
FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS AND PROSPECTS

The Company aims to become the first primary magnesium producer in the South East Asia. To the best knowledge of our Directors and NERI, there is no major magnesium producer in other countries in the South East Asia. The world's primary magnesium production is dominated by China, Russia, U.S., Israel and Brazil, which altogether accounted for all the total world magnesium production of 774,000 tonnes in 2007 according to CMA. As seen from the statistics in the section headed "Industry Overview" in this prospectus, in 2007, China alone produced approximately 85% of the total world output of magnesium and is currently the only country in Asia that produces magnesium. If the Group's quarrying and smelting activities proceed as planned, with an estimated production capacity of 15,000 tonnes of magnesium ingots per annum based on one line of production (and growing to an estimated production of 30,000 tonnes of magnesium ingots per annum based on two lines of production in the future), we believe that we will become one of the leading magnesium producers in the South East Asia and will make a significant contribution to the world's primary magnesium production output.

In order to achieve our goal, we intend to implement the following business development strategies:

Running efficient mining and smelting operations

Upon the commencement of operation of the Perak Magnesium Smelter, we will also gear up our mining activities through the Quarry Contractor. We will ensure that the mining operations are carried out in accordance with sound safety standards and to a high level of environmental compliance. As part of our internal controls on the quarrying activities, our personnel will be stationed at the Dolomite Land to ensure that (i) the dolomitic limestones are properly quarried and processed to the required sizes by the Quarry Contractor; (ii) the dolomitic limestones are appropriately separated from other stones, by-products or waste products; (iii) the Quarry Contractor stores the dolomitic limestones properly; and (iv) the Quarry Contractor transports the dolomite limestones to the Perak Magnesium Smelter for further processing in a timely manner. We are also confident that we will be able to operate and manage the Perak Magnesium Smelter efficiently and manufacture magnesium ingots that meet the requirements of our prospective customers.

Focusing on the first production line of the Perak Magnesium Smelter

The Perak Magnesium Smelter will have the capacity to handle two production lines with an estimated annual production capacity of 15,000 tonnes of magnesium ingots each. However, the initial focus will be our first production line with an estimated annual production capacity of 15,000 tonnes of magnesium ingots. We believe that it is more prudent to focus on one as it will enable us to maximise product quality at the outset. Depending on, amongst other things:

- the level of demand for magnesium ingots from prospective customers which have already entered into or will enter into off-take agreements with us;

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- the prevailing market prices of magnesium ingots and the raw materials; and
- the availability of funds, including internally generated resources, external borrowings and equity financing, to finance the construction of the second production line,

we will expand the operating scale of the Perak Magnesium Smelter by constructing the second production line with an estimated annual production capacity of 15,000 tonnes of magnesium ingots.

When we have a concrete timetable and construction and production plans for the second production line, we will disclose the details by way of announcements and in our annual reports.

Expanding sales through diversifying our product line and establishing more sales channels

As we establish our market presence and commence the construction of the second production line, we will implement plans to develop more sales channels and secure more off-take agreements. Apart from the main product, magnesium ingots, the Perak Magnesium Smelter will also produce several by-products including fertilisers, clinker and other chemical and building materials. It is currently the intention of our Directors to sell the by-products of the Perak Magnesium Smelter as clinker to cement producing companies in Malaysia through direct sales or traders. We also intend to expand our business in the sale of magnesium by-products as the Perak Magnesium Smelter becomes fully operational. In addition, we believe that magnesium has large market potential having regard to the wide variety of applications of magnesium and its advantages over other metals such as aluminium, as described in more detail in the section headed “Industry Overview” in this prospectus. We are committed to exploring market opportunities such as possible downstream activities including the manufacture of value added products like magnesium alloys.

Maximising profits through vertical integration

After the construction of the second production line of the Perak Magnesium Smelter, we will seek to lower our costs of production and hence maximise our profits through acquiring upstream suppliers companies and, or construction of processing plants for key raw materials including flux and ferrosilicon used in the Perak Magnesium Smelter. We believe this will help to enhance our competitiveness and allow us to be in a position to control better the procurement activities of the Perak Magnesium Smelter.

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It is forecast that the cost of each of ferrosilicon and flux will account for 38% and 5%, respectively of the cost of goods sold of CVM. We plan to allocate approximately HK\$15 million of the net proceeds from the Share Offer for the purchase of raw materials prior to the commencement of operations of the Perak Magnesium Smelter, following which we will finance the purchase of raw materials through other means such as internally generated resources. It is our current intention to look into the possibility of acquiring or setting up plants producing such raw materials especially for ferrosilicon, a significant component of CVM's operating costs, for better economies of scale.

As at the Latest Practicable Date, no acquisition targets had been identified by us. Neither is there any negotiation between us and any parties involved in other magnesium upstream activities, locally or outside Malaysia, in relation to any potential acquisition. We will also look into the possibility of setting up our own plants producing ferrosilicon and flux with a view to achieving cost efficiency and optimising our profitability after the construction of the second production line of the Perak Magnesium Smelter. Organic growth against acquisitions methods will also be evaluated in order to identify the best growth strategy for us.

