, Western Australia.
<b>Who can vote?</b>	<p>In accordance with the <i>Corporations Regulations 2001</i> (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 26 November 2016.</p> <p>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.</p>

<p><b>What is the voting approval threshold?</b></p>	<p>Save for Resolution 5, 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).</p> <p>Resolution 5 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).</p>
<p><b>Is voting compulsory?</b></p>	<p>Voting is not compulsory, though your vote is important. If you cannot attend the Meeting to be held on Monday, 28 November 2016, you are strongly encouraged to complete and return the Proxy Form that is enclosed with this document.</p> <p>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.</p> <p>If you require any assistance in completing or lodging your proxy, please contact your financial or other professional advisor.</p>

## **2. VDM's Financial Report**

The financial report, Directors' report and auditor's report for VDM for the year ended 30 June 2016 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 21 November 2016 to:

Padraig O'Donoghue  
Company Secretary  
VDM Group Limited  
PO Box 3347,  
East Perth WA 6892

Facsimile: (08) 9265 1199

Email: [padraig.odonoghue@vdmgroup.com.au](mailto:padraig.odonoghue@vdmgroup.com.au)

## **3. Resolution 1 – Remuneration Report**

### **3.1. Background**

The Remuneration Report can be found on pages 8 to 15 of the 2016 Annual Report, which is available from the Company's website at [www.vdmgroup.com.au](http://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.

The chairman of the Annual General Meeting 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.

### **3.3. 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 Resolution 1; 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 Resolution 1, and expressly authorises the chair to exercise the proxy even if Resolution 1 is connected directly or indirectly with the remuneration of a member of the Key Management Personnel.

## **4. Resolution 2 – Election of Dr Dongyi Hua as a Director**

Resolution 2 relates to the election of Dr Dongyi Hua as a Director.

In accordance with Listing Rule 14.4 and rule 8.1(d) of the Constitution, no Director (other than the managing director) may hold office without re-election beyond the third annual general meeting following the meeting at which the Director was last elected.

Dr Hua transitioned from the position of Managing Director to the position of Executive Director of Mining on 1 March 2016. Dr Hua was not previously elected and accordingly he will retire as a Director at the conclusion of the Meeting in accordance with Listing Rule 14.4 and rule 8.1(d) of the Constitution, and being eligible, has offered himself for election at the Meeting.

Dr Hua is the former Vice President, Executive Chairman and CEO of CITIC Pacific Mining, a position he held from October 2009 until April 2013. He was previously with Beijing-based CITIC Group, which he joined in 2002. Dr Hua has held executive management positions during the past 15 years for construction and resource development projects across Asia, Africa and Latin America in countries such as China, Angola, the Philippines, Pakistan, Brazil and Algeria. Dr Hua is the Vice President of the Australian China Business Council Western Australia. On 26 July 2016, Dr Hua was appointed Executive Director and Acting CEO of Frontier Services Group Limited, an Africa-focused logistics company listed on the Hong Kong Stock Exchange.

### **4.1. Board Recommendation**

The Board, other than Dr Dongyi Hua, who has an interest in the outcome of Resolution 2, recommends that Shareholders vote in favour of Resolution 2.

## **5. Resolution 3 – Approval of the Security for the Secured Loan Agreement**

### **5.1. Background of the Framework Loan Agreement**

Previously, on or around 26 January 2016, VDM and Kengkong entered into a Framework Loan Agreement (“**FLA**”). The FLA is a heads of agreement setting out the principal terms for a secured loan facility that the parties intended to enter into. The FLA also provides the terms for loan advances that have been provided to VDM prior to the parties entering into a secured loan facility (the “**FLA Advances**”).

As at the date of issuing this Notice, Kengkong has provided FLA Advances of A\$4,500,000 and US\$1,000,000 to VDM.

The key terms of the FLA Advances are as follows:

#### **Key terms of FLA Advances**

<b>Title</b>	<b>Description</b>
Purpose	FLA Advances may only be used for purposes pre-approved by Kengkong.
Repayment	FLA Advances will be incorporated into the secured loan facility unless they are demanded by Kengkong before the secured loan facility takes effect, in which case they are immediately repayable.  A\$ advances and interest must be repaid in A\$ and US\$ advances and interest must be repaid in US\$.
Interest rate	6% interest per annum
Default interest rate	20% per annum
Security	Unsecured

To the extent that Kengkong provides VDM with any additional advances prior to execution of the secured loan facility (“**Additional FLA Advances**”), the Company expects that Kengkong will provide them on similar terms as the FLA Advances.

### **5.2. Overview of the Secured Loan Agreement**

The Company and Kengkong have been negotiating the detailed terms for a secured loan facility as contemplated in the FLA (refer to previous section 5.1). The parties have substantially finalised the documents for the secured loan facility (the “**Secured Loan Agreement**” or “**SLA**”). However, as at the date of this Notice, the SLA was not yet executed.

The SLA, when executed, is expected to contain the following key terms:

#### **Key terms of the Secured Loan Agreement**

<b>Title</b>	<b>Description</b>
Lender	Kengkong
Borrower	The Company
Facility limit	Drawings limit of A\$18,000,000 (made available at the discretion of Kengkong), with a monthly A\$ currency equivalent test on US\$ drawings. The limit is reduced by any amount pre-paid to Kengkong.
Availability period	Funds are available for drawdown until 26 January 2017.
Interest rate	6% interest per annum.
Default interest rate	20% per annum, compounded every 30-days.

Drawings	Drawings can be either A\$ or US\$.
FLA Advances	The FLA Advances are deemed to have been drawings under the SLA, denominated in the currency of the advance.
Guarantee	Each of VDM's subsidiaries have agreed to guarantee VDM's obligations under the SLA (the " <b>Guarantors</b> "). The Guarantors include each of the following entities: <ul style="list-style-type: none"> <li>• Keytown Constructions Pty Ltd;</li> <li>• VDM Developments Pty Ltd;</li> <li>• VDM Trading Pty Ltd;</li> <li>• VDM Engineering (Eastern Operations) Pty Ltd</li> <li>• Burchill VDM Pty Ltd;</li> <li>• VDM Construction Pty Ltd;</li> <li>• VDM Equipment Pty Ltd;</li> <li>• VDM Group Limited International (Dubai Branch) Pty Ltd</li> <li>• BCA Consultants Pty Ltd in its personal capacity and in its capacity as trustee for the E.B Trust; and</li> <li>• VDM Mining Pty Ltd.</li> </ul>
Prepayment	VDM may prepay the principal outstanding without premium or penalty at any time.
Repayment	A\$ drawings and associated interest must be repaid in A\$. US\$ drawings and associated interest must be repaid in US\$. All amounts owing under the SLA, must be repaid by the date which is one year after the date of execution of the SLA.
Mandatory pre-payment	Proceeds of any future "Investment Event" (being an event where any person invests or acquires a relevant interest in any securities of VDM or the Guarantors, or any other affiliated company or related entities of VDM or the Guarantors) must, if required by Kengkong, be used to pre-pay the SLA loan principal.
Purpose	SLA drawings must be used for specific matters relating to the Cachoeiras do Binga project, general working capital as agreed to by Kengkong, and any other purpose pre-approved in writing by Kengkong.
Security	There are three main components of the Security, which are subject to Shareholder approval: <ul style="list-style-type: none"> <li>• a general security deed;</li> <li>• a real property mortgage; and</li> <li>• a power of attorney to sign on behalf of VDM all documents for the transfer, assignment or sale of VDM's interest in CdB.</li> </ul>
Shareholder approval in relation to Security	VDM is required to convene a meeting of Shareholders by no later than 30 November 2016 to seek the approval of Shareholders for the grant of the Security. If Shareholder approval is obtained for the grant of the Security, VDM must provide signed counterparts of the relevant Security agreements.
Representations, and warranties	For the period of the SLA, VDM provides a comprehensive list of representations and warranties to Kengkong that are typical of secured loan agreements, including that no potential event of default is continuing.

Special undertakings	<p>VDM provides a broad list of undertakings to Kengkong in relation to the conduct of the business of the Company that are typical of secured loan agreements, in addition to the following special undertakings:</p> <ul style="list-style-type: none"> <li>• VDM agrees to do all such things required by Kengkong to ensure that the board of directors of the Company consists of a majority of directors nominated by Kengkong; and</li> <li>• VDM agrees to not to incur any expenditure or any payment of whatsoever nature unless such payment has the prior written consent of Kengkong.</li> </ul> <p>The granting of the Security is also subject to any necessary approval from the Treasurer of the Commonwealth of Australia pursuant to the <i>Foreign Acquisitions and Takeovers Act 1975</i> (Cth). VDM will only be permitted to grant the Security to the extent that this approval is provided. As at the date of this notice of meeting, the Company has no reason to expect that the necessary approvals will not be granted.</p>
Events of default	<p>The SLA includes a broad list of events of default which are typical of secured loan agreements. For completeness, we note that if Shareholders do not approve the grant of the Security, it is intended to constitute an event of default under the SLA. The events default under the SLA also include, but are not limited to the following:</p> <ul style="list-style-type: none"> <li>• failure by VDM or the Guarantors to pay any amounts payable under the SLA;</li> <li>• distress is levied or a judgment, order or security is enforced against property of VDM, the Guarantors or a Related Entity;</li> <li>• failure by VDM, the Guarantors or a Related Entity to pay a judgment or settlement amount which exceeds A\$100,000;</li> <li>• a representation or warranty made by VDM, the Guarantors or a Related Entity which is incorrect, inaccurate or misleading;</li> <li>• an insolvency event occurs in relation to VDM, the Guarantors or a Related Entity, or the CdB joint venture is dissolved;</li> <li>• failure by VDM, the Guarantors or a Related Entity to conduct its business in the ordinary course, including but not limited to disposing of or acquiring any material asset, or entering into or terminating any material contract;</li> <li>• VDM, the Guarantors or a Related Entity stopping or threatening to stop carrying on its business or a material part of it or substantially changing the nature of its business without Kengkong's prior written consent;</li> <li>• breach by VDM or the Guarantors of an undertaking, obligation or other provision under the SLA which is not remedied within five business days of the breach or any other period specified in the SLA; and</li> <li>• VDM, the Guarantors or a Related Entity creating or authorising a security interest to be granted over any of its assets without the prior written consent of Kengkong.</li> </ul>

### **5.3. Description of the Security**

VDM is seeking approval from Shareholders to grant Kengkong the Security which is contemplated under the SLA. Refer to previous section 5.2 for an overview of the SLA.

Assuming the parties execute the SLA, then subject to Shareholder approval of Resolution 3, under the terms of the SLA the Company and the Guarantors will be required to provide the Security to Kengkong to secure the Company's obligations under the SLA, including loan principal, interest and indemnified costs.

If the Security is granted, and there is an event of default continuing under the SLA (as that term is defined in the SLA), the Security is intended to provide Kengkong, or the nominee of Kengkong whom Kengkong may decide, with the ability to control or take ownership of the secured assets for the purpose of satisfying the amounts due under the SLA.

