



Media/ASX Announcement

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## CAPITAL WORKS START ON CHINA PLANT UPGRADE

### Key Points:

- Plant to be at leading edge of magnesium industry developments
- First phase expansion on track for production of 20,000tpa

China Magnesium Corporation Limited (ASX:CMC), which is set to become one of the largest, low cost, vertically integrated producers of magnesium and magnesium alloy in the world, announces that capital works have commenced at the Pingyao Magnesium Project to upgrade and refurbish the existing 5,000tpa capacity magnesium plant.

The upgrade will be overseen by Zhengzhou Magnesium Science & Technology Company Limited ("ZMSTC"). The President of ZMSTC, Mr Yu Sijing, is a recognised expert in magnesium production, having been formally acknowledged by the magnesium section of the China Nonferrous Metals Association for his contribution to the magnesium industry over the past 20 years.

Commenting upon his firm's appointment, Mr Yu said that he was looking forward to overseeing a speedy and successful plant upgrade.

"The upgraded plant will be at the leading edge of magnesium industry developments, with environmental, efficiency and productivity standards far superior to almost every other magnesium plant currently operating in China," said Mr Yu.

China Magnesium Managing Director Mr Tom Blackhurst said that the appointment of ZMSTC and commencement of the existing plant upgrade was in line with the Company's time line and augured well for the timely completion of the first phase expansion to a first class operation producing 20,000tpa.

"We look forward to releasing further announcements regarding key project milestones and developments over the weeks ahead," said Mr Blackhurst.

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## **About CMC**

CMC, through a minimum 75% ownership interest in a China based magnesium processing plant, plans to exploit the growing demand for magnesium and magnesium alloy by becoming one of the largest producers of pure magnesium and magnesium alloy in the world within three years, being strategically positioned in the major magnesium producing Shanxi province of Northern China.

CMC, through its interest in CMC China has a number of competitive advantages including an environmental permit to produce up to 105,000tpa of magnesium and magnesium alloy, access to key land, ownership of operational plant using proven minerals processing technology, access to skilled labour, close proximity to feedstock and strong local demand for products including a proposed automobile production plant in the area.

CMC has assembled a management team and commercial partners with significant expertise in minerals processing and conducting business in China, and these key personnel have aligned their interests with shareholders by having material shareholdings in CMC. The local community also has a vested interest in ensuring CMC's success, with the project receiving "preferred project" status by local authorities.



*Location of the group's magnesium production operations in Pingyao, China*

## **CMC Highlights**

CMC is to become one of the largest producers of magnesium and magnesium alloy in the world.

**Growing market** – Roskill Consulting has forecast strong growth in the consumption of Magnesium (Mg) in coming years (~6%pa), particularly in the Mg alloy market (~8%pa). Magnesium is a superior and economic substitute for aluminium and many other applications. Importantly, Mg is used in the automotive, computer and consumer electronic markets, where China has a strong and growing manufacturing industry.

**Proven production process** – the process employed by CMC China, known as the Pidgeon process, is a proven, low-cost, and commercially robust process, positioning CMC China as a low-cost producer of Mg and Mg alloy.

**Clear expansion strategy** – the current processing plant (the Plant) in the Shanxi province of Northern China has produced magnesium and has a 'nameplate' capacity of 5,000tpa. The funds raised in the IPO will be used to refurbish this facility and construct an additional plant to reach an initial capacity of 20,000tpa before the end of CY2011. Expansion to 105,000tpa is intended to be funded from CMC China's operational cashflows and debt.

**Strong competitive advantage** – key permits are in place for the staged modular expansion to full capacity of up to 105,000tpa over ~3years, which would make CMC one of the world's largest magnesium producers. These permits, including an environmental permit and land access in one of the world's largest magnesium producing regions, are difficult to obtain, and provide CMC with a strategic position close to feedstock and customers.

**Early cash flows** – once the Plant is completed before the end of CY2011, CMC plans to begin processing dolomite sourced from the current feedstock supplier for the manufacture and sale of Mg to local parties. CMC is forecasting operating margins to exceed \$700/t based on the Company's assumptions which have been independently reviewed.

**ENDS**