



China Magnesium Corporation Limited

Appendix 4E – Preliminary Final Report

Name of Entity:	China Magnesium Corporation Limited
ABN:	14 125 236 731
Reporting Period - year ended:	30 June 2011
Previous corresponding period – period ended	30 June 2010

Results for Announcement to the Market

	Percentage change Up or Down	%		\$'000
Revenue from ordinary activities	up	15,467%	to	467
Profit /(Loss) from ordinary activities after tax attributable to members	up	325%	to	(1,658)
Net Profit /(Loss) for the period attributable to members	up	325%	to	(1,658)

Dividends	Amount per Security	Franked amount per security
Interim Dividend – Current reporting period	Nil	Nil
Final Dividend – Current reporting period	Nil	Nil
Record date for determining entitlements to dividends (if any)	Not applicable	
Date Dividend is payable	Not applicable	
Details of any dividend reinvestment plan in operation	Not applicable	
The last date for receipt of an election notice for participation in any dividend reinvestment plan	Not applicable	

Net Tangible Assets (NTA)	June 2011	June 2010
Net Tangible Assets per security	7.9 Cents	3.6 Cents

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Brief explanation of any figures reported above necessary to enable the figures to be understood

This is the first financial reporting year for the company as a listed entity. The company listed on the ASX on 9 November 2010 and increased its interest in its Chinese subsidiary from 30.6% to 90.7% by December 2010, as such the comparatives shown in the financial report are not directly comparable.

The Group has focused on the upgrade of an existing magnesium plant and first stage expansion of magnesium capacity since listing. Production from the upgraded existing plant commenced late in April 2011 and commissioning of the upgraded plant occurred during May and June 2011. The first stage expansion is on schedule for completion by 30 December 2011 as per the Company's IPO prospectus.

Commentary on Results

Refer attached annual report

Dividends

No dividends were paid or declared during the period ending 30 June 2011.

Compliance Statement

This report is based on the financial report that has been audited by our external auditors.



Tom Blackhurst
Managing Director

Date: 18 August 2011

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China Magnesium Corporation Limited

ABN 14 125 236 731

Annual Report
For the year ended 30 June 2011



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NOVEMBER 2010

IPO completed and listed on Australian Securities Exchange (ASX)



DECEMBER 2010

Injected \$7.47 million into Chinese Joint Venture company,
Increasing Interest from 30.6% to 90.7%

30.6%



90.7%

PROJECT OWNERSHIP

FEBRUARY-MARCH 2011

Land secured for expansion and ground breaking ceremony held



APRIL 2011

Production of magnesium commenced at upgraded existing plant



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MAY 2011

Conditional contract signed to exercise the option to purchase Baiyuan Dolomite Quarry 30 km from the magnesium production plant



JULY 2011

Official government visit in July by delegations from Pingyao County and Jinzhong Municipality



AUGUST 2011

First Phase expansion progressing rapidly

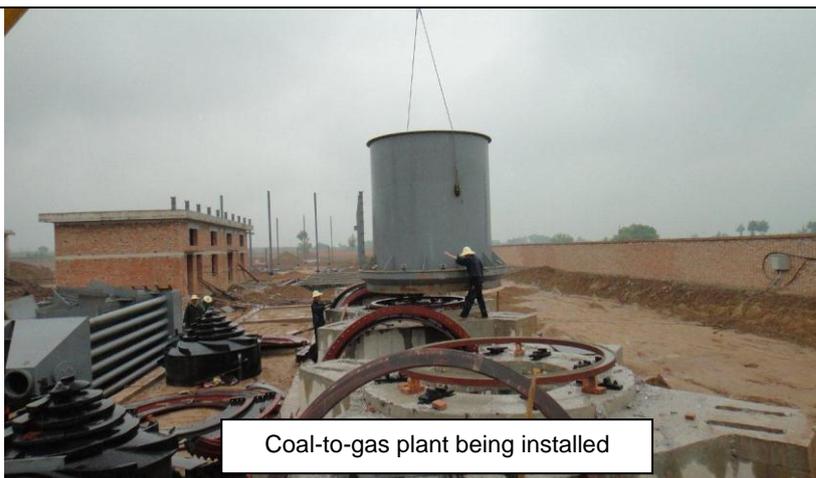


Rotary kiln moved into position

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AUGUST 2011 (continued)

First Phase expansion
progressing rapidly



Coal-to-gas plant being installed



Coal-to-gas plant being installed



Refinery building under construction

China Magnesium Corporation Limited and its subsidiary

Annual Report – 30 June 2011

ANNUAL GENERAL MEETING

The Annual General Meeting of China Magnesium Corporation Limited will be held at;

The Sands Room
Level Two
Hotel Grand Chancellor
Corner of Surfers Paradise Boulevard and Hanlan Street
Surfers Paradise
Queensland 4217

at 11am on 4 October 2011

YEARS HIGHLIGHTS

Raised \$10,153,969 after costs in an Initial Public Offering

Listed on the Australian Securities Exchange on 9 November 2010.

Increased ownership in Chinese joint venture company from 30.6% to 90.7%.

Commenced production of magnesium

The Group signed a contract, subject to certain conditions precedent, to acquire the Baiyun quarry which provides dolomite to the Group for magnesium production and to other customers, including those in the steel industry.

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China Magnesium Corporation Limited and its subsidiary

Managing Director's Report – 30 June 2011

Managing Director's Report

Dear Shareholder,

Your company is embarking on a significant growth phase. Whilst others have tried, CMC is now the first Australian company to become a commercial producer of pure magnesium.

I believe that magnesium is a growth market that is far from mature and has enormous potential. Magnesium has valuable properties that have increasing applications in today's technology driven economy, with its main advantage being its high strength to weight ratio. CMC is planning to exploit the growing demand for magnesium and magnesium alloy by becoming one of the largest, low cost, vertically integrated producers of magnesium and magnesium alloy in the world.

Having successfully completed our \$12 million initial public offer and ASX listing in early November, we quickly moved to complete CMC's earn-in of a 75% interest in our flagship operation, the Pingyao Magnesium Project, and have since increased this interest to above 90%. This is a significant project, which is strategically positioned in the major magnesium producing Shanxi province of Northern China.

Key competitive advantages include an environmental permit to significantly expand production, access to key land, ownership of an operational plant using proven minerals processing technology, access to skilled labour, close proximity to feedstock and strong local demand for products.

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 company also enjoys a high degree of respect from the local community and the Provincial Government of Shanxi, with the project having been classified as a "preferred project" by the Shanxi Government. We are very fortunate to have this depth of local support.

We have made rapid progress since listing and are meeting or exceeding expectations set out in our IPO prospectus. Shortly after listing, CMC commenced capital works on the existing plant upgrade and placed orders for long lead items required for the first phase expansion. It is very pleasing to note that small-scale commercial production of pure magnesium commenced in late April – well ahead of schedule.

Chinese land rights for the first phase expansion were granted in February, and CMC is rapidly progressing the existing plant upgrade and first phase expansion for completion by the end of 2011 – on schedule and within budget. As these developments continue, magnesium alloying capacity will be added and capacity gradually increased to 20,000tpa.

In May this year we exercised our option to acquire the dolomite quarry supplying our existing plant, to progress the vertical integration of our supply chain from dolomite supply through to magnesium and magnesium alloy production. We are confident of our existing supply chain but will continue to take opportunities to vertically integrate within the industry when acquisitions make good economic sense. Dolomite is not a rare or complex raw material but it is fundamental for the production of magnesium, and control over supply requirements is another positive for the company as we progress our expansion plans.

CMC is also set to benefit from a change in Chinese government policy, announced in March, which aims to accelerate industry restructuring, enhance environmental protection, regulate investment and prevent redundant construction. A higher investment required to fund new or existing magnesium plants to reach specified capacity levels before applying for new permits has, in our view, created a formidable barrier for new entrants or current plants with capacities less than 15,000tpa. China produces approximately 75% of the world's magnesium, and a significant proportion of this is from low-capacity plants.

China Magnesium Corporation Limited and its subsidiary Managing Director's Report – 30 June 2011

We are 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. Our existing plant upgrade and first phase expansion are already designed to conform to the strict new regulatory requirements

CMC is building a significant, internationally competitive business based on solid business fundamentals, a strong financial footing and a leading-edge magnesium project.

It is a credit to the team in Pingyao led by our Executive Director and Chief Operating Officer, Xiping Liang and our joint venture partner, Ming Li to have achieved so much considering capital works on the existing plant upgrade only commenced in December and the first phase expansion land was bare land at the beginning of April. I wish to extend my thanks to them, to my fellow directors and to all our staff, in both Australia and China.

Your company is ideally placed with a strong balance sheet to capitalise on the significant growth opportunities at its fingertips. I am excited by the real prospects and growth plans for this Company, and expect to deliver for you, our fellow shareholders, significant returns over the years ahead.

Yours sincerely,



Tom Blackhurst
Managing Director

China Magnesium Corporation Limited and its subsidiary

Director's Report

Directors' report

Your directors present their report on the consolidated entity (Group). The Group consists of China Magnesium Corporation Limited (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 2011.

Directors

The following persons were directors of China Magnesium Corporation Limited during the whole of the year and up to the date of this report:

W Bass
T Blackhurst
M Clarey
X Liang
P Robertson

Mr Adam Gallagher, who was appointed as company secretary on 25 March 2010, resigned on 29 November 2010 and Mr Garry Edwards was appointed company secretary on the same date. Mr Damien Kelly was appointed as an additional company secretary on 1 February 2011.

Principal activities

The principal continuing activities of the Group during the year were:

- Upgrading and expansion of magnesium production facilities at the Groups' 90.7% owned subsidiary in Shanxi province in northern China.
- Production and sale of magnesium.