The Security includes but is not limited to the following key components:

#### **Key components of the Security**

<b>Title</b>	<b>Description</b>
General Security Deed	A general security deed pursuant to which VDM and the Guarantors grant a first priority fixed and floating charge to Kengkong over all of their Australian assets, excluding cash collateral deposits with banks. The general security deed will be on terms and conditions that are customary for security of this nature.
Australian real property mortgage	A real property mortgage over the Company's strata-titled apartment located in Mandurah Western Australia, otherwise known as Lot 20 on Strata Plan 59554, with Volume 2739 and Folio 653.
Angolan PoA	An irrevocable power of attorney from VDM in favour of Kengkong that will be legalised under Angolan law ( <b>Angolan PoA</b> ). When legalised, the Angolan PoA will give Kengkong authority to sign all documents for the transfer, assignment or sale of VDM's interest in CdB. The terms of the SLA provide that Kengkong may only exercise its Angolan PoA rights to recover amounts owing pursuant to the SLA.

#### **5.4. Reason for seeking Shareholder approval of Resolution 3**

Listing Rule 10.1 provides that a listed company and its subsidiaries must not dispose of a substantial asset to a Related Party of the Company, or an entity holding more than 10% of shares in the Company in the last 6 months, without the approval of shareholders at a general meeting.

- For the purposes of Listing Rule 10.1, the granting of the Security would be considered a disposal of a substantial asset, as they relate to all of the assets of the Company and the Guarantors.
- Kengkong is a private investment company, controlled by Mr Hiuming Luk, a non-executive Director and the chairman of VDM. Therefore, in this context, Kengkong is a Related Party of the Company. Kengkong also holds 37.79% of the Shares in VDM. Therefore, Kengkong is also a substantial holder of shares in VDM prohibited from acquiring a substantial asset from VDM without shareholder approval.

Accordingly, the Company is required to seek Shareholder approval under Listing Rule 10.1 in respect of granting the Security to Kengkong.

#### **5.5. 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, Kengkong is a Related Party and entry into the Framework Loan Agreement, Secured Loan Agreement, and the granting of the Security constitutes the giving of a financial benefit to Kengkong. Accordingly, Shareholder approval is prima facie required.

However, 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 terms less favourable than arm's length).

The Board is of the view that the entry into the Framework Loan Agreement, the Secured Loan Agreement and the granting of the Security to Kengkong is on terms that would be no more favourable to Kengkong than terms that would be reasonable in the circumstance if Kengkong and VDM were dealing at arm's length. Accordingly, the Board does not consider it necessary to seek Shareholder approval for the purposes of Chapter 2E of the Corporations Act.

### **5.6. Specific information required by Chapter 2E of the Corporations Act**

Notwithstanding that the Board does not consider it necessary to seek Shareholder approval for the purposes of Chapter 2E of the Corporations Act, the following information is provided in accordance with section 219 of the Corporations Act to ensure that Shareholders have all relevant information required to assess the merits of Resolution 3:

- a) The Related Parties to whom Resolution 3 would permit the financial benefit to be given.

Kengkong and Mr Hiuming Luk (as the controller of Kengkong) who are each a Related Party of the Company.

- b) The nature of the financial benefit being provided.

Pursuant to Resolution 3, Kengkong is granted the Security in respect of the advances made pursuant to the FLA and SLA. The Security provides collateral to secure the obligations of VDM to repay the amounts, together with any accrued interest.

- c) The recommendation of Directors in relation to Resolution 3.

The recommendation of the Directors (other than Mr Hiuming Luk, who has declined to make a recommendation given that he has a material personal interest in the outcome of Resolution 3) is set out in section 5.11.

Other than Mr Hiuming Luk as controller of Kengkong and as a Director of VDM, no other 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.

- d) Other information that is material to Shareholders.

The Independent Expert has determined that the granting of the Security is fair and reasonable to Shareholders not associated with Kengkong. The Board does not consider that there are any significant opportunity costs of the Company, taxation consequences or benefits foregone by granting the Security to Kengkong.

Other than as set out in the Explanatory Statement and the Independent Expert's Report, 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.

### **5.7. Rationale for granting the Security**

The \$18 million loan to be made available to VDM under the SLA is significantly more than the \$3.0 million net asset balance of VDM Group Limited as reported on the 30 June 2016 Consolidated Statement of Financial Position. In transactions of this nature, the Company considers that it is usual and expected for a lender to be granted a first ranking security to secure the repayment of the loan.

### **5.8. Consequence of not approving Resolution 3**

If Resolution 3 is not approved then the Company and the Guarantors will not be permitted to grant the Security in favour of Kengkong. The consequence of this depends on whether the SLA has been entered into prior to the date of the Meeting.

- a) If the SLA has been entered into before the Meeting then the expected terms of the SLA will apply and if Shareholders do not approve Resolution 3:
  - an event of default will occur and will be continuing;
  - interest and advances under the FLA or otherwise advanced under the SLA will immediately become due and payable;
  - a 20% per annum default rate of interest rate will apply on any amount owing to Kengkong which are not paid in full on their due date; and
  - VDM will be liable to indemnify Kengkong in respect of its costs arising under the SLA.
- b) If the SLA has not been entered into before the Meeting then the terms of the FLA will apply and if Shareholders do not approve Resolution 3:
  - Kengkong may be unwilling to continue to be an unsecured lender to VDM, and accordingly could exercise its right under the FLA to require any or all amounts due under the FLA to be immediately repayable by VDM; and
  - a 20% per annum default rate of interest rate would commence to apply on any amount owing to Kengkong which are not paid in full on their due date.

In both above scenarios, if Shareholders do not approve Resolution 3 there is a material risk that Kengkong may exercise its rights under the SLA or FLA (as relevant) to require the immediate repayment of all loaned funds. In those circumstances, unless VDM promptly obtains alternative funding to repay the liabilities due to Kengkong then there is a distinct possibility that the Company would become insolvent and/or placed into voluntary administration as a result of its inability to repay its debts as and when they fall due. VDM's ability to obtain alternative funding within such a short timeframe is uncertain.

### **5.9. Overview of Kengkong**

Kengkong is a private investment vehicle controlled by Mr Hiuming Luk, a Director and the non-executive chairman of VDM. Kengkong has its registered address in New South Wales.

As at the date of this document, the number of Shares currently held by Kengkong is 2,070,000,000, which is equivalent to a Voting Power of 37.79%.

### **5.10. Independent Expert's Report**

The Company engaged RSM Corporate Australia Pty Ltd to provide an Independent Expert's Report with respect to the Security. 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 providing the Security is fair and reasonable to the Shareholders of the Company not associated with Kengkong.

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.

### **5.11. Directors' recommendations**

The advantages to Shareholders of voting to approve Resolution 3 are:

- a) the SLA is expected to have a 12 month period before repayment is required. Accordingly, it provides up to \$18 million (less amounts already advanced to VDM) and time for VDM to advance exploration and feasibility of the Cachoeiras do Binga project, potentially produce positive news flow and source alternative funding prior to the repayment date of the loan amounts.
- b) the amount to be made available to VDM under the SLA is significantly more than the net asset balance of VDM as reported on the 30 June 2016 Consolidated Statement of Financial Position. In transactions of this nature, the Board considers that it is usual and expected for a lender to be granted a first ranking security to secure the repayment of the loan;
- c) if Shareholder approval is not obtained in respect of Resolution 3, the advances provided by Kengkong under the FLA or SLA will become immediately repayable. In those circumstances, unless VDM obtains alternative funding to promptly repay the liabilities to Kengkong then the Company would become insolvent and/or placed into voluntary administration as a result of its inability to repay its debts as and when they fall due. VDM's ability to obtain alternative funding within such a short timeframe is uncertain; and
- d) the Independent Expert has concluded that the terms of the Security are fair and reasonable to Shareholders not associated with Kengkong.

The disadvantages to Shareholder of voting to approve Resolution 3 are:

- e) If VDM defaults on the SLA then Kengkong will have a right to exercise its rights under the Security.

Based on the information available, including that contained in this Explanatory Memorandum and the Independent Expert's Report, the Directors (other than Mr Hiuming Luk, who does not make a recommendation in relation to Resolution 3 due to his interest in the outcome of that Resolution) recommend that Shareholders vote in favour of Resolution 3.

Each Director who holds Shares (or whose associated entities hold Shares) and is entitled to vote on this Resolution intends to vote those Shares in favour of Resolution 3.

### **5.12. Voting exclusion**

For the purposes of the Listing Rules and for all other purposes, the Company will disregard any votes cast on Resolution 3 by Kengkong and any of its Associates.

However, the Company need 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 a 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 Future Placement Shares**

### **6.1. Background**

Resolution 4 seeks Shareholder approval pursuant to Listing Rule 7.1 for the issue of up to 1,360,000,000 (1.36 billion) Shares within three months of the date of the Meeting each at an issue price of not less than 80% of the VWAP of Shares for the last five days on which sales of the Shares are recorded before the day on which the issue will be made (**Future Placement Shares**) to sophisticated and professional investors who are not Related Parties or Associates of Related Parties of the Company (**Future Placement**).

The dilution to the interests of existing Shareholders as a result of the issue of the Future Placement Shares is set out in the table below:

<b>Dilution Scenario</b>	<b>% Dilution (based on current issued share capital)</b>
If 680,000,000 Shares are issued (50% of the Future Placement Shares)	12.41%
If 1,360,000,000 Shares are issued (100% of the Future Placement Shares)	24.83%

## **6.2. Rationale**

Funds will be required to repay the loans from Kengkong (FLA or SLA depending on whether the SLA is executed), to meet the Company's ordinary operating costs, for the exploration and feasibility costs associated with the Cachoeiras do Binga copper exploration project, and for future growth opportunities that may arise. The Company will seek to raise such capital following the Meeting.

If the SLA is executed then it is expected that any Future Placement will be an "Investment Event" under the SLA and accordingly, the proceeds of the issue of the Future Placement Shares must, if required by Kengkong, be used to pre-pay the SLA loan principal.

If Resolution 4 is approved, the Company will seek to raise such funds by making a placement of Future Placement Shares without using the Company's 15% annual placement capacity or (assuming Resolution 5 is approved), the Company's 10% Enhanced Placement Facility. This will allow the Company to retain additional flexibility to raise funds in the future to meet the Company's financial obligations and ongoing operating and growth costs without the need for shareholder approval.

## **6.3. Application of Listing Rule 7.1**

Listing Rule 7.1 provides that a company must not, without the approval of Shareholders, 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.

VDM is seeking the approval of the Shareholders under Listing Rule 7.1 to issue the Future Placement Shares.

## **6.4. Specific information required by Listing Rule 7.3**

Listing Rule 7.3 sets out a number of matters which must be included in a notice of meeting requesting shareholder approval under Listing Rule 7.1. In accordance with Listing Rule 7.3, the following information is provided to Shareholders to assist them to assess whether to approve Resolution 4:

- (a) The maximum number of Shares to be issued.  
  
