



China Magnesium Corporation Limited

Media/ASX Announcement

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CMC SET TO BENEFIT FROM RATIONALISATION OF CHINESE MAGNESIUM INDUSTRY

Key Points

- Chinese Ministry announces strict new conditions for Chinese magnesium industry
- CMC's existing plant and expansion programme already conform to Ministry requirements

The Ministry of Industry and Information Technology (MIIT) of the People's Republic of China has recently announced strict new conditions for companies working within or planning to enter the magnesium industry in China, setting high standards for the layout, production capacity and environmental protection for the industry. The move, as detailed in a statement on the MIIT website, is to "accelerate industry restructuring, enhance environmental protection, regulate investment and prevent redundant construction,"..

The new conditions set forth by the MIIT to rationalise the magnesium industry in China are expected to work in favour of China Magnesium Corporation Limited ("CMC" or the "Company")(ASX: CMC), which is set to become one of the largest, low cost, vertically integrated producers of magnesium and magnesium alloy in the world.

The new conditions, as detailed by the MIIT, for existing and future magnesium production facilities are as follows:

1. Existing refineries - must have annual production capacity of at least 15,000 tonnes per annum (tpa). If an existing refinery wishes to apply for renovation or expansion, it will need to have a production capacity of at least 20,000 tpa;
2. New refineries – must have a planned capacity of at least 50,000 tpa.

In addition to the above, new magnesium refining projects will be prohibited in areas 1 km from drinking water sources, basic farmland protection areas, natural reserves, scenic spots and other areas that require strict environmental quality, it said.

The MIIT requirements also cover the magnesium industries access to mining, technology, machinery, product quality and energy utilization.

Mr Tom Blackhurst, Managing Director of CMC said: "The higher investment required to fund new or existing magnesium plants to reach these capacity levels before applying for new permits has created a formidable barrier for new entrants or current plants with capacities less than 15,000 tpa. China produces over 80% of the world's magnesium, and a significant proportion of this is from low capacity magnesium plants.

CMC is in the enviable position of having permits in place covering not only the current First Phase expansion to 20,000tpa, but for increases up to 105,000tpa.

The move by MIIT is intended to ensure that the industry as a whole operates in an efficient and environmentally responsible manner. It will consolidate CMC's position within the industry as we will be one of the first producers to meet the new industry standards through the upgrade of existing facilities and construction of the First Phase expansion"

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About CMC

CMC, through its 90.7% 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 are being 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.

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