Dividends

No dividends were paid during the year and no recommendation is made as to the payment of dividends.

Review of operations

During the year the Company issued 48,000,000 ordinary shares at 25 cents per share and 12,000,000 attaching options pursuant to its Initial Public Offer ("IPO"). The offer raised \$12,000,000 before costs. The Company's shares were listed on the Australian Securities Exchange (ASX) on 9 November 2010.

During the year, the Company contributed an additional \$7.48million to the capital of its subsidiary Shanxi Luyuan Magnesium Company Limited (SLMC) and increased its interest in SLMC by 60%. The Company now owns 90.7% of the shares in SLMC. Capital works have been undertaken to upgrade the existing SLMC magnesium plant and a first phase expansion of the plant is underway. Production of magnesium from the Project re-commenced in April 2011.

The Group signed a contract, subject to certain conditions precedent, to acquire the Baiyun quarry which provides dolomite to the Group for magnesium production and to other customers, including those in the steel industry.

Significant changes in the state of affairs

Significant changes in the state of affairs of the Group during the financial year were as follows:

Contributed equity increased by \$10,362,058 (from \$2,185,350 to \$12,547,408) as the result of an Initial Public Offering ("IPO"). Details of the changes in contributed equity are disclosed in note 15 to the financial statements.

The Company contributed \$7,475,000 additional capital to its subsidiary Shanxi Luyuan Magnesium Corporation ("SLMC"), increasing its interest from 30.6% to 90.7%.

China Magnesium Corporation Limited and its subsidiary

Director's Report

Using funds raised in the IPO and injected into SLMC, the Group commenced the upgrade and first phase expansion of its magnesium project ("Project") in Pingyao County, Shanxi Province, Northern China. Production of magnesium from the Project re-commenced in April 2011.

The Group signed a contract, subject to certain conditions precedent, to acquire the Baiyun quarry which provides dolomite to the Group for magnesium production and to other customers, including those in the steel industry.

Matters subsequent to the end of the financial year

Except for the matters discussed above, no other matter or circumstance has arisen since 30 June 2011 that has significantly affected, or may significantly affect:

- (a) the Group's operations in future financial years, or
- (b) the results of those operations in future financial years, or
- (c) the Group's state of affairs in future financial years.

Likely developments and expected results of operations

Likely developments in the operations of the Group are:

- Completion of the upgrade and first phase expansion of the Project by 30 December 2011 within budgeted cost.
- Increases in production of magnesium and commencement of magnesium alloy production as the Project develops
- The Group is in discussions with bankers in China and expects to be able to secure a line of credit of approximately RMB90,000,000 (AUD 13,787,000) for working capital, phase two expansion and to fund the purchase of the Baiyun dolomite quarry if conditions precedent for that purchase are satisfied.

Environmental regulation

The Company's operations are not regulated by any significant environmental regulation under a law of the Australian Commonwealth or of a State or Territory. The Group's operations in China are subject to relevant laws and regulations imposed by the Chinese government. These operations are subject to review by Chinese government inspectors. The directors are not aware of any matters suggesting that the Group's operations are not in full compliance with the relevant laws and regulations.

Information on directors

Thomas Blackhurst – *Managing Director and co-founder. Age 47.*

Experience and expertise

Managing Director since 4 May 2007. Mr Blackhurst co-founded the Company in May 2007 with Messrs Xinping Liang, Ming Li and Guicheng Jia. He has more than 20 years experience in building new businesses and consulting to various businesses in Australia and Asia. Beginning his career in metals trading, he later embarked upon various other successful entrepreneurial ventures.

Other current directorships

Nil.

Former directorships in last 3 years

Nil.

Special responsibilities

Managing Director.

Interests in shares and options

24,240,000 ordinary shares in the Company.

China Magnesium Corporation Limited and its subsidiary

Director's Report

Information on directors (Continued)

Xinping Liang BEng, MEng - Chief Operating Officer and co-founder. Age 48.

Experience and expertise

Executive director since 4 May 2007, Mr Liang is a Chinese engineer with more than 24 years of experience in international project and corporate development; mainly focussing on infrastructure assets, heavy industries, renewable energies such as solar and wind power and supporting technologies for those industries. He has extensive senior executive experience in project evaluation, financial analysis and project/business development for numerous private, public and state owned enterprises in Asia (particularly China and Singapore), Australia, Canada, USA and the UK.

Mr Liang grew up in Pingyao and introduced the Company to its Chinese joint venture partner in January 2007, which led to him co-founding the Company in May 2007 with Messrs. Blackhurst, Ming Li and Guicheng Jia.

Other current directorships

Nil.

Former directorships in last 3 years

Nil.

Special responsibilities

Chief Operating Officer

Interests in shares and options

12,000,000 ordinary shares in the Company.

William Bass BEcon, CA, FCS, FTIA, FInstIB, JP (Qual) Non-executive Chairman. Age 54.

Experience and expertise

Independent non-executive director since 15 February 2010 and Chair since 10 March 2010. Extensive experience in commercial and financial management with a range of leading Australian and international public companies.

Other current directorships

Non-executive director of 1300SMILES Limited since 25 January 2007

Former directorships in last 3 years

Nil

Special responsibilities

Chair of the board.

Interests in shares and options

520,000 ordinary shares in the Company and 30,000 unquoted options exercisable at \$0.25 only if a Project Delay* occurs and expiring either upon Practical Completion Announcement* or, in any case, not later than 28 October 2013.

Michael Clarey BA (Mathematics), MIM - Non-Executive Director. Age 64.

Experience and expertise

Independent non-executive director since 3 July 2008, Mr Clarey is a dual Australian and United States national with over 30 years international banking, insurance and corporate finance experience in Australia, Asia, Europe and North America working mostly with the natural resources sector including mining, oil & gas, and forest products as well as in the construction, engineering and ship building industries.

China Magnesium Corporation Limited and its subsidiary

Director's Report

Information on directors (Continued)

Other current directorships

Videlli Limited

Former directorships in last 3 years

Non-executive director of Anzon Australia Limited until its take-over by Roc Oil in October 2008. Non-executive director of ASX-listed company ERG Limited from January 2005 until it voluntarily delisted from the ASX in 2009. ERG changed its name to Videlli Limited, and Mr. Clarey remains a director of that Company.

Special responsibilities

Nil.

Interests in shares and options

240,000 ordinary shares in the Company.

Peter Robertson BE (Met), MBA - Non-Executive Director. Age 54.

Experience and expertise

Independent non-executive director since 3 July 2008, Mr Robertson is an Australian metallurgical engineer with more than 28 years of experience in mineral processing, smelting and rolling of aluminium and developing new technologies for the recycling of aluminium waste material. Over the past 18 years, Mr Robertson has been involved in the manufacture and supply of consumables and consulting services to the aluminium cast house industry through his role as General Manager of Leymont Pty Ltd.

Other current directorships

Nil.

Former directorships in last 3 years

Non-executive director of Macquarie Harbour Mining Limited until 29 November 2010

Special responsibilities

Nil.

Interests in shares and options

600,000 ordinary shares in the Company and 100,000 unquoted options exercisable at \$0.25 only if a Project Delay* occurs and expiring either upon Practical Completion Announcement* or, in any case, not later than 28 October 2013.

*** Defined Terms in respect of the unquoted options:**

A **Project Delay** occurs if, on or before the Completion Date the Company has not made the Practical Completion Announcement.

Completion Date means 30 December 2011 unless extended in accordance with the terms and conditions of grant.

Practical Completion Announcement means an announcement to ASX by the Company that Practical Completion of the Upgrade and First Phase Expansion has been achieved at a capital expenditure cost of RMB 52.6 million or less.

Upgrade and First Phase Expansion refers to the Company's 90.7% owned Pingyao Magnesium Project located in the Shanxi Province of Northern China.

Company secretaries

Mr Garry Edwards MBA, FIPA, FAICD, ACSA, is the Company's primary Company Secretary and Chief Financial Officer. He has served as Company Secretary of several ASX listed companies over the past 16 years and was appointed as Company Secretary on 29 November 2010.

China Magnesium Corporation Limited and its subsidiary

Director's Report

Company secretaries (Continued)

Mr Damien Kelly MBA, BCom, FFINSIA, CPA, is a founding director of boutique corporate advisory firm, Western Tiger Corporate Advisers. He has broad corporate and commercial experience spanning more than 10 years, providing professional services to ASX and AIM listed companies predominantly in the mining and energy sector. He was appointed as joint Company Secretary on 1 February 2011.

Meetings of directors

The numbers of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2011, and the numbers of meetings attended by each director were:

	Board Meetings Attended	Meetings Held During Time of Office	Audit Committee Meetings Attended	Meetings Held During Time of Office
W Bass	9	9	2	2
T Blackhurst	9	9	2	2
M Clarey	8	9	2	2
X Liang	8	9	2	2
P Robertson	9	9	2	2

Remuneration report - Audited

The information provided in this remuneration report has been audited as required by section 308(3C) of the Corporations Act 2001.

This Remuneration Report sets out remuneration information for China Magnesium Corporation Limited Group's non-executive directors, executive directors, other key management personnel, and other Group or Company executives.

Directors and executives disclosed in this report

Non-executive directors	
	W Bass – Chairman
	M Clarey – Director
	P Robertson - Director
Executive directors	
	T Blackhurst – Managing Director
	X Liang – Chief Operating Officer
Other key management personnel	
	G Edwards – Chief Financial Officer and Company Secretary
Other executives	
	D Kelly – Joint company secretary

Changes since the end of the reporting period: NIL

The Company has a small management team and, as such, there are fewer than 5 Company executives.

Principles used to determine the nature and amount of remuneration

The board's policy for determining the nature and amount of remuneration of key management personnel of the Company and the Group is designed to;

- Maintain the ability to attract and retain senior executives and directors;
- Avoid paying excessive remuneration;
- Remunerate fairly having regard to market conditions and individual contribution; and
- Align the interests of employees and directors with that of the Company and the Group as much as possible.