The maximum number of Shares that the Company intends to issue under Resolution 4 is 1,360,000,000.
- (b) The date by which the Company will issue the Future Placement Shares.  
  
The Company will issue and allot the Future Placement Shares no later than three months after the date of the Meeting (or such longer period of time as ASX may in its discretion allow).

- (c) The issue price of the Future Placement Shares.

The Future Placement Shares will each be allotted at an issue price of not less than 80% of the VWAP of Shares for the last five days on which sales of the Shares are recorded before the day on which the issue will be made, or if there is a disclosure document relating to the issue, 80% of the VWAP of Shares over the last 5 days on which sales of Shares were recorded before the disclosure document is signed.

- (d) The name of the persons to whom the Future Placement Shares will be issued.

At the Board's discretion, the Future Placement Shares will be issued to sophisticated and professional investors who are not Related Parties or Associates of Related Parties of the Company, subject to compliance with the Corporations Act and the Listing Rules.

- (e) The terms of the Future Placement Shares.

The Future Placement Shares will be fully paid ordinary shares and will rank equally in all respects with the Company's existing Shares on issue.

- (f) The intended use of the funds raised.

It is intended that the funds raised will be used by the Company to repay the loans from Kengkong (pursuant to the FLA or SLA depending whether the SLA is executed), to meet the Company's ordinary operating costs, and for growth, including for the exploration and feasibility costs associated with the Cachoeiras do Binga copper exploration project.

If the SLA is executed then it is expected that any Future Placement will be an "Investment Event" under the SLA and accordingly, the proceeds of the issue of the Future Placement Shares must be used to pre-pay the SLA loan principal.

- (g) The issue date.

The Company intends to issue the Future Placement Shares progressively on such dates when the Company completes any capital raisings following the Meeting and in accordance with any agreements contemplated by those capital raisings.

- (h) A voting exclusion statement.

A voting exclusion statement in respect of Resolution 4 is set out in section 6.6 of the Explanatory Memorandum.

### **6.5. Directors' recommendation**

The Board unanimously recommends that Shareholders vote in favour of Resolution 4.

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. Voting exclusion**

For the purposes of Listing Rule 7.1, and for all other purposes, the Company will disregard any votes cast on Resolution 4 by any person who may participate in the issue of Future Placement Shares (and any Associate of such person) and who might obtain a benefit (and any Associate of such person), except a benefit solely in the capacity of a holder of Shares, if Resolution 4 is passed.

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.

## **7. Resolution 5 - 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 7.1(c) below).

The effect of Resolution 5 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 5 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).

### **7.1. 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 Annual General Meeting.

#### **(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 x 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 before the issue date under an exception in Listing Rule 7.2;
- (ii) plus the number of partly paid Shares that became fully paid in the 12 months before the issue date;

(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**

A summary of the application of Listing Rule 7.1 is set out in section 6.3 of this Explanatory Memorandum.

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 5,477,660,952 Shares on issue. Therefore subject to Shareholder approval the Company will have a capacity to issue:

- (i) 821,649,143 Equity Securities under Listing Rule 7.1; and
- (ii) 547,766,095 Equity Securities under Listing Rule 7.1A.1 subject to Shareholders approving Resolution 5.

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 7.1(c) above) and so is subject to change (including as a result of the issue of Future Placement Shares contemplated in this Explanatory Memorandum).

**(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 on which trades in that class were recorded 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 five 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).

## **7.2. 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 on which trades in that class were recorded 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 five 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 5 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), the issue of Future Placement Shares contemplated in this Explanatory Memorandum, 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 66% and increased by 66% 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 are exercised or Rights are issued 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 \$0.003, being the closing price of the Shares on ASX on 21 October 2016.

Variable 'A' in Listing Rule 7.1A.2		Dilution		
		\$0.001 66% decrease in Issue Price	\$0.003 Issue price	\$0.005 66% increase in Issue Price
Current Variable A 5,477,660,952 Shares	10% Voting Dilution	547,766,095 Shares	547,766,095 Shares	547,766,095 Shares
	Funds raised	\$547,766.10	\$1,643,298.29	\$2,738,830.48
50% increase in in current Variable A 8,216,491,428 Shares	10% Voting Dilution	821,649,142 Shares	821,649,142 Shares	821,649,142 Shares
	Funds raised	\$821,649.14	\$2,464,947.43	\$4,108,245.71
100% increase in current Variable A 10,955,321,904 Shares	10% Voting Dilution	1,095,532,190 Shares	1,095,532,190 Shares	1,095,532,190 Shares
	Funds raised	\$1,095,532.19	\$3,286,596.57	\$5,477,660.95

- (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 5 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) to raise cash:
  - o for repayment of outstanding balance of loans from Kengkong (FLA or SLA depending whether the SLA is executed) (If the SLA is executed then the issue of the Equity Securities will be an "Investment Event" under the SLA and accordingly, the proceeds of the issue must be used to pre-pay the SLA loan principal);
  - o for the Company's ordinary operating costs;
  - o for growth, including for the exploration and feasibility costs associated with the Cachoeiras do Binga copper exploration project; or
- (ii) 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.

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) As the Company has previously obtained Shareholder approval under Listing Rule 7.1A, the following information is provided to Shareholders, in accordance with Listing Rule 7.3A.6, regarding the Equity Securities issued in the previous 12 months preceding the date of the Meeting (that is, since 28 November 2015):

- (i) Total Equity Securities issued in previous 12 months:

Number of Equity Securities on issue on at commencement of 12 month period	4,827,660,952 Shares
Equity securities issued in prior 12 month period*	650,000,000 Shares
Percentage previous issues represent of total number of equity securities on issue at commencement of 12 month period	13.46% increase in Shares

(ii) The details of all issues of Equity Securities by the Company during the 12 months proceeding the 2016 Annual General Meeting are as follows:

Date of issue:	16 February 2016
Number issued:	650,000,000
Class/Type of equity security:	Shares
Summary of terms:	The Shares rank equally in all respects with existing Shares on issue
Names of persons who received securities or basis on which those persons was determined:	Nominees of Seabank Resources Lda .
Price at which equity securities were issued:	\$0.012 closing price on the issue date
Discount to market price (if any):	No discount (closing price on issue date was \$0.01)
Total cash consideration:	Nil
The amount of the cash consideration used and what cash consideration was spent on:	The issue is part consideration for VDM Group Limit's acquisition of a 65% participating interest in the Cachoeiras do Binga copper exploration project.

(f) Voting exclusion statement

A voting exclusion statement in respect of Resolution 5 is set out in section 7.4 of the Explanatory Memorandum.

### **7.3. Directors' recommendation**

The Board unanimously recommends that Shareholders vote in favour of Resolution 5.

Each Director who holds Shares in VDM (or whose associated entitled hold Shares) and is entitled to vote intends to vote those Shares in favour of Resolution 5.

### **7.4. Voting exclusion**

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.

## **8. Resolution 6 – Approval of grant of Options to Dr Dongyi Hua**

### **8.1. Description of the Options to be granted**

On 1 February 2016, the Company announced the transition of Dr Dongyi Hua from the position of the Company's managing director and chief executive officer to a new part-time position of Executive Director.

On 21 March 2016, the Company announced the key employment terms for Dr Hua in his Executive Director position, which included the grant of Options subject to Shareholder approval. The date of the employment variation was 1 March 2016.

If Resolution 6 is approved, Dr Dongyi Hua (or his nominee) will be issued with the following Options:

- 10 million Options with an exercise price of \$0.015, exercisable from 1 March 2017 and expiring on 29 February 2020.

- 10 million Options with an exercise price of \$0.020, exercisable from 1 March 2018 and expiring on 28 February 2021.
- 10 million Options with an exercise price of \$0.025, exercisable from 1 March 2019 and expiring on 28 February 2022.

All Options will expire if the Dr Hua leaves the Company for any reason. The Options will not expire if Dr Hua changes role within the Company. If the Company reorganises its Share capital by means of a stock split or Share consolidation then the number of Options and the exercise price will be adjusted proportionally to the change in the number of Shares.

The Options will not have an issue cost, no Company loans will apply to them and no funds will be raised from their issue (although funds may be raised if they are subsequently exercised).

Each Option will entitle the holder to subscribe for and be issued one Share at the relevant exercise price.

In the event that all the Options proposed to be issued to Dr Hua are exercised, the issue of Shares under Option will be equal to approximately 0.54% of the Company's current fully-diluted Share capital (based on the number of Shares on issue as at the date of this document).

### **8.2. Disclosures required by Listing Rule 10.13**

For the purposes of Listing Rule 10.13, the Company provides the following:

- the name of the person receiving the Options is Dr Dongyi Hua (or his nominee);
- the maximum number of securities to be issued is 30 million Options, which Option entitles the holder to subscribe for and be issued one Share at the relevant exercise price;
- the date by which the Company will issue the securities, which must not be more than 1 month after the date of the Meeting - subject to receiving Shareholder approval, the Company proposes to issue the Options as soon as possible after the Meeting, and in any event, no later than 1 month after the date of the Meeting;
- Dr Dongyi Hua is a Director;
- the Options will not have an issue cost, and are issued as part of the remuneration of Dr Dongyi Hua as an Executive Director. The terms of issue of the Options are set out in section 3.1 of this Explanatory Memorandum;
- a voting exclusion statement is included in the Notice; and
- as the Options will not have an issue cost, no funds will be raised from their issue (although funds may be raised if they are subsequently exercised, in which case, any funds raised due to the exercise of any of the Options will be applied for such purposes of the Company as the Directors think fit, for example, for working capital purposes).

### **8.3. Purpose and effect**

Dr Dongyi Hua is currently entitled to receive cash remuneration of \$198,000 per annum (paid monthly) plus statutory superannuation.

The purpose of the grant of the Options to Dr Dongyi Hua is for the Company to appropriately incentivise and provide cost effective remuneration to him for his ongoing commitment and contribution to the Company. His cash remuneration, together with the Options, are intended to provide a competitive remuneration package to Dr Dongyi Hua and to provide an incentive which aligns his interest with those of Shareholders.

The exercise prices of the Options are set out in section 8.1. The Company notes that the Options have exercise prices which are materially higher than the Company's Share price at the date of this document.

If the Options are not granted, the Company could remunerate Dr Dongyi Hua for additional amounts of cash. However, the Company considers cash preservation to be important, and the replacement or supplementation of cash remuneration with Options is part of the Company's cash preservation plan.

A potential disadvantage of the Shareholders approving the issue of Options to Dr Dongyi Hua is the potential dilution of Shareholder interests if the Options are exercised.

#### **8.4. Corporation Act – treatment of remuneration matters**

Under Chapter 2E of the Corporations Act, a public company cannot give a 'financial benefit' to a 'related party' such as a director unless one of the exceptions to the section apply or Shareholders have in a general meeting approved the giving of that financial benefit to the related party.