The investment criteria that will be taken into account by us in selecting potential targets or business partners include, amongst other factors, the following:

- comparison of short and long-term cost efficiency between investing in other plants and importing raw materials;
- local economic factors which support plants processing minerals; and
- location of plants producing raw materials as this will affect the transportation cost.

Pursuing growth through acquisition of other dolomite reserves

We are confident in the development of the magnesium industry in view of the global supply and demand trends of magnesium in recent years and the positive outlook of the magnesium market. Besides, Perak and other parts of ASEAN countries (including Malaysia) have rich mineral resources and we believe that there are other dolomite hills in these areas where magnesium reserves can be found.

Accordingly, in pursuit of the business development of our Group, we may acquire more dolomite reserves in Perak, other states of Malaysia and the ASEAN region.

As at the Latest Practicable Date, apart from the Dolomite Hills, we had not identified any acquisition targets. However, as dolomite reserves are considered important strategic assets for our future expansion, it is our current intention to maintain close contact with the State Government of Perak to explore suitable dolomite reserves as part of our business expansion plans. As the first production line of the Perak Magnesium Smelter is expected to be at full capacity in the fourth quarter of 2009, we will pursue further growth of our Group

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through acquiring mining concession rights in other states of Malaysia and other countries in the ASEAN region. Generally, we will take into account, amongst other things, the following factors in selecting suitable acquisition targets:

- the quality of dolomitic limestones, preferably those with MgO content of 18% to 21.7%;
- the proximity between the location of the Perak Magnesium Smelter and the area in which the target dolomite reserves are located as this will affect the transportation cost; and
- the costs associated with the acquisition of other dolomitic limestone reserves as compared to other future plans and any related holding cost.

Should we be able to identify suitable acquisition targets, we plan to fund our future acquisitions through internally generated resources, external borrowings, equity financing or a combination of these means.

We will continue to weigh growth opportunities against potential business risks and implement our expansion plans in the interest of our Shareholders.

USE OF PROCEEDS

Our Directors believe that the Share Offer will raise the corporate profile and enhance the capital base of our Group, enabling us to expand further the scale and scope of our operations.

On the assumption that the Over-allotment Option is not exercised, the net proceeds from the Share Offer, after deducting related expenses, are estimated to be approximately HK\$92 million (based on an Offer Price of HK\$1.18 per Share). Our Directors presently intend that the net proceeds from the Share Offer will be utilised in the following proportions:

	Amount <i>(approximately HK\$ million)</i>
Repayment of short term bank loans <i>(note 1)</i>	43
Payment of all relevant pre-operating expenses in relation to the implementation and development of the CVM Project	16
Purchase of raw materials <i>(note 2)</i>	15
Capital expenditure for the expansion and upgrade of the Perak Magnesium Smelter <i>(note 3)</i>	10
Other working capital purposes	<u>8</u>
	<u><u>92</u></u>

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Notes:

1. An existing short term bank loan was used for settling advances from HWGB which were provided to us for working capital and other operational purposes prior to the Listing, particulars of which are set forth below:

Bank	Due date	Interest rate	Amount (US\$)
DBS Bank Ltd., Labuan Branch	6 months from 9th October, 2008, being the first drawdown date	3% above USD Singapore Interbank Offered Rate per annum	5,000,000
			<u>5,000,000</u>

2. The Company intends to apply part of the net proceeds from the Share Offer to the purchase of raw materials used in the magnesium production process, which include dolomite, ferrosilicon, refining flux and to a lesser extent, retort, after the commencement of operations of the Perak Magnesium Smelter. The purchase of raw materials forms part of our working capital requirements. We are able to obtain stable supply of dolomite pursuant to the Mining Agreement. We have also entered into long term supply contracts with Independent Third Parties for the purchase of the other two key raw materials, namely ferrosilicon and flux, to ensure stability of materials and continuity of supply. Please refer to the sections headed “Business — Mining Right” and “Business — Raw Materials and Suppliers” in this prospectus for further details.
3. Part of the net proceeds from the Share Offer will be used to upgrade our facilities, production capacity and operations of the Perak Magnesium Smelter, including but not limited to, the construction of the second production line with an estimated annual production capacity of approximately 15,000 tonnes of magnesium ingots, subject to prevailing market conditions.

In the event that the Over-allotment Option is exercised in full, the additional net proceeds of approximately HK\$20 million (based on an Offer Price of HK\$1.18 per Share) will be used for expansion and upgrade of the Perak Magnesium Smelter.

To the extent that the net proceeds from the Share Offer are not immediately used for the above purposes, it is the management’s present intention to place such proceeds in short-term demand deposits, money-market instruments or other forms of banking deposits.