China Magnesium Corporation Limited and its subsidiary

Director's Report

Remuneration report – Audited (Continued)

The Group put its magnesium plant in care and maintenance in 2008 and did not recommence production until April 2011. The primary focus of the Group has been to finance the upgrade and re-commissioning of existing magnesium production facilities and the building of new production capacity. Funding was obtained through an initial public offering and the Company listed on the Australian Securities Exchange on 9 November 2010. The Company's share price on listing was \$0.25 per share and \$0.325 on 30 June 2011.

Remuneration to date has not been dependent upon performance conditions. There has been no share-based remuneration.

Directors' fees

Non-executive directors' fees and payments reflect the demands made on, and the responsibilities of, the non-executive directors. The fees are determined within a pool limit, which is periodically reviewed and proposed changes recommended for approval by shareholders. The pool is currently limited to \$200,000 per annum. Non-executive directors do not receive performance-based pay. There are no retirement allowances for non-executive directors.

The following base fees, inclusive of superannuation contributions required under the Australian superannuation guarantee legislation, commenced in November 2010 when the Company listed.

Chairman	\$70,000
Non-executive directors	\$35,000

Executive pay and benefits

Executive payments currently consist of consultancy payments to the executive directors and base salary plus statutory superannuation, if applicable, for other executives. Base pay is structured as a total employment package which may be delivered as a combination of prescribed non-financial benefits at the executives' discretion. There are no guaranteed base pay increases in any executives' contracts.

Throughout the year all remuneration for directors, key management personnel and other executives was fixed and not linked to performance.

There were no cash bonus, performance related bonus, non-monetary benefits or share-based elements of remuneration in the year ended 30 June 2011 (2010- Nil).

Details of remuneration

2011

Name	Short term benefits		Post-employment benefits			Total
	Cash Salary and fees	Other	Super-annuation	Long Term Benefits	Termination Benefits	
	\$	\$	\$	\$	\$	\$
Non-executive directors						
W Bass	119,434	-	2,649	-	-	122,083
M Clarey	13,333	-	10,000	-	-	23,333
P Robertson	21,407	-	1,926	-	-	23,333
Executive directors						
T Blackhurst	328,336	-	-	-	-	328,336
X Liang	248,000	-	-	-	-	248,000
Other key management personnel						
G Edwards *	45,974	-	24,412	-	-	70,386
Other executives						
D Kelly **	146,000	-	-	-	-	146,000
Total	922,484	-	38,987	-	-	961,471

China Magnesium Corporation Limited and its subsidiary

Director's Report

Remuneration report – Audited (Continued)

* From 29 November 2010

** Includes \$131,000 fees paid to a company owned by Mr Kelly for consulting services in relation to the Company's IPO, prior to his appointment as a joint company secretary of the Company on 1 February 2011.

2010

Name	Short term benefits		Post-employment benefits			Total
	Cash Salary and fees	Other	Super-annuation	Long Term Benefits	Termination Benefits	
	\$	\$	\$	\$	\$	\$
Non-executive directors						
W Bass	20,000	-	-	-	-	20,000
M Clarey	-	-	-	-	-	-
P Robertson	-	-	-	-	-	-
Executive directors						
T Blackhurst	40,000	-	-	-	-	40,000
X Liang	-	-	-	-	-	-
Total	60,000	-	-	-	-	60,000

Service agreements

On appointment to the board, all non-executive directors sign a letter of appointment. The letter summarises the board policies and terms, including compensation, relevant to the office of director.

Remuneration and other terms of engagement for the Managing Director, Chief Operating Officer, Chairman and Chief Financial Officer are also formalised in service agreements as follows:

Name	Term of agreement	Base salary / consulting fee including any superannuation	Termination benefit *
T Blackhurst <i>Managing director</i>	Consulting through Dominion Pacific Finance Pty Ltd for 3 years commencing 1 November 2010	\$350,000	12 months' fee
XP Liang , <i>Chief Operating Officer</i>	Consulting through Singapore Energy and Equipment Investment Pte Ltd for 3 years commencing 1 November 2010	\$300,000	12 months' fee
W Bass , <i>Chairman</i>	Consulting agreement for 1 year commencing 1 November 2010	\$70,000	12 month' fee unless terminated for cause or because Mr Bass ceases to be a director
G Edwards , <i>Chief Financial Officer (since 4 January 2011)</i>	Ongoing	\$150,000	1 month's salary

*Termination benefits are payable on early termination by the Company, other than for cause.

China Magnesium Corporation Limited and its subsidiary

Director's Report

Remuneration report – Audited (Continued)

The amounts payable to Messrs Blackhurst, Liang and Bass were determined prior to the Company's initial public offering having regard to remuneration for similar positions in similar sized companies. Mr Edwards' remuneration was determined having regard his role and remuneration prior to joining the Company. These service agreements do not fix the amount of remuneration increases from year to year. Remuneration levels are reviewed generally each year to align with changes in job responsibilities and market salary expectations.

END OF AUDITED REMUNERATION REPORT

Loans to directors and executives

There were no loans to directors or executives during the year.

Shares under option

Unissued ordinary shares of China Magnesium Corporation Limited under option at the date of this report are as follows:

Date granted	options	Expiry date	Issue price of shares	Number under option
28 October 2010		Not later than 28 October 2013	\$0.25	12,000,000

The options are only exercisable, at an exercise price of 25 cents per share, if a Project Delay occurs. A Project Delay occurs if, on or before 30 December 2011 (unless extended), the Company has not made an announcement to the ASX that Practical Completion of the upgrade and first phase expansion of the Project has been achieved at a capital expenditure cost of RMB 52.6 million or less.

The options expire at the earlier of the following times:

- If a Project Delay has not occurred - at 5.00pm AEST on the date of the Practical Completion Announcement.
- If a Project Delay has occurred - at 5.00pm AEST on 28 October 2013.

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

Insurance of officers and auditors

During the financial year the Company paid a premium in respect of a contract insuring directors, secretaries and executive officers of the Company and its controlled entity against any liability incurred as director, secretary or executive officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or any of its controlled entity against a liability incurred as such an officer or auditor.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

China Magnesium Corporation Limited and its subsidiary

Director's Report

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important. Details of the amounts paid or payable to the auditor for non-audit services provided during the year are set out below.

The Board of Directors has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Board to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

During the year the following fees were paid or payable for non-audit services provided by our auditor, BDO Audit (Qld) Pty Ltd or its related entities:

	Consolidated	
	2011	2010
	\$	\$
IPO advisory services	10,420	12,500
Tax services	22,180	2,950
Total remuneration for non-audit services	32,600	15,450

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 12.

This report is made in accordance with a resolution of directors.



Tom Blackhurst
Managing Director

Southport
18 August 2011

China Magnesium Corporation Limited and its subsidiary

Auditor's independence declaration



Tel: +61 7 3237 5999
Fax: +61 7 3221 9227
www.bdo.com.au

Level 18, 300 Queen St
Brisbane QLD 4000,
GPO Box 457 Brisbane QLD 4001
Australia

DECLARATION OF INDEPENDENCE BY A J WHYTE TO THE DIRECTORS OF CHINA MAGNESIUM CORPORATION LIMITED

As lead auditor of China Magnesium Corporation Limited for the year ended 30 June 2011, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of China Magnesium Corporation Limited and the entity it controlled during the period.

A J Whyte

Director

BDO Audit (QLD) Pty Ltd

Brisbane: 18 August 2011

BDO Audit (QLD) Pty Ltd ABN 33 134 022 870 is a member of a national association of independent entities which are all members of BDO (Australia) Ltd ABN 77 050 110 275, an Australian company limited by guarantee. BDO Audit (QLD) Pty Ltd and BDO (Australia) Ltd are members of BDO International Ltd, a UK company limited by guarantee, and form part of the international BDO network of independent member firms. Liability limited by a scheme approved under Professional Standards Legislation (other than for the acts or omissions of financial services licensees) in each State or Territory other than Tasmania.

Corporate Governance Statement

The Board are committed to achieving and demonstrating the highest standards of corporate governance and continue to review the framework and practices to ensure they meet the interests of shareholders. The Company and its controlled entities together are referred to as the Group in this statement.

The ASX Recommendations that have been adopted by the Company are outlined below. Where an alternative approach has been adopted, this is outlined within the relevant section. All these practices unless otherwise stated were in place for the entire year.

A copy is also available from the corporate governance information section of the Company website at www.chinamagnesiumcorporation.com

Principle 1: Lay solid foundations for management and oversight

The relationship between the Board and senior management is critical to the Group's long-term success. The directors are responsible to the shareholders for the performance of the Group in both the short and the longer term, and continually seek to balance competing objectives in the best interests of the Group as a whole.

Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the Managing Director and senior executives.

The full Board meets at least nine times a year, with other meetings as required to address any specific significant matters that may arise.

Responsibilities

The responsibilities of the Board include:

- providing strategic guidance to the Group including contributing to the development of, and approving, the corporate strategy
- reviewing and approving business plans, the annual budget and financial plans including available resources and major capital expenditure initiatives
- overseeing and monitoring:
 - organisational performance and the achievement of the Group's strategic goals and objectives
 - compliance with the Company's Code of Conduct
 - progress of major capital expenditures and other significant corporate projects including any acquisitions or divestments
- monitoring financial performance including approval of the annual and half-year financial reports and liaison with the Company's auditors
- appointment, performance assessment and, if necessary, removal of the Managing Director
- ratifying the appointment and/or removal, and contributing to the performance assessment for, the members of the senior management team including the Chief Operating Officer, Chief Financial Officer and the Company Secretary
- ensuring there are effective management processes in place and approving major corporate initiatives
- enhancing and protecting the reputation of the organisation
- overseeing the operation of the Group's system for compliance and risk management reporting to shareholders

China Magnesium Corporation Limited and its subsidiary Corporate Governance Statement – 30 June 2011

Principle 2: Structure the board to add value

The Board operates in accordance with the broad principles set out in its charter. The charter details the Board's composition and responsibilities.