The Corporations Act provides an exception where the financial benefit is reasonable given the circumstances of the Company and the related party's circumstances (including the responsibilities involved in the office or employment).

The Company considers that the proposed issue of the Options to Dr Dongyi Hua (or his nominee), and any corresponding financial benefit:

- is benefit which is remuneration given to a related party as an officer or employee of the Company and to give that remuneration would be reasonable given:
  - the circumstances of the Company; and
  - the related party's circumstances (including the responsibilities involved in the office and/or employment); and
- is reasonable in the circumstances if the Company and Dr Dongyi Hua were acting at arm's length; and/or
- are less favourable to Dr Dongyi Hua than the terms which would apply in the circumstances if the Company and Dr Dongyi Hua were acting at arm's length.

On the basis that the Company believes that the remuneration and the arm's length exceptions applies to the issue of the Options to Dr Dongyi Hua, Shareholder approval for the purpose of section 208 of the Corporations Act is not required. However, in the interest of good corporate governance and out of an abundance of caution, the Company nonetheless provides the following information:

- (a) the related party to whom the Resolution 6 would permit financial benefits to be given is Dr Dongyi Hua;
- (b) the nature of the financial benefit is the issue of the Options to Dr Dongyi Hua on the terms described in this document;
- (c) the recommendation of each Director wanting to make a recommendation is set out in section 8.5 of this Explanatory Memorandum;
- (d) whether any such Director has an interest in the outcome of Resolution 6 - Dr Dongyi Hua, being the proposed recipient of the Options, has an interest in the outcome of Resolution 6; and
- (e) all other information that is that is known to the Company or any of its Directors and/or reasonably required by members in order to decide whether or not it is in the Company's interest to pass the Resolution is set out in this document.

#### **8.5. Directors' recommendation**

The Directors (other than Dr Dongyi Hua, who does not make a recommendation in relation to Resolution 6 due to his interest in the outcome of that Resolution) recommend that Shareholders vote in favour of Resolution 6.

## **8.6. Voting exclusion**

For the purposes of the Listing Rules and for all other purposes, the Company will disregard any votes cast on Resolution 6 by Dr Dongyi Hua and any of his Associates.

However, the Company need 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 a 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.

## **9. Glossary**

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

**"10% Enhanced Placement Facility"** has the meaning given in section 7 of the Explanatory Memorandum;

**"10% Placement Period"** has the meaning given in section 7.1(f) of the Explanatory Memorandum;

**"A\$" or "\$"** means Australian dollars;

**"Additional FLA Advances"** has the meaning given in section 5.1 of the Explanatory Memorandum;

**"AGM", Annual General Meeting** or **"Meeting"** means the annual general meeting of Shareholders of the Company convened by this Notice;

**"Angola"** means the Republic of Angola;

**"Angolan PoA"** has the meaning given in section 5.3 of this Notice; **"Annual Report"** means the annual report of the Company for the year ended 30 June 2016;

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

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

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

**"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;

**"Constitution"** means the constitution of the Company;

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

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

**"Equity Securities"** has the meaning given in the Listing Rules;

**"Executive Director"** means a Director who is an employee of the Company;

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

**"Framework Loan Agreement"** or **"FLA"** means the document entitled Framework Loan Agreement between the Company and Kengkong dated on or around 26 January 2016;

**"FLA Advances"** has the meaning given in section 5.1 of the Explanatory Memorandum;

**"Future Placement"** has the meaning given in section 6.1 of the Explanatory Memorandum;

**"Future Placement Shares"** has the meaning given in section 6.1 of the Explanatory Memorandum;

**"Guarantor"** has the meaning given in section 5.2 of the Explanatory Memorandum;

**"Independent Expert"** means RSM Corporate Australia Pty Ltd;

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

**"Kengkong"** means Australia Kengkong Investments Co Pty Ltd ABN 14 166 606 757;

**"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;

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

**"Option"** means an option to acquire (by way of issue) a Share;

**"Proxy Form"** means the proxy form accompanying this Notice or an equivalent online electronic proxy form;

**"QR Code"** means the machine-readable code consisting of an array of black and white squares;

**"Related Entity"** means a Subsidiary or holding company of VDM or the Guarantors, or any other Subsidiary of a holding company of VDM or the Guarantors.

**"Related Party"** has the meaning given to it in the Corporations Act;

**"Remuneration Report"** means the remuneration report set out in the Director's report section of the Company's Annual Report;

**"Resolution"** means a resolution contained in this Notice;

**"Secured Loan Agreement"** or **"SLA"** means the secured loan agreement proposed to be entered into between VDM, the Guarantors and Kengkong.

**"Security"** means the security interests proposed to be granted by the Company and the Guarantors as described in this Explanatory Memorandum;

**"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;

**"Subsidiary"** of an entity means another entity which:

- (a) is a subsidiary of the first entity within the meaning of the Corporations Act; or
- (b) is part of the consolidated entity constituted by the first entity and the entities it is required to include in the consolidated financial statements it prepares, or would be if the first entity was required to prepare consolidated financial statements.

**"Trading Day"** has the has the meaning given in the Listing Rules;

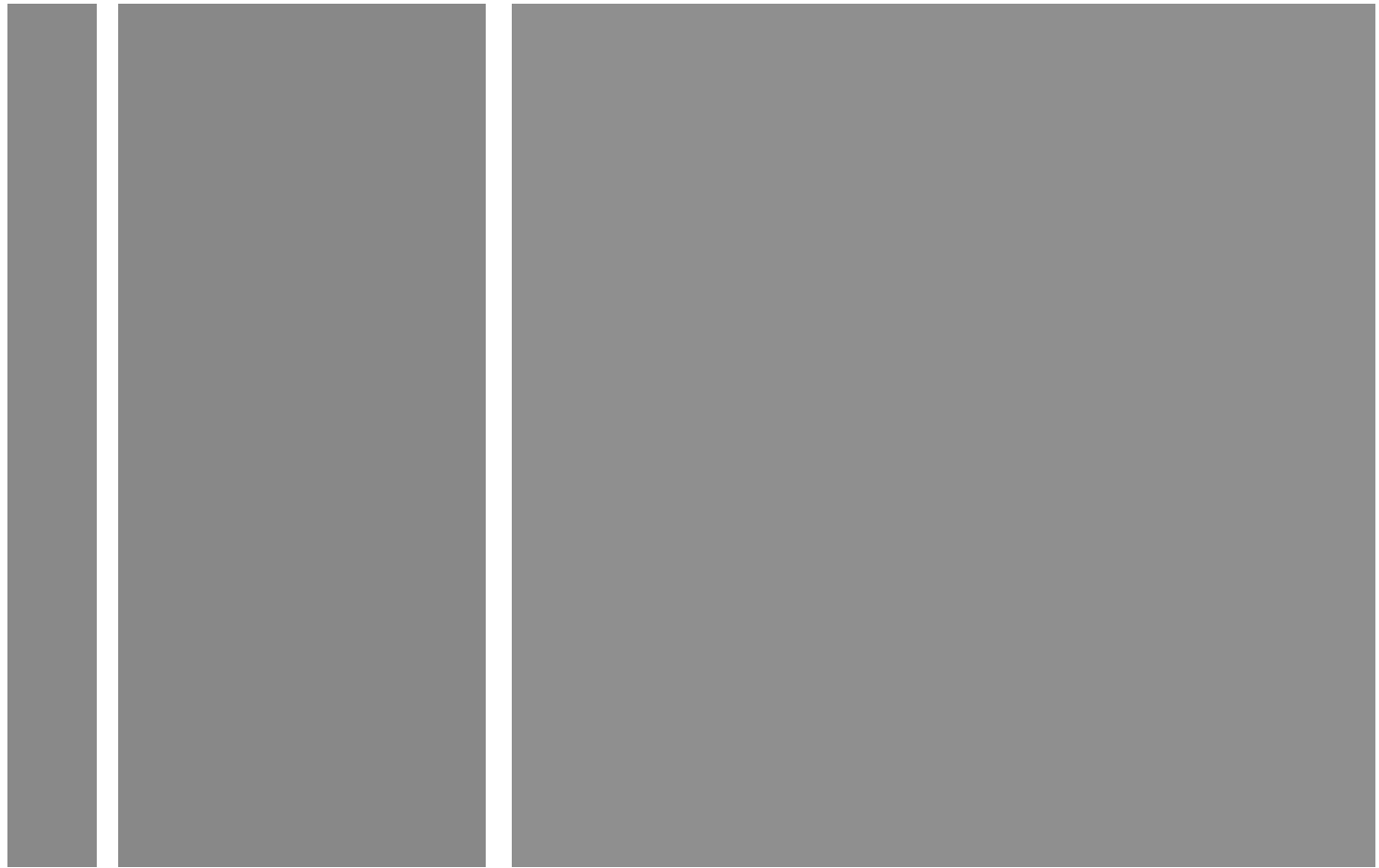
**"US\$" means United States of America dollars;**

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

**"VWAP"** means volume weighted average price



**Appendix A – Independent Expert’s Report**



# VDM GROUP LIMITED

Financial Services Guide and Independent Expert's Report

24 October 2016

*We have concluded that the issue of the Security is Fair and Reasonable*

# FINANCIAL SERVICE GUIDE

RSM Corporate Australia Pty Ltd ABN 82 050 508 024 (“RSM Corporate Australia Pty Ltd” or “we” or “us” or “ours” as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

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 financial services that we will be providing you under our Australian Financial Services Licence, Licence No 255847;
- remuneration that we and/or our staff and any associates receive in connection with the financial services that we will be providing to you;
- any relevant associations or relationships we have; and
- our complaints handling procedures and how you may access them.

## Financial services we will provide

For the purposes of our report and this FSG, the financial service we will be providing to you is the provision of general financial product advice in relation to securities.

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

## General Financial Product Advice

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared without taking 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. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

## Benefits that we may receive

We charge various fees for providing different financial services. However, in respect of the financial service being provided to you by us, fees will be agreed, and paid by, the person who engages us to provide the report and such fees will be agreed on either a fixed fee or time cost basis. You will not pay to us any fees for our services; the Company will pay our fees. These fees are disclosed in the Report.

Except for the fees referred to above, neither RSM Corporate Australia Pty Ltd, 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.

## Remuneration or other benefits received by our employees

All our employees receive a salary.

## 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.

## **Associations and relationships**

RSM Corporate Australia Pty Ltd is beneficially owned by the partners of RSM Australia, a large national firm of chartered accountants and business advisers. Our directors are partners of RSM Australia Partners.

From time to time, RSM Corporate Australia Pty Ltd, RSM Australia Partners, RSM Australia and / or RSM Australia related entities may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of its business.

## **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 should be directed to The Complaints Officer, RSM Corporate Australia Pty Ltd, P O Box R1253, Perth, WA, 6844.

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 company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website 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](mailto:info@fos.org.au)

## **Contact Details**

You may contact us using the details set out at the top of our letterhead on page 1 of this report.

