China Magnesium Corporation Ltd.: Appendix 4E & Annual Report

30.08.2017 | ABN Newswire

Brisbane, Aug 30, 2017 - The directors present their report on the consolidated entity (Group). The Group consists of China Magnesium Corporation Limited (ASX:CMC) (Company or parent entity), a public, limited liability company incorporated and domiciled in Australia, and the entities it controlled at the end of, or during the year ended 30 June 2017.

Managing Director's Report

Financial summary

The Group has recorded a net loss after tax of $0.987M compared with a 2016 restated loss of $2.022M.

Pingyao magnesium production

During the year the Company completed the installation and testing of semi coke crackers. This allowed commencement of magnesium production using semi-coke gas instead of coal-to-gas facilities. Management progressed all operational matters including kiln firing preliminary to production in March and early April 2017.

In April 2017 SYMC (the operating subsidiary of CMC based at Pingyao) management along with other businesses in the province were informed that production was to immediately cease pursuant to action by the Minister of Environmental Protection to effect measures to ensure compliance with emissions standards. These measures were focused on a variety of production plants in Beijing, Tianjing, Hebei, Shanxi and surrounding provinces including magnesium plants. The directive from the Minister of Environmental Protection was not from specific issues identified with the Pingyao plant, but was rather a "blanket cease of operations" for manufacturing plants.

The Environmental Protection Department (EPP) has implemented a 5 step environmental supervision process comprising (i) site inspection (ii) engagement of EPP to investigate issues [iii] EPP progress assessment (iv) EPP interviews & (v) engagement of EPP special inspectors where issues remain unresolved. Companies unable to meet EPP emissions standards will be closed by the end of September 2017.

In August 2017 SYMC staff met with the chief of Pingyao Environment Protection Bureau, who confirmed that pollutant standards dated October 2017 as applicable towards SYMC which are stated in the Environmental Impact Assessment Report of SYMC are unchanged from the original Pingyao plant specifications and comply with the EPP discharge standards. CMC is confident that the Pingyao plant will satisfy the disposal/emission specifications, and thereby pass the inspection and review by the expert environmental team as the prerequisite for production recommencement.

SYMC management have conservatively projected additional initial emission discharge control work will be completed for production return by March 2018, at a total cost of $1.1M. CMC have in place funding to complete the additional work.

Monitoring of environmental discharge is anticipated to be effected by controls within all relevant plants with regular reporting thereon to the EPP, together with physical inspection by EPP officers on an ongoing basis.

Lithium tenements

CMC has acquired 2 tenements in the Greenbushes area of Western Australia. In September 2016 CMC announced it had entered into a conditional Framework Agreement to finance the assessment and exploitation of lithium from the 2 tenements. Upon satisfaction of the conditions and intent of the Framework Agreement CMC's interest in the tenements will reduce to 40%.

CMC's executive management do not intend to be involved with the management of the project, other than contributing to the overall strategy and early establishment of key personnel.

Jiexiu City Baiyun Quarry

On 31 July 2017 the mining license of Jiexiu City Baiyun Quarry was cancelled. Impairment of Quarry assets at carrying value of $77,010 (RMB401,214) and land use and mining rights at $524,348 (RMB2,731,800). CMC will seek to recover $575,827 (RMB3 million) under the Option and Purchase Agreement. Management has sourced alternative dolomite supply for production.

Commodities Trading Desk

The international trading desk is the exclusive trading desk for a number of Fengyan operations in addition to the CMC Group.

Error on interest calculation

The financial statements include an adjustment correcting an error where interest had been calculated on the wrong principal balance. The overstatement correction has been brought to account in the relevant periods affected. The current full year results include $127,286 and accumulated losses have been adjusted by $448,764.

Funding Agreement

In June 2017 the Company entered into a Controlled Placement Agreement ("CPA") with Acuity Capital. The CPA provides the Company with up to $3 million of standby equity capital over the coming 2 years.

CMC entered into the CPA to complement its funding initiatives and to strengthen its overall capital management program by adding a further capital raising tool. The CPA provides CMC with the flexibility to quickly and efficiently raise capital, including the ability to take advantage of suitable opportunities as they arise.

The Company retains full control of the placement process, including having sole discretion as to whether or not to use the CPA. The Company is under no obligation to raise capital under the CPA, and there are no break fees if the CPA is not utilised.

Fine Chemicals & Fertiliser Agreement

In the previous financial year CMC signed a conditional agreement with Taiyuan Hailifeng Science & Technology Co. Ltd for the 20 year lease of business and production facilities in Taiyuan, Shanxi Province. This plant currently produces G3 (a cross linking agent in powder coatings for various indoor and outdoor applications), G1 (used in water treatment, in paints and coatings & also as slow release fertiliser) and other chemicals. Negotiation for a second 20 year lease at Shandong (Shandong Province) producing magnesium nitrate, sodium nitrate and other chemicals remains in progress. CMC has continued small scale chemical and fertilizer trading in the current financial year.

Working capital

Under the 2013 Investment and Co-Operation Agreement, Fengyan has continued to provide direct working capital facilities to the CMC Group. CMC & Fengyan continue to evaluate other financial facilities, for which Fengyan has indicated its intention to act as guarantor.

CMC also continues to explore alternative working capital facilities including for lithium tenement acquisition and development.

Rights and options raising

CMC successfully completed a rights and options issue which raised $2.1M to provide CMC with additional general working capital and to further Australian and Chinese operations including acquiring assets. On exercise of options by December 2017 at $0.05 a further $2.1M could be raised.

As noted under Shareholder Information, directors hold 14,598,540 (34%) of options on issue, which includes take-up of a shortfall in rights which was underwritten by several shareholders including two directors.

Looking forward

Subject to CMC completing all environmental work necessary, CMC projects recommencing production in March 2018. We are encouraged by the sustained improvement in magnesium prices.

We continue to seek diversification in the market offerings from magnesium and magnesium alloy into an array of other manufactures including semi coke and calcium metal.

CMC remains committed to becoming one of the world's largest, integrated, low cost magnesium producers, whilst building capacity in other industries to further leverage our strengths and advantages.

To view the full report, please visit:
http://abnnewswire.net/lnk/7E2OR5TC

About China Magnesium Corporation Ltd

China Magnesium Corporation Limited (ASX:CMC) owns a 91.25% interest in CMC China which owns a 100% interest in a magnesium ingot production operation.

The operations are licensed to expand output to 105,000tpa, which would make it one of the world''s largest magnesium producers. Studies have been completed which indicate a positive environment for CMC to conduct a major expansion of its magnesium operations.

CMC has converted its existing coal to gas plants to 5 semi-coke crackers (total semi-coke capacity 200,000 tpa) at the site of its existing 20,000 tpa capacity magnesium plant. Waste gas from semi-coke production is now used to provide the energy source required to produce magnesium. Consequently the combined semi-coke and magnesium plants are expected to significantly lower production costs than for magnesium-only production using the coal-to-gas facilities as originally envisaged when the magnesium plant was built.

Contact

China Magnesium Corporation Ltd
T: +61-7-5531-1808
F: +61-7-5597-1096
E: info@chinamagnesiumcorporation.com
www.chinamagnesiumcorporation.com