Board composition

The charter states:

- the Board is to be comprised of both executive and non-executive directors with a majority of non-executive directors. Non-executive directors bring a fresh perspective to the Board's consideration of strategic, risk and performance matters
- in recognition of the importance of independent views and the Board's role in supervising the activities of management, the Chair must be an independent non-executive director, the majority of the board must be independent of management and all directors are required to exercise independent judgement and review and constructively challenge the performance of management
- the Chair is elected by the full Board and is required to meet regularly with the Managing Director
- the Company is to maintain a mix of directors on the board from different backgrounds with complementary skills and experience
- the Board is required to undertake an annual board performance review and consider the appropriate mix of skills required by the Board to maximise its effectiveness and its contribution to the Group. This review process was conducted in April 2010 prior to the Company completing the ASX listing. It was not undertaken during the 2011 financial year but is scheduled to take place in the 2012 financial year

The Board seeks to ensure that the size of the Board is conducive to effective discussion and efficient decision making.

The company's Constitution specifies that all non-executive directors must retire from office no later than the third annual general meeting (AGM) following their last election. Where eligible, a director may stand for re-election, at the next AGM.

Directors' independence

The Board has adopted specific principles in relation to directors' independence. These state that to be deemed independent, a director must be non-executive and:

- not be a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company
- within the last three years, not have been employed in an executive capacity by the Company or any other Group member, or been a director after ceasing to hold any such employment
- within the last three years not have been a principal of a material professional adviser or a material consultant to the Company or any other Group member, or an employee materially associated with the service provided
- not be a material supplier or customer of the Company or any other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer
- must have no material contractual relationship with the Company or a controlled entity other than as a director of the Group
- not have been on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company
- be free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

China Magnesium Corporation Limited and its subsidiary Corporate Governance Statement – 30 June 2011

Materiality for these purposes is determined on both quantitative and qualitative bases. A transaction of any amount or a relationship is deemed material if knowledge of it may impact the shareholders' understanding of the director's performance.

The China Magnesium Corporation Limited Board has a majority of independent non-executive directors.

Non-executive directors

The non-executive directors meet as required without the presence of management, to discuss the operation of the Board and a range of other matters. Relevant matters arising from these meetings are shared with the full Board.

Chair and Managing Director

The Chair is responsible for leading the Board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with the Company's senior executives.

The Managing Director is responsible for implementing Group strategies and policies. The Board charter specifies that these are separate roles to be undertaken by separate people.

Commitment

Non-executive directors are expected to spend an appropriate portion of time per year preparing for and attending Board and committee meetings and associated activities.

The number of meetings of the Company's Board of Directors and of each board committee held during the year ended 30 June 2011, and the number of meetings attended by each director is disclosed in the directors' report.

It is the Company's practice to allow its executive directors to accept appointments outside the Company with prior advice to the Board.

The commitments of non-executive directors are considered by the Board prior to the directors' appointment to the Board of the Company and are reviewed each year as part of the annual performance assessment.

Prior to appointment or being submitted for re-election, each non-executive director is required to specifically acknowledge that they have and will continue to have the time available to discharge their responsibilities to the Company.

Conflict of interests

No entities connected with directors had business dealings with the consolidated entity during the year.

Independent professional advice

Directors and board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense. Prior written approval of the Chair is required, but this will not be unreasonably withheld.

Board committees

The Board has established one committee, the Audit Committee.

The Board may form additional committees in future to deal with Risk, Remuneration and Nominations in the future. These functions are currently discharged by the full Board.

The committee structure and membership is reviewed on an annual basis.

The audit committee has its own charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the Committee is to operate. This charter is reviewed on an annual basis.

China Magnesium Corporation Limited and its subsidiary Corporate Governance Statement – 30 June 2011

Principle 3: Promote ethical and responsible decision making

The Company has established a Code of Conduct that sets out standards which the Board, management and employees of the Company are encouraged to comply with when dealing with each other, shareholders and the broader community.

The Company requires that all directors, managers and employees perform their duties professionally and act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

The Code of Conduct gives guidance to the directors and other key executives about:

- the practices necessary to maintain confidence in the integrity of the Company; and
- the right of employees to alert management and the Board in good faith to potential misconduct without fear of retribution, and, where necessary, recording and investigation of such alerts.

The Company has a formal procedure in place to deal with the disposal or acquisition of the Company's securities. In addition, there are specific periods that trading in the Company's securities are prohibited by Director's and staff.

The Company holds regular meetings with landowners and local communities in which it operates to ensure that effective communication provided on the Company's activities and that any relevant issues are dealt with.

Principle 4: Safeguard integrity in financial reporting

The Managing Director and Chief Financial Officer are required to make the following certifications to the board:

- that the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and Group and are in accordance with relevant accounting standards
- that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

Audit Committee

The Audit Committee currently consists of the full Board, being three independent non-executive directors and two executive directors.

The audit committee members have appropriate financial expertise. All members are financially literate, with Mr. Bass being a Chartered Accountant, and have an appropriate understanding of the industries in which the Group operates. During the 2011 financial year the Company did not comply with the structure set out in recommendation 4.2 of the ASX Corporate Governance best practice recommendations as the audit committee did not consist of only non-executive directors.

The Company will further review the composition of the Committee after the end of the 2011 financial year.

The Audit Committee operates in accordance with a charter that states the main responsibilities of the Committee are to:

- review, assess and approve the annual report, the half year financial report and all other financial information published by the Company or released to the market;
- assist the Board in reviewing the effectiveness of its internal control environment covering:
 - effectiveness and efficiency of operations
 - reliability of financial reporting
 - compliance with applicable laws and regulations;

China Magnesium Corporation Limited and its subsidiary Corporate Governance Statement – 30 June 2011

- determine the scope of potential internal audit requirements;
- oversee the effective operation of the risk management framework;
- recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, the scope and quality of the audit and assess performance;
- consider the independence and competence of the external auditor on an ongoing basis;
- review and approve the level of non-audit services provided by the external auditors and ensure it does not adversely impact on auditor independence;
- review and monitor related party transactions and assess their propriety; and
- report to the Board on matters relevant to the Committee's role and responsibilities.

In fulfilling its responsibilities, the Audit Committee:

- receives regular reports from management and external auditors;
- meets with external auditors at least two times a year, or more frequently if necessary;
- reviews the processes the Managing Director and CFO have in place to support their certifications to the Board
- reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved
- provides the external auditors with a clear line of direct communication at any time to either the Chairman of the audit committee or the Chairman of the Board.

The Audit Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

The Company and Audit Committee policy is to appoint external auditors who clearly demonstrate quality and independence.

The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs.

BDO Audit (Queensland) Pty Ltd ("BDO") was appointed as the external auditor for the financial year 2010 onwards. It is BDO's policy to rotate audit engagement partners on listed companies at least every five years.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the Directors' Report and in the Notes to the Financial Statements. It is the policy of the external auditors to provide an annual declaration of their independence to the audit committee.

Principles 5: Make timely and balanced disclosure

The Company Secretary has been nominated as the person responsible for communications with the Australian Securities Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and coordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

The Company has established policies and procedures designed to ensure compliance with the ASX Listing Rule requirements such that:

China Magnesium Corporation Limited and its subsidiary Corporate Governance Statement – 30 June 2011

- all investors have equal and timely access to material information concerning the Company, including its financial situation, performance, ownership and governance; and
- Company announcements are factual and presented in a clear and balanced way.

The Company has established policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance. The Board authorises all disclosures necessary to ensure compliance with ASX Listing Rule disclosure requirements.

Principle 6: Respect the rights of shareholders

The Board encourages shareholder communication and through the activities of its executives, ensures that shareholders are kept up to date with the Company's activities.

The Company has policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the Group that a reasonable person would expect to have a material effect on the price of the Company's securities. These policies and procedures also include the arrangements the Company has in place to promote communication with shareholders and encourage effective participation at general meetings.

All information disclosed to the ASX is posted on the Company's website as soon as reasonably practicable after it is disclosed to the ASX. When presentations on aspects of the Group's operations are made, the material used in the presentation is released to the ASX and posted on the Company's web site. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed and, if so, this information is also immediately released to the market.

A copy of the Company's Annual Report is issued to shareholders who have requested one. In addition, the Company seeks to provide opportunities for shareholders to participate through electronic means. All Company announcements, media briefings, details of company meetings, and audited financial reports from 2010 are available on the Company's website.

The website also includes a feedback mechanism and an option for shareholders to register their email address for direct email updates on company matters.

The external auditor will attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

Principle 7: Recognise and manage risk

The Managing Director and the Company's Chief Financial Officer provide a written statement to the Board that:

- the integrity of the Company's financial statements are prepared on the basis that there are appropriate internal controls and that there is sufficient compliance with these controls to ensure no material misstatement of the Company's affairs and financial position;
- the Company's risk management and controls systems are operating effectively in all material respects.

During the 2011 financial year all matters normally within the province of the risk committee were referred to the full Board of Directors.

This included responsibility for ensuring that there are adequate policies in relation to risk management, compliance and internal control systems.

In summary, the Company policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified assessed, effectively and efficiently managed and monitored to enable achievement of the Group's business objectives.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority. The Company Risk Management

China Magnesium Corporation Limited and its subsidiary Corporate Governance Statement – 30 June 2011

Policy and the operation of the risk management and compliance system are regularly reviewed by the full Board.