## CONTENTS

1.	Introduction .....	5
2.	Summary and conclusion.....	6
3.	Summary of transaction .....	8
4.	Scope of the report .....	11
5.	Profile of VDM Group.....	12
6.	Is the Security Fair to VDM Shareholders?.....	17
7.	Is the Security Reasonable to VDM Shareholders? .....	19

## TABLE OF APPENDICES

A.	Declarations and Disclaimers.....	22
B.	Sources of information .....	23
C.	Glossary of terms.....	24
D.	Comparable Companies .....	25

24 October 2016  
Shareholders  
VDM Group Limited  
Locked Bag 8  
EAST PERTH, WA, 6892

Dear Shareholders

## INDEPENDENT EXPERT'S REPORT ("REPORT")

### 1. Introduction

- 1.1 This Independent Expert's Report (the "Report" or "IER") has been prepared to accompany the Notice of Annual General Meeting and Explanatory Statement ("Notice") to be provided to shareholders for a General Meeting of VDM Group Limited ("VDM or "VDM Group" or "the Company") to be held on or around 28 November 2016, at which VDM will seek shareholder approval for (among other things) providing a first ranking security ("Security") over all of the assets of the Company (excluding cash held in security deposits and bank guarantees) ("Security Assets") as required to secure an \$18 million Secured Loan Agreement ("Secured Loan Agreement") with its largest shareholder, Australia Kengkong Investments Co Pty Ltd ("Kengkong").
- 1.2 The Security incorporates all of VDM's subsidiaries and includes a real property mortgage and the granting of Power of Attorney over the Cachoeiras do Binga project. Shareholder approval is required to grant the Security which includes the real property mortgage and power of attorney.
- 1.3 The Directors of the Company have requested that RSM Corporate Australia Pty Ltd ("RSM"), being independent and qualified for the purpose, express an opinion as to whether the Security is fair and reasonable to shareholders not associated with the Secured Loan Agreement and Security ("Non-Associated Shareholders").
- 1.4 The request for approval of the Security is included as Resolution 3 in the Notice which states:  
*"That for the purposes of Listing Rule 10.1 and for all other purposes, approval is given for the Company and the Guarantors to provide the Security to Australia Kengkong Investments Co Pty Ltd in respect of the Secured Loan Agreement on the terms and conditions set out and as described in the Explanatory Memorandum accompanying this Notice of Annual General Meeting (including to enter into, and to perform its obligations under the Secured Loan Agreement to the extent that they relate to the Security)."*
- 1.5 The ultimate decision whether to approve the Security should be based on each Shareholder's assessment of their circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt as to the action they should take with regard to the Security, or the matters dealt with in this Report, Shareholders should seek independent professional advice.
- 1.6 Our assessment of the Security is based on economic, market and other conditions prevailing at the date of this Report.

### THE POWER OF BEING UNDERSTOOD AUDIT | TAX | CONSULTING

RSM Corporate Australia Pty Ltd is beneficially owned by the Directors of RSM Australia Pty Ltd. RSM Australia Pty Ltd is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network. Each member of the RSM network is an independent accounting and consulting firm which practices in its own right. The RSM network is not itself a separate legal entity in any jurisdiction.

RSM Corporate Australia Pty Ltd ABN 82 050 508 024 Australian Financial Services Licence No. 255847

## 2. Summary and Conclusion

### Opinion

2.1 In our opinion, the issue of the Security is fair and reasonable to the Non-Associated Shareholders of VDM.

### Fairness

2.2 The Security is a first ranking security over the Security Assets for the purpose of satisfying amounts due under the Secured Loan Agreement. As such, Kengkong will not receive any value from the Security that is greater than the debt owing to them. For the purpose of our analysis we have not considered any additional interest charges or additional amounts that may become payable as the quantum of such is not predictable and not material to our opinion of fairness.

2.3 In accordance with the guidance set out in RG 111, and in the absence of any other relevant information, for the purposes of ASX Listing Rule 10.1, we consider the Security to be fair to the Non-Associated Shareholders of VDM because the terms of the Security are such that Kengkong cannot receive assets in excess of the value of the Secured Loan Agreement. Further, the interest rate attaching to the Secured Loan Agreement is at, or below, market rates.

### Reasonableness

2.4 RG 111 establishes that a transaction is reasonable if it is fair. It might also be reasonable if, despite not being fair, there are sufficient reasons for the security holders to approve the transaction in the absence of a superior alternative. In assessing the reasonableness of the Security, we have considered the following factors in our assessment:

- The future prospects of the Company if the Security is issued; and
- Any other commercial advantages and disadvantages to the Non-Associated Shareholders as a consequence of issuing the Security.

2.5 The issue of the Security is a condition of the Secured Loan Agreement. If the issue of the Security is not approved, then amounts Kengkong has already advanced to the Company may become immediately payable. In this situation, VDM would need to source alternative funding to continue operations, repay the advances received from Kengkong, extinguish its liabilities and progress its Cachoeiras do Binga Copper exploration project. If Shareholders do not approve the issue of the Security and VDM cannot source alternative funding, it is possible that the Company would become insolvent or will be placed into voluntary administration. In addition, the interest rate on any amounts already loaned from Kengkong could increase from 6% to 20% if the Security is not approved.

2.6 We consider the key advantages of issuing the Security to be as follows:

- The issue of the Security is fair;
- The issue of the Security is a condition of the Secured Loan Agreement. The Secured Loan Agreement will provide a 12 month period before repayment is required. This will provide funds and time for VDM to explore and develop the Cachoeiras do Binga project, potentially produce positive news flow and source alternative funding prior to the repayment date of the loan amounts. If the issue of the Security is not approved, then the Company would need to promptly source alternative funding to repay the amounts already advanced from Kengkong. It would also need funding to pay the \$4.8 million owed to Seabank, satisfy its other liabilities, and continue operating (including progressing its Cachoeiras do Binga Copper exploration project);
- The Directors have indicated that if the Security is not approved, the Company's ability to raise the necessary funds within such a short timeframe is uncertain; and

- The Secured Loan Agreement is provided on terms that are more favourable than market rates that would be available to VDM.

2.7 The key disadvantages of issuing the Security are:

- If, in an event of default by VDM, Kengkong enforces the Security, then some or all of VDM's assets may be sold or assigned to Kengkong (to the extent required to enable Kengkong to recover the debt) and VDM may not be left with any operating assets; and
- The Secured Loan Agreement is for a 12 month term. This means that VDM has a maximum of 12 months to secure alternative funding before Kengkong can call on its Security.

2.8 In our opinion, the position of the Non-Associated Shareholders of VDM if the Security is approved is more advantageous than if the Security is not approved. Therefore, in the absence of any other relevant information and/ or a superior transaction, we consider that the approval of the Security is reasonable for the Non-Associated Shareholders.

2.9 Non-Associated Shareholders should have particular regard to the potential advantages and disadvantages set out above in the context of their own risk profile and investment strategy.



### 3. Summary of Transaction

#### Overview

- 3.1 On 27 January 2016, VDM announced to the ASX that it had entered into the Framework Loan Agreement with its largest shareholder, Kengkong Investments Co Pty Ltd (“Kengkong”), setting out the principal terms for a Secured Loan Agreement of up to \$18 million (“Secured Loan Agreement”). The parties have not finalised or executed the Formal Loan Documents for the Secured Loan Agreement.
- 3.2 The Company has received advances under the Framework Loan Agreement of A\$4.5 million and US\$1.0 million and could receive additional advances prior to execution of the Secured Loan Agreement (“FLA Advances”). The FLA Advances will fall under the Secured Loan Agreement when it is executed.
- 3.3 The Secured Loan Agreement will provide the Company with funding required for:
- Investment in the Cachoeiras do Binga Copper exploration project located in the Republic of Angola including costs related to undertaking exploration and feasibility work; and
  - General corporate working capital for ongoing ordinary operations.

#### Expected key terms of the Secured Loan Agreement

##### Repayment Date

- 3.4 The repayment date for the full amount is one year from the date of the Secured Loan Agreement.

##### Interest Rate

- 3.5 The interest rate applicable to the Secured Loan Agreement is 6% per annum. In the event of default, the interest rate increases to 20% per annum.

##### Security

- 3.6 As part of the Framework Loan Agreement, Kengkong will receive a first priority security interest over all of the assets and properties of VDM. Failure to effect the security interest in favour of the lender shall be a default event which will trigger full loan repayment.

##### Power of Attorney

- 3.7 A condition precedent to being able to borrow funds under the Secured Loan Agreement is that an irrevocable Power of Attorney must be executed by VDM. The Power of Attorney can only be used in relation to the Cachoeiras do Binga project in a situation where VDM has defaulted on its obligations under the Secured Loan Agreement.

##### Loan Drawdowns

- 3.8 Loan drawdowns may only be used for purposes pre-approved by Kengkong.
- 3.9 The FLA Advances will be incorporated into the Secured Loan Agreement unless they are demanded by Kengkong before the Secured Loan Agreement takes effect in which case they will be immediately repayable.
- 3.10 If the Security is not approved, then all loan amounts due to Kengkong may become immediately payable.

## Key terms of the Security

3.11 The Security incorporates the following key components:

**Table 1 Key components of the Security**

Title	Description
General Security Deed	A general security deed pursuant to which VDM and the Guarantors grant a first priority fixed and floating charge to Kengkong over all of their Australian assets, excluding cash collateral deposits with banks. The general security deed will be on terms and conditions that are customary for security of this nature.
Australian real property mortgage	A real property mortgage over the Company's strata-titled apartment located in Mandurah Western Australia, otherwise known as Lot 20 on Strata Plan 59554, with Volume 2739 and Folio 653.
Angolan PoA	An irrevocable power of attorney from VDM in favour of Kengkong that will be legalised under Angolan law (Angolan PoA). When legalised, the Angolan PoA will give Kengkong authority to sign all documents for the transfer, assignment or sale of VDM's interest in CdB. The terms of the SLA provide that Kengkong may only exercise its Angolan PoA rights to recover amounts owing pursuant to the SLA.

Source: Notice of Meeting

3.12 The following paragraphs summarise some of the key terms of the Security.

3.13 The Security is granted over all of the assets and property of VDM. Unless preferred by law, the Security will take priority over all other securities granted by VDM.

3.14 The Security can be discharged when all secured moneys have been paid in full and the obligations under the Security deed and all other transaction documents have been observed and performed. The Security is not required to be discharged if Kengkong is of the reasonable opinion that VDM owes or will owe further moneys after VDM requests a discharge or release of the Security.

3.15 Secured moneys includes all debts and monetary liabilities to or for Kengkong such as:

- Present or future debts or liabilities;
- Actual, prospective, contingent or otherwise debts and liabilities that are at any time ascertained or unascertained; and
- Debts or liabilities that are owed or incurred as principal, interest, fees, charges, taxes, damages, losses, costs or expenses or on any other account.

