



**ASX Announcement**

**26 November 2015**

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## **MANAGING DIRECTORS REPORT ON FY15**

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*(from the CMC annual report ...)*

Dear Shareholders

I am pleased to report on continued positive progress in our journey to become a large, low cost, integrated producer of magnesium, semi coke, tar oil and other industrial products.

### **Financial summary**

The Group recorded a net loss after tax of \$3.5M compared with a 2014 loss of \$2.6M.

Revenues have increased to \$19.9M in the year, and were attributable to substantially greater trading in magnesium, semi coke, metallurgical coke, tar oil and calcium metal. International shipment markets have included Australia, Germany, Holland, Korea, Sweden, Slovakia and Taiwan. Sales momentum is expected to continue into 2015/6.

In the 2014 annual report it was projected that the Pingyao plant would contribute to positive cash flow by 1 March 2015. Pleasingly we achieved this in the September 2014 quarter, and maintained positive operating cash for the ensuing quarters to 30 June 2015. As a result the ASX no longer requires the company to now file quarterly Appendix 4C Cash Commitments reports.

### **Rights and options**

CMC successfully completed a rights and options issue which raised \$1M. On exercise of the 7 cent options up to \$1.8M could be raised. As noted under Shareholder Information, directors hold 13.2M (53%) of options on issue, which includes take up of a shortfall in rights which was underwritten by a majority of the directors.

### **Pingyao Country Fengyan Mineral Wool Co. Ltd. (FMW)**

In February 2015 a wholly owned CMC subsidiary executed a Co-operation Agreement with Pingyao Country Fengyan Mineral Wool Co. Ltd. (FMW). FMW is an established medium sized metallurgical company which can produce up to 150,000 tpa of ferro nickel, whilst using waste slag from this production for output of mineral (rock) wool and mineral wool acoustic board products.

Under the agreement CMC is responsible for the management and improvement of the FMW business. Pursuant to this CMC control 3 of the 5 seats on the Board of Directors, and a 60% interest in the total turnover/profit/loss of FMW.

The production line lends itself to re-configuration where market momentum changes. Accordingly since coming under CMC influence FMW has converted its production line from ferro nickel to pig iron. I am pleased to note that FMW has traded profitably subsequent to this conversion in June.

Further market opportunities are now appearing under this agreement, with further profitable growth anticipated for 2015/16. I am pleased to note the recent approval of permits for an expansion of the mineral wool production capacity from FMW.

Whilst there are strong grounds for consolidation of FMW into the CMC result, your directors have adopted a conservative view and accounted for CMC's share of FMW losses for the period.

### **Commencement of production at Pingyao**

During the year the first set of crackers were completed, installed and successfully tested. This enabled CMC to commence magnesium production using waste semi-coke gas instead of using coal-to-gas facilities. We continue to complete adaption of all coal-to-gas units into the operational semi-coke crackers.

Initial production was predominantly small scale semi-coke and some pure magnesium ingot blocks, reflecting prevailing market conditions through the year.

### **Working capital**

Pursuant to the Investment and Co-operation Agreement with Shanxi Pingyao Fengyan Coal & Coke Group Company Limited (Fengyan), CMC & Fengyan have continued evaluation of direct working capital facilities. During this time Fengyan have provided necessary working capital to start small scale production.

Funding scope has been amended to incorporate FMW pursuant to the Co-operation Agreement signed pursuant to the 1 February 2015 commencement.

Fengyan have indicated its intention to act as guarantor for resulting working capital loans.

### **Commodities Trading Desk**

The international trading desk has been more active as it is now the exclusive trading desk for a number of Fengyan operations in addition to the CMC Group.

### **Looking forward**

The financial year has seen an increase in diversification of the market offerings from magnesium and magnesium alloy into a metallurgical coke, semi coke, calcium metal and other synergistic products.

The Co-operation Agreement with FMW adds a further dimension to the Group's scope of operations. FMW purchases all of our semi coke and this has led to a co-operation agreement in February which will further cement our semi coke sales. Once CMC assumed Management control of FMW talks were entered into with Pingyao Huiyu Casting Co. Ltd to secure offtake for their pig iron requirements and in late April and May the blast furnace was shut down to make the necessary changes to move into pig iron production.

It is a practical example of CMC remaining committed to pursuing further expansion and vertical integration and engaging in other value-adding opportunities.

CMC has spent the last year implementing the necessary changes that have followed the conversion of our Coal to Gas plants to Semi Coke crackers including the marketing of our semi coke production and the much larger volumes of tar oil. The tar oil will be used to produce diesel and the plant is currently under construction at our location.

CMC remains committed to becoming one of the world's largest, integrated, low cost magnesium producers, whilst building capacity in industries such as calcium metal, pig iron, and semi coke which can further leverage our strengths and advantages.

Yours sincerely,

Tom Blackhurst  
Managing Director  
9 September 2015