Detailed control procedures cover management accounting, financial reporting, project appraisal, environment, health and safety, IT security, compliance and other risk management issues. In addition, the Board requires that each major proposal submitted to the Board for decision is accompanied by an appropriate review of risks and, where required, management's proposed mitigation strategies.

The Company recognises the importance of environmental and occupational health and safety (OH&S) issues and is committed to the highest levels of performance. To help meet this objective the Environmental, Health & Safety Management System was established to facilitate the systematic identification of environmental and OH&S issues and to ensure they are managed in a structured manner.

This system allows the Company to:

- monitor its compliance with all relevant legislation both in Australia and in China;
 - continually assess and improve the impact of its operations on the environment;
 - encourage employees to actively participate in the management of environmental and OH&S issues;
 - work with relevant associations representing the Group's businesses to raise standards;
 - use energy and other resources efficiently; and
 - encourage the adoption of similar standards by the Group's principal suppliers, contractors and distributors.
- Information on compliance with significant environmental regulations is set out in the Directors' Report.

Principle 8: Remunerate fairly and responsibly

During the 2011 financial year all remuneration matters were referred to the full Board of Directors.

This included responsibility for:

- remuneration and incentive policies and practices generally, and
- making specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors.

Directors receive regular information on recent developments on remuneration and related matters as required.

Each member of the senior executive team signs a formal employment contract at the time of their appointment covering a range of matters including their duties, rights, responsibilities and any entitlements on termination. The standard contract refers to a specific formal job description.

The Board undertakes annually to have the performance of senior executives assessed against group and individual performance targets.

The performance of each senior manager is assessed against Group and individual performance targets by the executive management. Senior management were appointed subsequent to listing on the ASX in November 2010 and were accordingly not reviewed in the year ended 30 June. Senior management are scheduled for performance review in the 2012 financial year.

The Board reviews its performance on an on-going basis to ensure that individual directors and the Board as a whole work efficiently and effectively in fulfilling their functions set out in the Charter. In addition to this, the Chairman meets annually and separately with each non-executive director to discuss individual performance and ideas for improvement.

Further information on directors' and executives' remuneration, including principles used to determine remuneration, is set out in the Directors' Report under the heading "Remuneration Report".

The Board also assumes responsibility for overseeing management succession planning, including the implementation of appropriate executive development programmes and ensuring adequate arrangements are in place, so that appropriate candidates are recruited for later promotion to senior positions.

China Magnesium Corporation Limited and its subsidiary Corporate Governance Statement – 30 June 2011

Adoption of Principles and Recommendations

The Group has adopted the principles and recommendations of the ASX Corporate Governance Council except as noted hereunder.

Recommendation 2.4

The board has not established a nomination committee. This function is undertaken by the board as a whole.

Recommendation 4.2

The Audit committee did not consist of only non-executive directors and is not chaired by a person other than the chair of the board.

Recommendation 8.1

The board has not established a remuneration committee. This function is undertaken by the board as a whole.

The board believes that these exceptions to the recommendations of the ASX Corporate Governance Council are appropriate given the size of the board and the development stage of the Company.

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China Magnesium Corporation Limited and its subsidiary
Consolidated Financial Statements – 30 June 2011

Consolidated statement of comprehensive income
for the year ended 30 June 2011

	Note	2011 \$	Consolidated 2010 \$
Revenue from continuing operations	5	467,482	2,858
Expenses			
Changes in inventories		209,244	(31,225)
Purchase of raw materials and consumables		(450,150)	-
Auditing and accounting		(86,234)	(36,050)
Communication		(24,130)	(2,163)
Compliance and listing fees		(30,635)	(2,540)
Consulting fees		(195,079)	(116,443)
Depreciation and amortisation expenses	6	(160,093)	(152,232)
Employee benefits		(1,006,577)	(77,600)
Finance costs		(1,025)	(185)
Insurance		(21,986)	(2,542)
Maintenance		(60,256)	-
Office rent and expenses		(126,149)	(14,050)
Other expenses		(150,340)	(88,486)
Travel expenses		(151,171)	(11,121)
Total expenses		(2,254,581)	(534,637)
Loss before income tax		(1,787,099)	(531,779)
Income tax benefit	7	-	-
Loss for the year		(1,787,099)	(531,779)
Other comprehensive income			
Foreign currency translation differences		(325,128)	15,645
Income tax on items of other comprehensive income		-	-
Other comprehensive income for the year (net of tax)		(325,128)	15,645
Total comprehensive income for the year		(2,112,227)	(516,134)
Loss for the year is attributable to:			
Owners of the parent		(1,658,489)	(389,965)
Non-controlling interests		(128,610)	(141,814)
		(1,787,099)	(531,779)
Total comprehensive income for the year is attributable to:			
Owners of the parent		(1,892,356)	(374,320)
Non-controlling interests		(219,871)	(141,814)
		(2,112,227)	(516,134)
Earnings per share		Cents	Cents
Basic and diluted earnings per share for the year	26	(1.5)	(2.0)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

China Magnesium Corporation Limited and its subsidiary
Consolidated Financial Statements – 30 June 2011

Consolidated statement of financial position
as at 30 June 2011

		Consolidated	
	Note	2011 \$	2010 \$
ASSETS			
Current assets			
Cash and cash equivalents	8	4,750,714	1,157,340
Trade and other receivables	9	158,251	154,459
Inventories	10	590,674	381,430
Other	11	480,238	151,886
Total Current Assets		<u>5,979,877</u>	<u>1,845,115</u>
Non-current assets			
Property, plant and equipment	12	5,468,904	1,241,487
Other	11	-	151,900
Total Non-Current Assets		<u>5,468,904</u>	<u>1,393,387</u>
Total assets		<u>11,448,781</u>	<u>3,238,502</u>
LIABILITIES			
Current liabilities			
Trade and other payables	13	402,576	156,827
Current tax liabilities		-	88,320
Provisions	14	11,108	-
Total Current Liabilities		<u>413,684</u>	<u>245,147</u>
Total liabilities		<u>413,684</u>	<u>245,147</u>
Net assets		<u>11,035,097</u>	<u>2,993,355</u>
EQUITY			
Contributed equity	15	12,339,319	2,185,350
Reserves	16	111,049	(68,401)
Accumulated losses		(2,127,108)	(468,619)
Total equity attributable to owners of the parent		<u>10,323,260</u>	<u>1,648,330</u>
Non-controlling interest		711,837	1,345,025
Total equity		<u>11,035,097</u>	<u>2,993,355</u>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

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China Magnesium Corporation Limited and its subsidiary
Consolidated Financial Statements – 30 June 2011

Consolidated statement of changes in equity
for the year ended 30 June 2011

	Contributed equity	Accumulated losses	Foreign currency translation reserve	Change of interest in subsidiary reserve	Total	Non-Controlling interest	Total equity
	\$	\$	\$	\$	\$	\$	\$
At 1 July 2009	859,350	(78,654)	(84,046)	-	696,650	1,486,839	2,183,489
Loss for the year	-	(389,965)	-	-	(389,965)	(141,814)	(531,779)
<i>Other comprehensive income:</i>							
Foreign currency translation difference	-	-	15,645	-	15,645	-	15,645
Total comprehensive income for the year	-	(389,965)	15,645	-	(374,320)	(141,814)	(516,134)
Transactions with owners in their capacity as owners							
Issue of shares	1,326,000	-	-	-	1,326,000	-	1,326,000
At 30 June 2010	2,185,350	(468,619)	(68,401)	-	1,648,330	1,345,025	2,993,355
Loss for the year	-	(1,658,489)	-	-	(1,658,489)	(128,610)	(1,787,099)
<i>Other comprehensive income:</i>							
Foreign currency translation difference	-	-	(233,867)	-	(223,867)	(91,261)	(325,128)
Total comprehensive income for the year	-	(1,658,489)	(233,867)	-	(1,892,356)	(219,871)	(2,112,227)
Transactions with owners in their capacity as owners							
Issue of shares - IPO	12,000,000	-	-	-	12,000,000	-	12,000,000
Cost of share issue	(1,846,031)	-	-	-	(1,846,031)	-	(1,846,031)
Adjustment of non-controlling interest upon increasing interest in subsidiary	-	-	(54,662)	467,979	413,317	(413,317)	-
At 30 June 2011	12,339,319	(2,127,108)	(356,930)	467,979	10,323,260	711,837	11,035,097

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

China Magnesium Corporation Limited and its subsidiary
Consolidated Financial Statements – 30 June 2011

Consolidated statement of cash flows
for the year ended 30 June 2011

		Consolidated	
	Note	30 June 2011 \$	30 June 2010 \$
Cash flows from operating activities			
Receipts from customers		253,560	-
Payments to suppliers and employees		(2,406,603)	(134,125)
Interest received		201,207	2,858
Interest and other costs of finance paid		(1,025)	(137)
Income taxes (paid) recovered		(5,554)	7,045
Net cash inflow/(outflow) from operating activities	26	<u>(1,958,415)</u>	<u>(124,359)</u>
Cash flows from investing activities			
Payments for property plant and equipment		<u>(4,599,843)</u>	-
Net cash inflow/(outflow) from investing activities		<u>(4,599,843)</u>	-
Cash flows from financing activities			
Proceeds from issue of shares		12,000,000	1,326,000
Share issue costs		<u>(1,846,031)</u>	<u>(225,204)</u>
Net cash inflow/(outflow) from financing activities		<u>10,153,969</u>	<u>1,100,796</u>
Net increase in cash and cash equivalents		3,595,711	976,437
Cash and cash equivalents at the beginning of the year		1,157,340	181,962
Effects of exchange rate changes on cash and cash equivalents		<u>(2,337)</u>	<u>(1,059)</u>
Cash and cash equivalents at the end of the year	8	<u>4,750,714</u>	<u>1,157,340</u>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

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China Magnesium Corporation Limited and its subsidiary
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

Notes to the consolidated financial statements

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China Magnesium Corporation Limited and its subsidiary
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are for the consolidated entity consisting of China Magnesium Corporation Limited and its subsidiary.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

i) Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements of China Magnesium Corporation Limited comply with International Financial Reporting Standards (IFRS).

ii) Historical cost convention

These financial statements have been prepared under the historical cost convention.

iii) Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

(b) Principles of consolidation

i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of the subsidiary of China Magnesium Corporation Limited ("Company" or "parent entity") as at 30 June 2011 and the results of the subsidiary for the year then ended. China Magnesium Corporation Limited and its subsidiary together are referred to in these financial statements as the Group or the consolidated entity.