3.16 Dealing in the Security Assets is restricted, such as:

- Creating or allowing to exist any security over the Security Assets;
- Selling, assigning, parting with, transferring or otherwise disposing of the Security Assets; and
- Giving control of the Secured Assets to another person.

3.17 The Security allows for certain assets to be dealt with in the normal course of business.

3.18 Where a default occurs, Power of Attorney can be granted to Kengkong to undertake anything that ought to be done in relation to the Security.

## **Rationale for the Security**

- 3.19 The Security allows VDM to access the Secured Loan Agreement.
- 3.20 The \$18 million Secured Loan Agreement will provide capital to invest in and commence the feasibility study on its Cachoeiras do Binga Project. VDM must fund 79% of the project's exploration and feasibility costs. Additionally, as at 30 June 2016, VDM had \$2.0 million in cash and a net current liability position of \$9.8 million. The Secured Loan Agreement will also provide the necessary working capital and cash to meet these obligations.
- 3.21 Prior to securing the Secured Loan Agreement, in late 2015 VDM had attempted a share placement to a sophisticated investor to raise equity of \$18 million. However on 14 December 2015, it was announced that the proposed equity investor withdrew their offer to invest in the Company.

## 4. Scope of the Report

### Listing Rules – Security

- 4.1 ASX Listing Rule 10.1 states that an entity must ensure that neither it, nor any of its child entities, acquires a substantial asset from, or disposes of a substantial asset to, a substantial shareholder, a related party or any of its associates without the approval of holders of the entity's ordinary securities.
- 4.2 Kengkong is a substantial holder of VDM, with an interest of 37.8%. VDM and Kengkong also have common directors.
- 4.3 An asset is considered substantial "if its value; or the value of the consideration for it is, or in the ASX's opinion is 5% or more of the equity interest of the entity as set out in the latest financial statements given to the ASX".
- 4.4 The equity interest of VDM as at 30 June 2016 was \$3.0 million. In the event of default the Loan Security will be granted over all of VDM's present and future property and therefore will exceed 5% of VDM's equity interest.
- 4.5 ASX Listing Rule 10.10 states that the notice for the shareholders' meeting required under ASX Listing Rule 10.1 must include a report on the transaction from an independent expert. The report must state whether, in the expert's opinion, the transaction is fair and reasonable to the Non-Associated Shareholders.
- 4.6 Accordingly, VDM is seeking approval for providing the Security. The Company has engaged RSM, to prepare a report which sets out our opinion as to whether the issue of the Security is fair and reasonable to Non-Associated Shareholders.

### Basis of Evaluation

- 4.7 In determining whether providing the Security is "fair and reasonable" we have given regard to the views expressed by the ASIC in RG 111.
- 4.8 RG 111 states that in relation to related party transactions the expert's assessment of fair and reasonable 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.
- 4.9 Distinct from the requirements for the analysis of a control transaction, for the purpose of the Security, we do not need to consider a premium for control.
- 4.10 In assessing whether the issue of the Security is fair and reasonable to Non-Associated Shareholders, the analysis undertaken is as follows:
- Whether the value of the assets secured is greater than the value of the debt that will be owed in accordance with the terms of the Security – fairness; and
  - A review of other significant factors which Non-Associated Shareholders might consider prior to approving the Security – reasonableness.
- 4.11 The other significant factors to be considered when assessing the reasonableness of the Security include:
- The future prospects of the Company if the Security is not provided; and
  - Any other commercial advantages and disadvantages to the Non-Associated Shareholders as a consequence of issuing the Security.

Our assessment of the Security is based on economic, market and other conditions prevailing at the date of this Report.

## 5. Profile of VDM Group

### Background

- 5.1 VDM, founded in 1978 and headquartered in East Perth, Australia, operated through four divisions: Construction, Equipment, Trading, and Mining; providing a range of services including structural steel construction, design, and construction of mine accommodation and non-process infrastructure, earthworks and civil infrastructure, road building and urban development projects. In July of this year, VDM announced that it was closing the Equipment division.
- 5.2 Recently, VDM invested in the Cachoeiras do Binga copper project located in the Republic of Angola. On 14 December 2015, it announced that the Ministry of Geology and Mining of the Republic of Angola signed a Mining Investment Contract (“MIC”) granting VDM, Pebric Mining and Consulting LDA (“Pebric”) and Seabank Resources LDA (“Seabank”) exclusive mining rights for copper located in the Cachoeiras do Binga exploration concession area located in the Republic of Angola (“Cachoeiras do Binga Project”). VDM holds a 65% interest in the project.
- 5.3 The Company’s market capitalisation at 14 October 2016 is \$16.4 million and VDM reported \$2.0 million in cash and \$nil debt (with the exception of a \$4.4m shareholder loan held with Kengkong) as at 30 June 2016. We note that VDM has borrowed an additional \$1.5 million from Kengkong since 30 June 2016.

### Directors and management

- 5.4 The directors and key management of VDM are summarised in the table below.

**Table 2 VDM Directors**

Name	Title	Experience
Hiuming Luk	Non-executive Chairman	Mr Luk has experience in a range of business sectors, including textile & clothing, pharmaceutical, steel, real estates, manufacturing mining, natural resources, new energy and oil and gas. Apart from businesses in mainland China, he also has international experience in various industries around the globe.  Mr Luk is currently Chairman of Australia Kengkong Investments Co Pty Ltd.
Dongyi Hua	Executive Director	Dr Hua is the former Vice President, Executive Chairman and CEO of CITIC Pacific Mining, a position he held from October 2009 until April 2013. He was previously with Beijing-based CITIC Group, which he joined in 2002. Dr Hua has held executive management positions during the past 15 years for construction and resource development projects across Asia, Africa and Latin America in countries such as China, Angola, the Philippines, Pakistan, Brazil and Algeria. Dr Hua is the Vice President of the Australian China Business Council Western Australia. On 26 July 2016, Dr Hua was appointed Executive Director and Acting CEO of Frontier Services Group Limited, an Africa focused logistics company listed on the Hong Kong Stock Exchange.
Michael Fry	Non-Executive Director	Mr Fry has a background in accounting and corporate advice having worked with KPMG (Perth) where he qualified as a Chartered Accountant, Deloitte Touche Tohmatsu (Melbourne) and boutique corporate advisory practice Troika Securities Ltd (Perth). From 2006 to 2011, Mr Fry was the Chief Financial Officer and Finance Director at Swick Mining Services Limited, a publicly listed drilling services provider contracting to the mining industry in Australia and North America. Mr Fry is a Non-Executive Director, Chief Financial Officer and Company Secretary of Cougar Metals NL, an ASX listed gold exploration and drilling services company operating in Brazil. He is also Company Secretary of Globe Metals and Mining Limited, an ASX listed company with exploration projects in Africa.

Source: Company

## Financial Information

5.5 The following financial information has been obtained from the audited financial statements of VDM. The financial statements for VDM for the year ended 30 June 2016 included the following emphasis of matter included in the audit report:

*“Without qualifying our opinion, we draw attention to Note 2(d) [going concern] in the financial report which describes the principal conditions that raise doubt about the entity’s ability to continue as a going concern. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the company’s ability to continue as a going concern and therefore, the company may be unable to realise its assets and discharge its liabilities in the normal course of business.”*

5.6 In the annual financial report, it was stated the Company intends to undertake future equity capital raisings that would be sufficient to repay amounts that become due under the Secured Loan Agreement.

## Financial Performance

5.7 The following table sets out a summary of the financial performance of VDM for the years’ ended 30 June 2016 and 2015.

**Table 3 VDM historical financial performance**

	Ref.	12 months 30-Jun-2016 \$ 000	12 months 30-Jun-2015 \$ 000
Revenue	5.8	725	1,253
<i>Less: expenses</i>			
Materials and inventory		(485)	(151)
Employee benefits expense		(3,413)	(4,728)
Occupancy related expenses		(850)	(1,218)
Depreciation and amortisation		(421)	(707)
Impairment		(5)	(1,626)
Onerous contracts expense		(207)	(1,198)
Legal expenses		(99)	(590)
Finance costs		(84)	(370)
Other expenses		(614)	(3,695)
<b>Total expenses</b>		<b>(6,178)</b>	<b>(14,283)</b>
Profit/(loss) on sale of assets		264	200
Share of profit/(loss) from joint venture		(235)	(63)
<b>Loss before income tax</b>		<b>(5,424)</b>	<b>(12,893)</b>
Income tax (expense)/benefit		-	516
<b>Loss for the year</b>	<b>5.9</b>	<b>(5,424)</b>	<b>(12,377)</b>

Source: company financial statements

5.8 Revenue of \$0.7 million decreased 42% from the prior year reflecting lower construction and equipment revenue, partly offset by higher trading revenue.

5.9 The loss for the year was 56.2% lower than the prior year driven by a \$7.8 million reduction in total expenses, including non-recurring reductions relating to impairment charges (\$1.6 million), onerous contracts (\$1.0 million) and a prior year charge of \$2.7 million for cashed security bonds.

5.10 The Company intends to undertake future capital raisings in the 2017 financial year in order to repay the shareholder loan held with Kengkong, progress the Cachoeiras do Binga exploration program, for working capital and to advance other potential business growth opportunities.

## Financial Position

5.11 The table below sets out a summary of the financial position of VDM as at 30 June 2016 and 2015.

**Table 4 VDM historical financial position**

	Ref.	30-Jun-16 \$ 000	30-Jun-15 \$ 000
<b>Current assets</b>			
Cash And equivalents		2,045	3,524
Security deposits		204	486
Trade and other receivables		194	301
Inventory		69	74
Other Current Assets		1	10
<b>Total Current Assets</b>		<b>2,513</b>	<b>4,395</b>
<b>Non-current assets</b>			
Security deposits		872	940
Investment accounted for using the equity method		682	917
Exploration and evaluation expenditure	5.14	8,275	-
Development properties		2,012	2,012
Property, plant and equipment		1,723	2,201
Intangible assets		-	9
<b>Total Non-current assets</b>		<b>13,564</b>	<b>6,079</b>
<b>Total Assets</b>		<b>16,077</b>	<b>10,474</b>
<b>Current liabilities</b>			
Accounts payable	5.15	5,847	1,113
Borrowings	5.16	4,421	64
Provisions		2,073	2,750
<b>Total Current Liabilities</b>		<b>12,341</b>	<b>3,927</b>
<b>Non-current liabilities</b>			
Provisions		690	1,355
<b>Total Non-current Liabilities</b>		<b>690</b>	<b>1,355</b>
<b>Total Liabilities</b>		<b>13,031</b>	<b>5,282</b>
<b>Net Assets</b>		<b>3,046</b>	<b>5,192</b>
<b>Equity</b>			
Common stock		288,722	285,444
Reserves		457	457
Retained Earnings		(286,133)	(280,709)
<b>Total Equity</b>		<b>3,046</b>	<b>5,192</b>

Source: company financial statements

5.12 As at 30 June 2016, VDM had net assets of \$3.0 million. However, it had a net current liability position of \$9.8 million.

