

**ADDITIONAL SEMI COKING, MAGNESIUM AND TAR OIL OPERATION****Highlights:**

- 20 year lease of semi coke operation at Fugu, Shaanxi province, providing additional magnesium and tar oil production capacity effective 1 September 2013, subject to completion of due diligence
- 240,000 tpa semi coke, 8,000 tpa magnesium and 16,800 tpa tar oil
- Fugu provides potentially lower operating costs in the largest magnesium producing province
- 51/49 profit sharing arrangement with lessor (effectively a joint venture)

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**Issued Capital:**  
**Shares - Quoted:**

144,214,490 fully paid shares

**Share price (24/6/13): 7.0 cents****Market cap: A\$10.1m****Cash as at 31 March 2012:**  
\$3.65 million**Directors:**

William Bass  
(*Non-Executive Chairman*)

Tom Blackhurst  
(*Managing Director*)

Xinping Liang  
(*Chief Operating Officer*)

Peter Robertson  
(*Non-Executive Director*)

**Substantial shareholders:**

Mr Tom Blackhurst	16.9%
Mr Xinping Liang	8.4%
Mr Guicheng Jia	8.3%
Mr Ming Li	8.3%

China Magnesium Corporation Limited (ASX: CMC; "CMC" or "the Company") which plans to become one of the largest, low cost, vertically integrated producers of magnesium and magnesium alloy in the world advises that it has entered into an agreement to lease and operate a semi coke, magnesium and tar oil operation in Fugu County, Shaanxi province.

The 20-year 'lease and cooperative operating agreement' ("**Agreement**") is with the current owner of the operations, Shaanxi San Xin Co., Ltd Second Branch. ("**San Xin**"), and relates to:

- a 240,000 tpa semi coke plant, which produces approximately 16,800 tpa tar oil as a by-product; and
- an 8,000 tpa pure magnesium production plant, which uses the waste coke gas from the semi coke plant to heat the reduction ovens.

The plants are situated on 230mu (153,333sqm, just under 38 acres) of land.

The Agreement will add to CMC's competitive advantages by diversifying its operating base to include the Shaanxi province, which also has low operating costs and recently overtook the Shanxi province as China's largest magnesium manufacturing province (Shaanxi and Shanxi are neighboring but separate provinces).

Preliminary investigations indicate that unit operating costs for pure magnesium production should be more cost-effective than is anticipated for CMC's Pingyao magnesium plant. Use of the waste coke gases at Fugu would be a major contributing factor to this.

Reduction ovens at Fugu are presently being upgraded and will be fully operational by 31 August 2013.

San Xin has entered into the Agreement with CMC so that CMC can bring its magnesium production know-how and resources to San Xin's operations.

Key terms of the Agreement, which in substance is similar to a joint venture, are as follows:

- Legal and technical due diligence by CMC to be concluded by 1 September 2013.
- 20 year lease term from 1 September 2013 to 31 August 2033.
- CMC will have full management and operating rights from commencement of the lease.
- CMC is required to pay San Xin an annual 'lease fee' equal to the greater of RMB6 million (~A\$1.06m) or 49% of the relevant year's net profit
- CMC is required to pay San Xin a bond of RMB1 million (~A\$177,000) as a guarantee for the leased equipment.
- CMC is required to ensure equipment at the end of the lease (31 August 2033) is of the same condition as at the lease start.

CMC has paid to San Xin a RMB200,000 (~A\$35,000) initial deposit, which is to be credited towards the abovementioned RMB1 million equipment bond. CMC will be providing the working capital to operate the plant, which is estimated to be RMB10m (~A\$1.77m).

CMC Managing Director, Mr Tom Blackhurst, said that the proposed new operation was expected to provide additional flexibility to the Group's future expansion alternatives.

"We also expect it to make a substantial contribution to CMC's profitability in the 2014 financial year".



*Location of the CMC's magnesium production operations in Pingyao, Shanxi province and the proposed semi coke / magnesium operations in Fugu, Shaanxi province, both in northern China*



*Steam powered vacuum system-steam from waste heat recovery system of rotary kiln*



*Gasifiers-Coal to Semi Coke and waste gas used to heat ovens*



*Discharging semi coke (1)*



*Discharging semi coke (2)*

**ENDS**