Subsidiaries (as stated in note 23) are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 1(c)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

China Magnesium Corporation Limited and its subsidiary
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-controlling interests in the results and equity of the subsidiary are shown separately in the Consolidated Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Financial Position respectively.

Accounting policies of the subsidiary have been changed where necessary to ensure consistency with the policies adopted by the Group.

ii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of China Magnesium Corporation Limited.

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(c) Business combinations

The acquisition method of accounting is used to account for all business combinations. Consideration is measured at the fair value of the assets transferred, liabilities incurred and equity interests issued by the Group on acquisition date. Consideration also includes the acquisition date fair values of any contingent consideration arrangements, any pre-existing equity interests in the acquiree and share-based payment awards of the acquiree that are required to be replaced in a business combination. The acquisition date is the date on which the group obtains control of the acquiree. Where equity instruments are issued as part of the consideration, the value of the equity instruments is their published market price at the acquisition date unless, in rare circumstances it can be demonstrated that the published price at acquisition date is not fair value and that other evidence and valuation methods provide a more reliable measure of fair value.

Identifiable assets acquired and liabilities and contingent liabilities assumed in business combinations are, with limited exceptions, initially measured at their fair values at acquisition date. Goodwill represents the excess of the consideration transferred and the amount of the non-controlling interest in the acquiree over fair value of the identifiable net assets acquired. If the consideration and non-controlling interest of the acquiree is less than the fair value of the net identifiable assets acquired, the difference is recognised in profit or loss as a bargain purchase price, but only after a reassessment of the identification and measurement of the net assets acquired.

For each business combination, the group measures non-controlling interests at either fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Acquisition-related costs are expensed when incurred.

(d) Segment reporting

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision maker) in assessing performance and determining the allocation of resources. Operating segments are determined on the basis of financial information reported to the Board which is at the Group level.

China Magnesium Corporation Limited and its subsidiary
Notes to the Consolidated Financial Statements
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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accordingly, management currently identifies the Group as having only one reportable segment, being the processing and sale of magnesium. There have been no changes in the operating segments during the year. Accordingly, all significant operating decisions are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the consolidated entity as a whole.

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is China Magnesium Corporation Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation. All foreign exchange gains and losses are presented in the profit or loss on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each Statement of Financial Position presented are translated at the closing rate at the date of that Statement of Financial Position;
- income and expenses for each Statement of Comprehensive Income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

(f) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of discounts, refunds, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that the future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each.

Revenue is recognised for the major business activities as follows:

China Magnesium Corporation Limited and its subsidiary
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Sale of magnesium and magnesium alloys

The Group manufactures and sells magnesium and magnesium alloys.

Domestic and export sales of goods are recognised when a Group entity has delivered products to the purchaser or, in the case of export sales, free on board and there is no unfulfilled obligation that could affect the purchaser's acceptance of the products. Delivery does not occur until the products have been shipped to the specified delivery location or vessel, the risks of obsolescence and loss have been transferred to the purchaser, and either the purchaser has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

(ii) Interest

Interest income is recognised using the effective interest method.

(g) Income Tax

The income tax expense or revenue for the year is the tax payable on the current year's taxable income based on the notional income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(h) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term liabilities. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each year. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

China Magnesium Corporation Limited and its subsidiary
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the term of the lease.

(i) Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(j) Cash and cash equivalents

For statement of cash flow presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown in current liabilities on the Statement of Financial Position.

(k) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade and other receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

(l) Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure - the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

China Magnesium Corporation Limited and its subsidiary
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Investments and other financial assets

Classification

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets.

ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the reporting date, which are classified as current assets.

iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

Recognition and de-recognition

Regular purchases and sales of financial assets are recognised on trade date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss, are initially recognised at fair value and transaction costs are expensed. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Measurement

After initial recognition, loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Available for sale financial assets are carried at fair value.

Impairment of Financial Assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

China Magnesium Corporation Limited and its subsidiary
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable the future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting year in which it is incurred.

Depreciation is calculated using the straight-line method to allocate the cost or revalued amounts, net of their residual values, over the estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

- Buildings 25-40 years
- Plant and equipment 3-8 years
- Vehicles 5-8 years
- Leasehold land 50 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

(o) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the year which are unpaid. The amounts are unsecured and are usually paid within 30 – 60 days of recognition.

(p) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

(q) Employee benefits

i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

China Magnesium Corporation Limited and its subsidiary
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ii) Other long-term employee benefit obligations

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and years of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(r) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of China Magnesium Corporation Limited as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of China Magnesium Corporation Limited.

(s) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the Group, on or before the end of the financial year but not distributed at reporting date.

(t) Earnings per share

i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(u) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. Where the GST is recoverable from the taxation authority it is recognised as part of the cost of acquisition of the asset or as part of the expense.

China Magnesium Corporation Limited and its subsidiary
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the Statement of Financial Position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(v) New accounting standards and interpretations

No new or revised Australian Accounting Standards that have been issued but not yet effective have been applied in the preparation of these financial statements. Such standards are not expected to have a material impact on the Group's financial report on initial application.

NOTE 2: FINANCIAL RISK MANAGEMENT

(a) General Objectives, Policies and Processes

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

The principal financial instruments from which financial instrument risk arises are:

- Cash and cash equivalents
- Trade and other receivables
- Trade and other payables

The Board has overall responsibility for the determination of the Group's risk management objectives and policies.

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and price risks and aging analysis for credit risk.

Risk management is carried out under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas, such as, interest rate risk, credit risk and investment of excess liquidity.

(b) Market risk

Market risk arises from the use of interest bearing and foreign currency financial instruments. It is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) and foreign exchange rates (currency risk). Cash is the only financial instrument of the Group that is subject to interest rate risk. Cash earns interest at a standard variable rate.

China Magnesium Corporation Limited and its subsidiary
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

NOTE 2: FINANCIAL RISK MANAGEMENT (Continued)

Foreign currency risk arises from the Group's investment in its foreign controlled subsidiary. The currency in which transactions with this investment are primarily denominated is Renminbi. The Group's investment in its subsidiary is not hedged.

(c) Foreign exchange risk

The group operates internationally and is exposed to foreign exchange risk arising from currency exposure to the Chinese Renminbi.

Foreign exchange risk arises in particular from the Group's commitment to capital expenditure that is denominated in Renminbi that is not offset by financial assets denominated in Renminbi. The Group's exposure to such capital commitments at 30 June 2011 was AUD\$1,632,949 (2010: Nil). These capital commitments are due to be settled within one year.

(d) Credit risk

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Group incurring a financial loss. The maximum exposure to credit risk at reporting date is the balances recognised in cash and trade and other receivables. Cash is deposited with major banks in Australia and China

(e) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The objective of managing liquidity risk is to ensure, as far as possible, that the Group will always have sufficient liquidity to meet its liabilities when they fall due.

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through access to debt or equity funding sources. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Financing arrangements

The Group has no committed credit facilities.

Maturities of financial liabilities

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Consolidated 2011			
	\$ 0 to 6 months	\$ 6 to 12 months	\$ Greater than 12 months	\$ Carrying Amount
Trade and Other Payables	402,576	-	-	402,576

	Consolidated 2010			
	\$ 0 to 6 months	\$ 6 to 12 months	\$ Greater than 12 months	\$ Carrying Amount
Trade and Other Payables	245,147	-	-	245,147

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China Magnesium Corporation Limited and its subsidiary
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

NOTE 2: FINANCIAL RISK MANAGEMENT (Continued)

(f) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The carrying value of cash and cash equivalents, receivables and payables are assumed to approximate their fair values due to their short-term nature.

NOTE 3: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Going Concern

The financial statements have been prepared on a going concern basis. Management have analysed estimated future cash requirements and the Group has sufficient funds to complete the upgrade and first phase expansion.

The Group is in discussions with bankers in China and expects to be able to secure a line of credit of approximately RMB90,000,000 (AUD 13,787,000) for working capital, phase two expansion and to fund the purchase of the Baiyun dolomite quarry if conditions precedent for that purchase are satisfied.

NOTE 4: SEGMENT INFORMATION

(a) Description of segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision maker) in assessing performance and determining the allocation of resources. Operating segments are determined on the basis of financial information reported to the Board which is at the Group level.

Accordingly, management currently identifies the Group as having only one reportable segment, being the processing and sale of magnesium. There have been no changes in the operating segments during the year. All significant operating decisions are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the consolidated entity as a whole.

(b) Entity-wide disclosures

Consolidated revenues from each product or service;

	Magnesium and by- products	Total
	\$	\$
2011	266,275	266,275
2010	-	-

China Magnesium Corporation Limited and its subsidiary
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

NOTE 4: SEGMENT INFORMATION (Continued)

All of the above product revenues were derived from operations in the Peoples' Republic of China.

All of the Group's property, plant and equipment is located in the Peoples' Republic of China except for \$28,969 (2010 – Nil) of plant and equipment that is located in Australia.