- 5.13 During FY16, VDM acquired 65% of the Cachoeiras do Binga Project for 650 million ordinary shares and \$4.9 million in cash. The cash component remains payable.
- 5.14 Ultimate recoupment of the exploration and evaluation assets is dependent on the successful development and commercial exploitation or sale of the respective mining areas.
- 5.15 Accounts payable at 30 June 2016 includes \$4.9 million owing to Seabank in relation to the acquired Cachoeiras do Binga Project.
- 5.16 Borrowings reflect the amounts borrowed from Kengkong up to 30 June 2016. There has been an additional \$1.5 million borrowed between 30 June 2016 and the date of our Report.

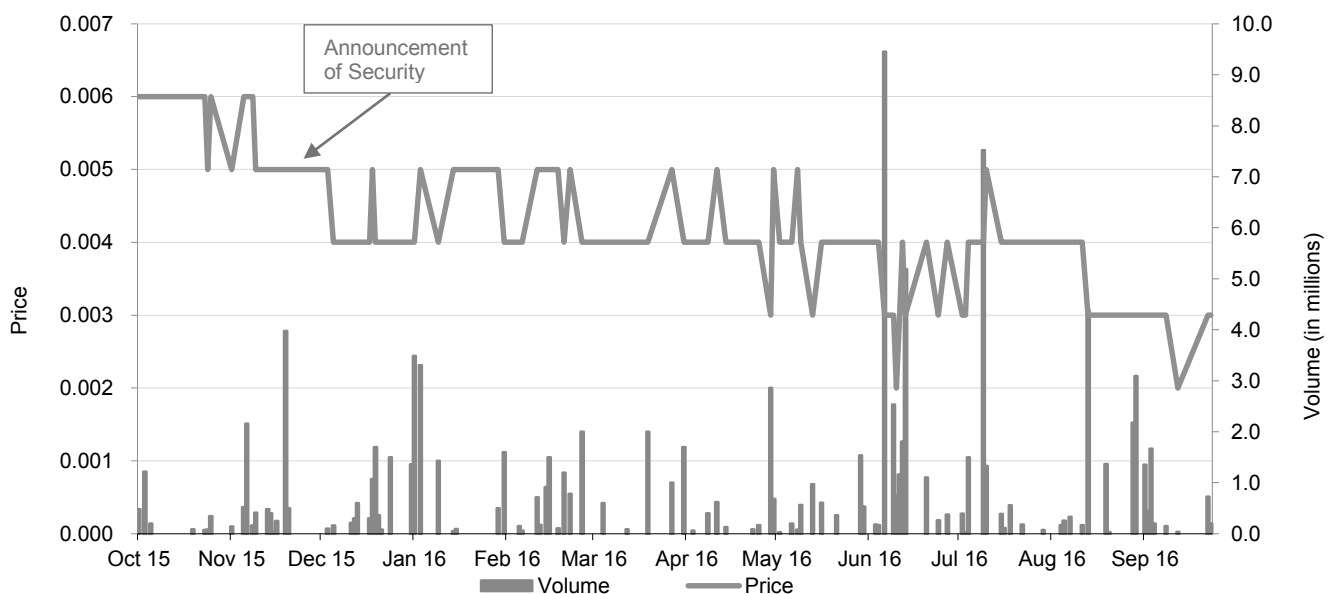
### Capital Structure

- 5.17 VDM has 5,477,660,952 ordinary shares on issue (including the above 650 million ordinary shares for the acquisition of the Cachoeiras do Binga Project). There are no options over unissued ordinary shares outstanding.

### Share price performance

- 5.18 The figure below sets out a summary of VDM's closing share prices and traded volumes for the 12 months to 12 October 2016.

Figure 1 VDM daily closing share price and traded volumes



Source: S&P Capital IQ/ ASX

- 5.19 Over the course of the 12 month period to October 2016, VDM's shares experienced very low trade volumes, with just 1.41% of shares traded in the previous 180 trading days.
- 5.20 There were some specific periods of elevated activity noted on 24 June 2016 and 27 July 2016, the latter of which may have related to the Company's announcement that it was exiting from the equipment hire and sale business which was released to the public on 28 July 2016.



## 6. Profile of Kengkong

### General information

- 6.1 Kengkong is a private investment vehicle ultimately controlled by Mr Hiuming Luk, also Chairman of VDM.
- 6.2 The directors of Kengkong are Mr Hiuming Luk and Mr Wu Zhao. Mr Zhao is also the company secretary of Kengkong.
- 6.3 Kengkong has its registered address in New South Wales. The shareholders of Kengkong are Mr Wu Zhao and Osmonix Co Ltd, a company registered in the British Virgin Islands, which is a nominee company (indirectly) wholly owned by Mr Hiuming Luk.
- 6.4 As at the date of this Report, the number of VDM shares currently held by Kengkong is 2.1 billion, which is equivalent to a voting power of 37.8% in VDM.

## 7. Is the Security Fair to VDM Shareholders?

7.1 In accordance with the guidance set out in RG 111, and in the absence of any other relevant information, for the purposes ASX Listing Rule 10.1, we consider the Security to be fair to the Non-Associated Shareholders of VDM because the terms of the Security are such that Kengkong cannot receive assets in excess of the value of the Secured Loan Agreement. Also, the interest rate attaching to the Secured Loan Agreement is at, or below, market rates.

7.2 Our opinion has been based on the following analysis:

- Whether the value of the assets that can be called as security can exceed the value of the Secured Loan Agreement; and
- Whether the interest rate attached to the Secured Loan Agreement (and linked to the Security) is at, or below, market rates.

### Can asset value exceed value of Secured Loan Agreement?

7.3 As set out in Section 5, the total assets of VDM as at 30 June 2016 are \$16.1 million. In accordance with the Security Agreement, Kengkong will have a first ranking security over the Security Assets for the purpose of satisfying amounts due under the Secured Loan Agreement. As such, Kengkong will not receive any value from the Security that is greater than the debt owing to them.

7.4 Other than working capital (including security deposits), the key assets that VDM holds at 30 June 2016 comprise:

- VDM's 65% share in the Cachoeiras do Binga Project with a carrying value of \$8.3 million;
- VDM's interest in a development property located in Western Australia with a carrying value of \$2.0 million; and
- Property, plant and equipment – consisting of freehold land (\$0.9 million), leasehold improvements (\$0.2 million) and plant and equipment (\$0.6 million) – with a carrying value of \$1.7 million.

7.5 The terms of the Security are such that Kengkong cannot recover assets with a value in excess of the amounts owing to it.

## Are interest rates at, or below, market rates?

- 7.6 Based on discussions with management and a review of current lending rates in the market, it is unlikely that VDM would be able to obtain alternate funding at terms which are more favourable than those agreed with Kengkong.
- 7.7 We have considered the full terms of the Secured Loan Agreement as a whole and note the interest rate of 6% is below the average rate of 9.5% paid by small ASX listed resources companies with similar levels of debt, as set out in the table below.

**Table 5 Comparable debt and interest rates**

Company	Ticker	Total debt (last reported) \$M	Average interest rate on total debt (%)
Attila Resources Limited	ASX:AYA	15.7	15.0
Hot Chili Limited	ASX:HCH	US\$13.7	10.0
Cokal Limited	ASX:CKA	US\$3.4	5.0
MGT Resources Limited	ASX:MGS	1.5	8.0
<b>Min</b>			<b>5.0</b>
<b>Average</b>			<b>9.5</b>
<b>Median</b>			<b>9.0</b>
<b>Max</b>			<b>15.0</b>

Source: S&P's Capital IQ

- 7.8 Given the financial position of VDM and its current operations with no significant operating cash inflows, it would be highly difficult for the Company to obtain any form of debt funding and, in the current circumstances, we consider the likelihood of the Company obtaining unsecured debt to be extremely remote.
- 7.9 Therefore, senior secured debt under the terms of the Secured Loan Agreement with Security on all of the Company's assets appears to be a fair debt funding option for VDM when compared to other company borrowings.

## 8. Is the Security Reasonable to VDM Shareholders?

8.1 RG111 establishes that an offer is reasonable if it is fair. If an offer is not fair it may still be reasonable after considering the specific circumstances applicable to the offer. In our assessment of the reasonableness of the Security, we have given consideration to:

- The future prospects of VDM if the Security is not approved; and
- Other commercial advantages and disadvantages to the Non-Associated Shareholders as a consequence of the Security being approved.

### Future prospects of VDM if the Security is not approved

8.2 If the Security is not approved, the amounts already lent to VDM may become immediately payable. Unless VDM promptly obtains alternative funding to repay the FLA Advances, any additional drawdowns under the Secured Loan Agreement and any applicable interest, then it is possible that the Company could become insolvent and/or placed into voluntary administration in relation to an inability to repay its debts. In addition, the interest rate on all outstanding loan amounts will increase to 20%.

8.3 The Directors consider the ability of the Company to obtain alternative funding within a short timeframe to be uncertain.

### Advantages and disadvantages

8.4 In assessing whether the Non-Associated Shareholders are likely to be better off if the Security is approved than if it is not, we have also considered various advantages and disadvantages that are likely to accrue to the Non-Associated Shareholders.

### Advantages of approving the Security

#### *Advantage 1 – The Security is Fair*

8.5 RG 111 states that a transaction is reasonable if it is fair.

#### *Advantage 2 – The Company will have access to the Secured Loan Agreement*

8.6 The Company will have access to the \$18 million Secured Loan Agreement which will provide capital to progress exploration and feasibility of its Cachoeiras do Binga Project. VDM must fund 79% of these project costs. Additionally, as at 30 June 2016, VDM had \$2.0 million in cash and a net current liability position of \$9.8 million (of which \$4.9 million is payable to Seabank). Thus, the Secured Loan Agreement will also provide the necessary working capital and cash to assist with these obligations.

#### *Advantage 3 – The Company's ability to raise funds and attract strategic investors may be improved*

8.7 The Company's ability to raise additional funds and attract strategic investors may be improved after the exploration and feasibility work for the Cachoeiras do Binga Copper exploration project is advanced. This depends greatly on the results of this work. The Secured Loan Agreement will allow VDM up to 12 months to undertake exploration and feasibility and raise alternative funding.

## Disadvantages of approving the Security

### *Disadvantage 1 – Potential assignment of all assets to Kengkong*

- 8.8 At the Repayment Date or in an event of Default, if VDM does not have access to the necessary funds to settle the Secured Loan Agreement, it may be required to assign rights to most or all of its assets to Kengkong in accordance with the Security Agreement. As such, the Security may result in the loss of all assets in the Company and, if other operating liabilities remain, could result in material uncertainty for VDM to continue to operate as a going concern and potential liquidation of any remaining assets. Such an event would significantly diminish the value of the shares of the Non-Associated Shareholders.