NOTE 5: REVENUE

	Consolidated	
	2011	2010
	\$	\$
From continuing operations		
<i>Sales revenue</i>		
Revenue from sale of magnesium and by-products	266,275	-
<i>Other revenue</i>		
Interest	201,207	2,858
Total revenue from operations	<u>467,482</u>	<u>2,858</u>

NOTE 6: EXPENSES

	Consolidated	
	2011	2010
	\$	\$
Profit/(loss) before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Buildings	14,245	13,785
Vehicles	4,870	-
Plant and equipment	135,847	138,447
<i>Amortisation</i>		
Leasehold Land	5,131	-
Total Depreciation and amortisation	<u>160,093</u>	<u>152,232</u>
<i>Finance Costs</i>		
Interest and finance charges paid/payable	1,025	185
<i>Rental expenses relating to operating leases</i>		
Minimum lease payments	88,234	-

NOTE 7: INCOME TAX BENEFIT

	Consolidated	
	2011	2010
	\$	\$
(a) Income tax benefit		
Current tax	(386,081)	(64,273)
Deferred tax	(7,575)	-
Tax losses not recognised	334,744	64,273
Under provision from prior years	58,912	-
Income tax benefit	<u>-</u>	<u>-</u>

China Magnesium Corporation Limited and its subsidiary
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

NOTE 7: INCOME TAX BENEFIT (Continued)

	Consolidated	
	2011	2010
	\$	\$
(b) Reconciliation of income tax benefit to prima facie tax payable		
Profit/(loss) from continuing operations before income tax expense	(1,787,099)	(534,637)
Tax at the Australian tax rate of 30% (2010:30%)	(536,130)	(160,391)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
CFC income attribution	57,533	-
Non-deductible expenditure - net	1,960	96,118
Foreign exchange translation differences	48,006	-
Other permanent differences	8,331	-
	<u>115,830</u>	<u>96,118</u>
Difference in overseas tax rate	26,644	-
Tax losses not recognised	334,744	64,273
Under (over) provision from prior years	58,912	-
Income tax expense/(credit)	<u>-</u>	<u>-</u>
(c) Unrecognised deferred tax assets		
Deferred tax assets at the applicable tax rate have not been recognised for the following:		
Unused tax losses	413,740	86,571
Deductible temporary differences	221,218	-
	<u>634,958</u>	<u>86,571</u>

NOTE 8: CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	Consolidated	
	2011	2010
	\$	\$
Cash at bank and in hand	783,516	1,143,493
Deposits at call	3,967,198	-
Notes receivable	-	13,847
	<u>4,750,714</u>	<u>1,157,340</u>

Cash at bank and in hand bears interest rates between zero and .25%. Deposits at call bear floating interest rates between .25 and 5.44% (2010: 2.74%). These deposits have an average maturity of 45 days.

NOTE 9: CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated	
	2011	2010
	\$	\$
Other debtors	158,251	154,459
Total trade and other receivables	<u>158,251</u>	<u>154,459</u>

China Magnesium Corporation Limited and its subsidiary
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

NOTE 10: CURRENT ASSETS - INVENTORIES

	Consolidated	
	2011	2010
	\$	\$
Raw materials and stores	218,765	21,592
Work in progress	14,772	-
Finished goods	357,137	359,838
Total inventory at cost	590,674	381,430

Inventory expense

Inventories recognised as expense during the year ended 30 June 2011 amounted to \$240,906 (2010 – \$nil).

NOTE 11: OTHER ASSETS

	Consolidated	
	2011	2010
	\$	\$
Other assets - Current		
Prepayments	436,858	151,886
Deposit on acquisition (a)	43,380	-
Total other assets - Current	480,238	151,886
Other assets – Non - current		
Deposit on property plant and equipment	-	151,900
Total other assets – Non-current	-	151,900
Total other assets	480,238	303,786

(a) Deposits on acquisitions – Baiyun dolomite quarry

The Group has paid \$43,380 (RMB300,000) to the vendor of the Baiyun dolomite quarry as a deposit for the acquisition of 100% of the quarry. The full purchase price is \$723,000 (RMB5,000,000) and settlement of the acquisition is expected to occur late in 2011 subject to satisfaction of conditions precedent in relation to the transfer and extension of various statutory permits.

NOTE 12: NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

Consolidated	Assets under construc- tion	Leasehold Land	Buildings	Vehicles	Plant & equipment	Total
	\$	\$	\$	\$	\$	\$
Year ended 30 June 2011						
Opening net book amount	-	-	256,098	-	985,389	1,241,487
Transfer to inventories	-	-	-	-	(85,265)	(85,265)
Exchange differences	-	70	(11,646)	226	(37,144)	(48,494)
Additions	3,350,664	1,012,200	14,465	70,753	73,187	4,521,269
Depreciation charge	-	(5,131)	(14,246)	(4,869)	(135,847)	(160,093)
Closing net book amount	3,350,664	1,007,139	244,671	66,110	800,320	5,468,904
At 30 June 2011						
Cost	3,350,664	1,012,200	285,594	70,753	1,202,413	5,921,624
Accumulated depreciation	-	(5,061)	(40,923)	(4,643)	(402,093)	(452,720)
Net Book amount	3,350,664	1,007,139	244,671	66,110	800,320	5,468,904

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China Magnesium Corporation Limited and its subsidiary
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

NOTE 12: NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT
(Continued)

Consolidated	Leasehold Land \$	Buildings \$	Vehicles \$	Plant & equipment \$	Total \$
Year ended 30 June 2010					
Opening net book amount	-	269,883	-	1,123,836	1,393,719
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Depreciation charge	-	(13,785)	-	(138,447)	(152,232)
Closing net book amount	-	256,098	-	985,389	1,241,487
At 30 June 2010					
Cost	-	284,817	-	1,271,498	1,556,315
Accumulated depreciation	-	(28,719)	-	(286,109)	(314,828)
Net Book amount	-	256,098	-	985,389	1,241,487

NOTE 13: CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated 2011 \$	2010 \$
Trade payables	259,217	-
Other payables and accruals	143,359	156,827
	<u>402,576</u>	<u>156,827</u>

NOTE 14: CURRENT LIABILITIES – PROVISIONS

	Consolidated 2011 \$	2010 \$
Employee benefits	11,108	-
	<u>11,108</u>	<u>-</u>

NOTE 15: CONTRIBUTED EQUITY

	Consolidated		Consolidated	
	2011 Shares	2010 Shares	2011 \$	2010 \$
(a) Share capital				
Ordinary shares fully paid	<u>127,160,000</u>	<u>79,160,000</u>	<u>12,339,319</u>	<u>2,185,350</u>

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China Magnesium Corporation Limited and its subsidiary
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

NOTE 15: CONTRIBUTED EQUITY (Continued)

(b) Movements in ordinary share capital

Date	Details	Number of shares	Issue price	\$
1 July 2009	Balance	17,000,000		859,350
28 February 2010	Placement issue	690,000	0.40	276,000
31 May 2010	Placement issue	2,100,000	0.50	1,050,000
9 June 2010	Allotment of 3 bonus shares for every issued share	59,370,000	0.00	-
30 June 2010	Balance	79,160,000		2,185,350
28 October 2010	Initial Public Offering	48,000,000	0.25	12,000,000
	Less: Transaction costs of shares issued	-	-	(1,846,031)
30 June 2011	Balance	127,160,000		12,339,319

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

(d) Shares in escrow

		Shares
30 June 2010	Balance	-
9 November 2011	At time of listing on ASX	66,652,000
9 March 2011	Released from escrow	(1,272,000)
30 May 2011	Released from escrow	(4,000,000)
30 June 2011	Shares in escrow, due for release on 8 November 2012	61,380,000

(e) Options

Unissued ordinary shares of China Magnesium Corporation Limited under option at the date of this report are as follows:

Date options granted	Expiry date	Issue price of shares	Number under option
28 October 2010	Not later than 28 October 2013	\$0.25	12,000,000

The options are only exercisable, at an exercise price of 25 cents per share, if a Project Delay occurs. A Project Delay occurs if, on or before 30 December 2011 (unless extended), the Company has not made an announcement to the ASX that Practical Completion of the upgrade and first phase expansion of the Project has been achieved at a capital expenditure cost of RMB 52.6 million or less.

The options expire at the earlier of the following times:

- If a Project Delay has not occurred - at 5.00pm AEST on the date of the Practical Completion Announcement.
- If a Project Delay has occurred - at 5.00pm AEST on 28 October 2013.

China Magnesium Corporation Limited and its subsidiary
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

NOTE 15: CONTRIBUTED EQUITY (Continued)

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

(f) Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

NOTE 16: RESERVES

	Consolidated	
	2011 \$	2010 \$
Foreign exchange reserve	(356,930)	(68,401)
Change of interest in subsidiary reserve	467,979	-
Total reserves	<u>111,049</u>	<u>(68,401)</u>

(i) Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences on translation of the foreign controlled subsidiary. Amounts are reclassified to profit or loss when the investment is disposed of.

(ii) Change of interest in subsidiary reserve

The change of interest in subsidiary reserve is used to record differences which may arise as a result of increases or decreases in non-controlling interests that do not result in a loss of control.

NOTE 17: KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key management personnel compensation

	Consolidated	
	2011 \$	2010 \$
Short term employee benefits	792,250	60,000
Post-employment benefits	39,292	-
	<u>831,542</u>	<u>60,000</u>

Detailed remuneration disclosures are provided in the remuneration report within the directors' report.

(b) Equity instrument disclosures relating to key management personnel

i) Share holdings

The number of shares in the parent entity held during the financial year by each director of China Magnesium Corporation Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting year as compensation.