### *Disadvantage 2 – The Security has a term of 12 months*

- 8.9 The Secured Loan Agreement provides for the repayment of all monies lent to VDM after 12 months from the date of the Secured Loan Agreement. If VDM cannot find alternative funding within 12 months from the date of the Secured Loan Agreement, then Kengkong will be able to call on the Security.

## Alternative Proposal

- 8.10 We are not aware of any alternative proposal at the current time which might offer the Non-Associated Shareholders of VDM a greater benefit than the Security.

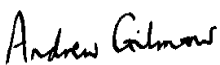
## Conclusion on Reasonableness

- 8.11 In our opinion, the position of the Non-Associated Shareholders if the Security is approved is more advantageous than the position if it is not approved. Therefore, in the absence of any other relevant information and/or a superior offer, we consider that the Security is **reasonable** for the Non-Associated Shareholders of VDM.
- 8.12 An individual shareholder's decision in relation to the Security may be influenced by his or her individual circumstances. If in doubt, shareholders should consult an independent advisor.

Yours faithfully

**RSM CORPORATE AUSTRALIA PTY LTD**

**A GILMOUR**



Director

**G YATES**



Director



## APPENDICES

## A. DECLARATIONS AND DISCLAIMERS

### **Declarations and Disclosures**

RSM Corporate Australia Pty Ltd holds Australian Financial Services Licence 255847 issued by ASIC pursuant to which they are licensed to prepare reports for the purpose of advising clients in relation to proposed or actual mergers, acquisitions, takeovers, corporate reconstructions or share issues.

### **Qualifications**

Our report has been prepared in accordance with professional standard APES 225 "Valuation Services" issued by the Accounting Professional & Ethical Standards Board.

RSM Corporate Australia Pty Ltd is beneficially owned by the partners of RSM Australia Pty Ltd (RSM) a large national firm of chartered accountants and business advisors.

Mr. Andrew Gilmour and Mr Glyn Yates are directors of RSM Corporate Australia Pty Ltd. Both Mr Gilmour and Mr Yates are Chartered Accountants with extensive experience in the field of corporate valuations and the provision of independent expert's reports for transactions involving publicly listed and unlisted companies in Australia.

### **Reliance on this Report**

This report has been prepared solely for the purpose of assisting Shareholders of the Company in considering the Security. We do not assume any responsibility or liability to any party as a result of reliance on this report for any other purpose.

### **Reliance on Information**

Statements and opinions contained in this report are given in good faith. In the preparation of this report, we have relied upon information provided by the Directors and management of VDM Group Limited and we have no reason to believe that this information was inaccurate, misleading or incomplete. RSM Corporate Australia Pty Ltd does not imply, nor should it be construed that it has carried out any form of audit or verification on the information and records supplied to us.

The opinion of RSM Corporate Australia Pty Ltd is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

In addition, we have considered publicly available information which we believe to be reliable. We have not, however, sought to independently verify any of the publicly available information which we have utilised for the purposes of this report.

We assume no responsibility or liability for any loss suffered by any party as a result of our reliance on information supplied to us.

### **Disclosure of Interest**

At the date of this report, none of RSM Corporate Australia Pty Ltd, RSM, Andrew Gilmour, Glyn Yates, nor any other member, director, partner or employee of RSM Corporate Australia Pty Ltd and RSM has any interest in the outcome of the Proposed Transaction, except that RSM Corporate Australia Pty Ltd are expected to receive a fee of \$22,000 based on time occupied at normal professional rates for the preparation of this report. The fees are payable regardless of whether VDM Group Limited receives Shareholder approval for the Security, or otherwise.

### **Consents**

RSM Corporate Australia Pty Ltd consents to the inclusion of this report in the form and context in which it is included with the Notice of Extraordinary General Meeting and Explanatory Memorandum to be issued to Shareholders. Other than this report, none of RSM Corporate Australia Pty Ltd or RSM Australia Pty Ltd or has been involved in the preparation of the Notice of Extraordinary General Meeting and Explanatory Memorandum. Accordingly, we take no responsibility for the content of the Notice of General Meeting and Explanatory Statement.

## B. SOURCES OF INFORMATION

In preparing this Report we have relied upon the following principal sources of information:

- Drafts and final copies of the Notice of Meeting;
- Audited financial statements for VDM for the years' ended 30 June 2015 and 2016;
- Reviewed annual financial accounts for the year to 30 June 2016;
- ASX announcements of VDM;
- Framework Loan Agreement;
- Secured Loan Agreement;
- S&P Capital IQ database; and
- Discussions with Directors, Management and staff of VDM.



## C. GLOSSARY OF TERMS

Term or Abbreviation	Definition
\$	Australian Dollar
Act	Corporations Act 2001 (Cth)
APES	Accounting Professional & Ethical Standards Board
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
CAGR	Compound annual growth rate
Connect 4	An entity of Thompson Reuters which is an aggregator of ASX listed company announcements and disclosures
Company	VDM
Control basis	As assessment of the fair value on an equity interest, which assumes the holder or holders have control of entity in which the equity is held
DCF	A method within the income approach whereby the present value of future expected net cash flows is calculated using a discount rate
Directors	Directors of VDM
EBIT	Earnings, Before, Interest and Tax
EBITDA	Earnings, Before, Interest, Tax, Depreciation and Amortisation
Equity	The owner's interest in property after deduction of all liabilities
EV	Enterprise Value, meaning, the total value of the equity in a business plus the value of its debt or debt-related liabilities, minus any cash or cash equivalents available to meet those liabilities
Fair Value	The amount at which an asset could be exchanged between a knowledgeable and willing but not anxious seller and a knowledgeable and willing but not anxious buyer, both acting at arm's length
FME	Future Maintainable Earnings
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
FY##	Financial year ended 30 June
IER	This Independent Expert Report
Non Associated Shareholders	Shareholders who are not a party, or associated to a party, to the Proposed Transaction
Non control basis	As assessment of the fair value on an equity interest, which assumes the holder or holders do not have control of entity in which the equity is held
Notice	The notice of meeting to vote on the Security
NPBT	Net Profit Before Tax
NPAT	Net Profit After Tax
Regulations	Corporations Act Regulations 2001 (Cth)
Report	This Independent Experts Report prepared by RSM dated 24 October 2016
RG 111	ASIC Regulatory Guide 111 Contents of Expert's Reports
RSM	RSM Corporate Australia Pty Ltd
S&P Capital IQ	An entity of Standard and Poors which is a third party provider of company and other financial information
Security	It has the meaning given to the term in paragraph 1.1 of this Report
VDM	VDM Group Limited
VWAP	Volume weighted average share price

## D. COMPARABLE COMPANIES

**Table 6 Comparable borrower business description**

Company Name	Business Description
Attila Resources Limited	Attila Resources Limited engaged in the exploration and development of mineral exploration projects in Australia and the United States. The company was focused on the exploration and development of the Kodiak coking coal project that comprises Gurnee and Seymour properties covering an area of 11,700 acres located in the Cahaba Basin, Alabama. Attila Resources Limited was incorporated in 2010 and is based in Subiaco, Australia.
Hot Chili Limited	Hot Chili Limited acquires, explores, and develops mineral properties in Chile. It primarily explores for copper-gold-molybdenum, porphyry, and iron-oxide deposits. The company's flagship project is the Productora copper project located to the south of Vallenar in Chile. The company is based in Applecross, Australia.
Cokal Limited	Cokal Limited engages in the identification, exploration, and development of coking coal in Indonesia and Africa. It holds interests in six coal exploration projects in Kalimantan, Indonesia. The company's flagship project is the Bumi Barito Mineral project that covers an area of approximately 14,980 hectares located in Central Kalimantan. It also has interests in two coal projects in Africa that are in the early stages of exploration. The company is headquartered in Brisbane, Australia.
MGT Resources Limited	MGT Resources Limited explores for, evaluates, and develops mineral properties in Australia. The company explores for tin, gold, copper, and other base/precious metals. Its principal project is the Mount Garnet tin project located in the Herberton tin fields near Atherton in Far North Queensland. MGT Resources Limited was founded in 2008 and is headquartered in Sydney, Australia.

Source: S&P Capital IQ

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VDM Group Limited  
ABN 95 109 829 334

### Lodge your vote:

**Online:**  
www.investorvote.com.au

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

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

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

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



VMG  
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SAMPLEVILLE VIC 3030

## Proxy Form

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### Vote and view the annual report online

- Go to [www.investorvote.com.au](http://www.investorvote.com.au) or scan the QR Code with your mobile device.
- Follow the instructions on the secure website to vote.



### Your access information that you will need to vote:

**Control Number: 999999**

**SRN/HIN: I9999999999 PIN: 99999**

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

**For your vote to be effective it must be received by 10:00am (AWST) Saturday, 26 November 2016**

### How to Vote on Items of Business

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

#### Appointment of Proxy

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

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

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

**A proxy need not be a securityholder of the Company.**

### Signing Instructions for Postal Forms

**Individual:** Where the holding is in one name, the securityholder must sign.

**Joint Holding:** Where the holding is in more than one name, all of the securityholders should sign.

**Power of Attorney:** If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

**Companies:** Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

### Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting you will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at [www.investorcentre.com](http://www.investorcentre.com) under the help tab, "Printable Forms".

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

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

MR SAM SAMPLE  
 FLAT 123  
 123 SAMPLE STREET  
 THE SAMPLE HILL  
 SAMPLE ESTATE  
 SAMPLEVILLE VIC 3030

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



I 9999999999

IND

# Proxy Form

Please mark  to indicate your directions

## STEP 1 Appoint a Proxy to Vote on Your Behalf

XX

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

the Chairman of the Meeting OR

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

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the Meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Annual General Meeting of VDM Group Limited to be held at Level 1, Fortescue Centre, 30 Terrace Road, East Perth, Western Australia on Monday, 28 November 2016 at 10:00am (AWST) and at any adjournment or postponement of that Meeting.

**Chairman authorised to exercise undirected proxies on remuneration related resolutions:** Where I/we have appointed the Chairman of the Meeting as my/our proxy (or the Chairman becomes my/our proxy by default), I/we expressly authorise the Chairman to exercise my/our proxy on Resolutions 1 and 6 (except where I/we have indicated a different voting intention below) even though Resolutions 1 and 6 are connected directly or indirectly with the remuneration of a member of key management personnel, which includes the Chairman.

**Important Note:** If the Chairman of the Meeting is (or becomes) your proxy you can direct the Chairman to vote for or against or abstain from voting on Resolutions 1 and 6 by marking the appropriate box in step 2 below.

## STEP 2 Items of Business

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

		For	Against	Abstain
Resolution 1	Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	Election of Dr Dongyi Hua as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	Approval of the Security for the Secured Loan Agreement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4	Approval of Future Placement Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5	Approval of 10% Enhanced Placement Facility	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6	Approval of grant of Options to Dr Hua	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business. In exceptional circumstances, the Chairman of the Meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

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

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact Name

Contact Daytime Telephone

Date / /

VMG

999999A

Computershare +