China Magnesium Corporation Limited and its subsidiary
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

NOTE 17: KEY MANAGEMENT PERSONNEL DISCLOSURES (Continued)

2011				
Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of China Magnesium Corporation Limited				
Ordinary Shares				
W Bass	400,000	-	120,000	520,000
T Blackhurst	24,320,000	-	-	24,320,000
M Clarey	240,000	-	-	240,000
X Liang	12,000,000	-	-	12,000,000
P Robertson	200,000	-	400,000	600,000
Other key management personnel of the Group				
Ordinary Shares				
G Edwards	-	-	100,000	100,000

2010				
Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of China Magnesium Corporation Limited				
Ordinary Shares				
W Bass	-	-	400,000	400,000
T Blackhurst	6,080,000	-	18,240,000	24,320,000
M Clarey	60,000	-	180,000	240,000
X Liang	3,000,000	-	9,000,000	12,000,000
P Robertson	50,000	-	150,000	200,000

ii) Option holdings

The numbers of options over ordinary shares in the Company held during the financial year by each director of China Magnesium Corporation Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no options granted during the reporting year as compensation.

2011				
Name	Balance at the start of the year	Granted as compensation	Other changes during the year	Balance at the end of the year
Directors of China Magnesium Corporation Limited				
Options				
W Bass	-	-	30,000	30,000
T Blackhurst	-	-	-	-
M Clarey	-	-	-	-
X Liang	-	-	-	-
P Robertson	-	-	100,000	100,000
Other key management personnel of the Group				
Options				
G Edwards	-	-	-	-

China Magnesium Corporation Limited and its subsidiary
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

NOTE 17: KEY MANAGEMENT PERSONNEL DISCLOSURES (Continued)

2010

There were no options on issue during the year ended 2010.

(c) Other transactions with key management personnel

Details of material transactions and their impact on the financial statements exclusive of GST at year end that key management personnel and their related entities had with the Group during the year are as follows:

2011

Nil.

2010

The following Key Management Personnel directly or through personally related parties were issued bonus shares as part of a pro-rata issue to all shareholders on 31 May 2010.

Name	Position	Shares	\$
T. Blackhurst	Director	18,240,000	Nil
X. Liang	Director	9,000,000	Nil
W. Bass	Director	300,000	Nil
M. Clarey	Director	180,000	Nil
P. Robertson	Director	150,000	Nil

NOTE 18: REMUNERATION OF AUDITORS

	Consolidated	
	2011	2010
	\$	\$
i) Audit services		
BDO Audit (Qld) Pty Ltd		
Audit and review of financial reports	23,500	20,600
Total Remuneration for audit services	23,500	20,600
ii) Non-audit services		
BDO Audit (Qld) Pty Ltd and related entities		
IPO advisory services	10,420	12,500
Taxation services	22,180	2,950
Total remuneration for non-audit services	32,600	15,450

NOTE 19: CONTINGENCIES

(a) Contingent liabilities

The Group had a contingent liability at 30 June 2011 in respect of the purchase price of \$723,000 (RMB5,000,000) less a refundable option fee of \$43,380 (RMB300,000) under a conditional contract for the purchase of the Baiyun quarry in Shanxi province of northern China. The quarry provides dolomite to the Group for magnesium production and to other customers, including those in the steel industry. Settlement of the acquisition is expected to occur late in 2011 subject to satisfaction of conditions precedent in relation to the transfer and extension of various statutory permits.

China Magnesium Corporation Limited and its subsidiary
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

NOTE 20: COMMITMENTS

(a) Capital commitments

	Consolidated 2011 \$	2010 \$
Commitments in relation to capital expenditure contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	2,146,932	-
Later than one year but no later than five years	-	-
Later than five years	-	-
	2,146,932	-

(b) Lease commitments :

Commitments in relation to non-cancellable operating leases for premises not recognised as liabilities, payable:

Within one year	41,845	-
Later than one year but no later than five years	63,992	-
Later than five years	-	-
	105,837	-

NOTE 21: RELATED PARTY TRANSACTIONS

(a) Parent entity

The parent entity within the Group is China Magnesium Corporation Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 24.

(c) Key management personnel

For details of transactions that key management personnel and their related entities had with the Group during the year refer note 18.

NOTE 22: PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ended 30 June 2011 the parent entity of the Group was China Magnesium Corporation Limited. The following information relates to the parent entity and has been prepared using accounting policies that are consistent with those presented in Note 1.

China Magnesium Corporation Limited and its subsidiary
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

NOTE 22: PARENT ENTITY DISCLOSURES (Continued)

a) Summary financial information

	2011 \$	2010 \$
Result of parent entity		
Profit / (loss) for the year after tax	(855,057)	(300,327)
Other comprehensive income	-	-
Total comprehensive income for the year	<u>(855,057)</u>	<u>(300,327)</u>
Financial position of parent entity at year end		
Current assets	3,094,350	1,305,132
Non-current assets	7,863,319	359,350
Total assets	<u>10,957,669</u>	<u>1,664,482</u>
Current liabilities	129,700	135,426
Non-current liabilities	-	-
Total liabilities	<u>129,700</u>	<u>135,426</u>
Contributed equity	12,339,319	2,185,350
Accumulated (losses)	<u>(1,511,350)</u>	<u>(656,294)</u>
Total equity	<u>10,827,969</u>	<u>1,529,056</u>

b) Guarantees entered into by the parent entity

The parent entity has not entered into any guarantees in respect of its subsidiary (2010 – nil)

c) Contingent liabilities

The parent entity had no contingent liabilities at 30 June 2011 (2010 – nil)

d) Contractual commitments for the acquisition of property, plant or equipment

The parent entity had no commitments for the acquisition of property, plant or equipment at 30 June 2011 (2010 - nil).

NOTE 23: SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary in accordance with the accounting policy described in note 1(b).

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2011 %	2010 %
Shanxi Luyuan Magnesium Corporation	China	Ordinary	90.7	30.6

Shanxi Luyuan Magnesium Corporation is a Sino-foreign joint venture entity. China Magnesium Corporation Limited is deemed to have had control of the joint venture entity in substance, in accordance with AASB127 Consolidated and Separate Financial Statements, even when it did not hold more than a 50% equity interest in the joint venture entity.

China Magnesium Corporation Limited and its subsidiary
Notes to the Consolidated Financial Statements
For the year ended 30 June 2011

NOTE 23: SUBSIDIARIES (Continued)

On 15 November 2010, China Magnesium Corporation Limited (CMC) contributed an additional \$2,035,000 to the capital of Shanxi Luyuan Magnesium Company Limited (SLMC) and increased its interest in SLMC by 44.4%. On 29 December 2010 CMC contributed a further \$5,440,000 to the capital of SLMC and increased its interest in SLMC by 15.7%. The Company now holds 90.7% of the issued capital in SLMC.

As a result of increasing its interest in SLMC, during the year ended 30 June 2011 the non-controlling interest in SLMC decreased by \$413,317 and \$54,662 of the foreign currency translation reserve was reattributed to the owners of CMC. The carrying amount of the non-controlling interest acquired exceeded the capital contribution made by CMC by \$467,979. This has been recognised in the change of interest in subsidiary reserve within equity.

NOTE 24: EVENTS OCCURRING AFTER THE REPORTING PERIOD

There have been no material events subsequent to year end.

NOTE 25: RECONCILIATION OF PROFIT / (LOSS) AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Consolidated 2011 \$	2010 \$
Profit/(loss) for the year	(1,787,099)	(531,779)
Depreciation and amortisation	160,093	152,232
Decrease (increase) in trade and other receivables	(16,507)	(11,371)
Decrease (increase) in prepayments	(328,352)	-
Decrease (increase) in inventories	(123,979)	57,760
(Decrease) Increase in trade and other payables	126,321	208,799
(Decrease) in other provisions	11,108	-
Net cash inflows / (outflows) from operating activities	<u>(1,958,415)</u>	<u>(124,359)</u>

NOTE 26: EARNINGS PER SHARE

	2011 Cents	2010 Cents
Basic earnings / (loss) per share	(1.5)	(2.0)
Diluted earnings / (loss) per share	(1.5)	(2.0)
	\$	\$
Net loss for the year attributable to owners of the parent used to calculate loss per share – basic and diluted	<u>1,658,489</u>	<u>389,965</u>
	Number	Number
Weighted average number of ordinary shares outstanding during the year used to calculate basic and diluted loss per share	<u>111,510,685</u>	<u>19,850,740</u>

Options granted could potentially dilute basic earnings per share in the future but were not included in the calculation of diluted earnings per share because they are anti-dilutive for the period.

China Magnesium Corporation Limited and its subsidiary
Directors' Declaration
For the year ended 30 June 2011

Directors' declaration

In the opinion of the directors:

- (a) The attached financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - i) Giving a true and fair view of the financial position as at 30 June 2011 and the performance for the year ended on that date of the consolidated entity; and
 - ii) Complying with Accounting Standards, *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - iii) Complying with International Financial Reporting Standards as disclosed in Note 1(a); and
- (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (c) The audited Remuneration Report set out in the Directors' Report on pages 7 to 9 complies with Section 300A of the *Corporations Act 2001*.

The Directors have been given the declarations by the Chief Executive Office and Chief Financial Officer required by Section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.



Tom Blackhurst
Managing Director

Southport
18 August 2011

China Magnesium Corporation Limited and its subsidiary Independent Auditor's Report



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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CHINA MAGNESIUM CORPORATION LIMITED

Report on the Financial Report

We have audited the accompanying financial report of China Magnesium Corporation Limited, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entity it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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China Magnesium Corporation Limited and its subsidiary

Independent Auditor's Report



Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of China Magnesium Corporation Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

1. (a) the financial report of China Magnesium Corporation Limited is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
2. (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of China Magnesium Corporation Limited for the year ended 30 June 2011 complies with section 300A of the Corporations Act 2001.

BDO Audit (QLD) Pty Ltd

: BDO

A J Whyte
Director

Brisbane: 18 August 2011

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China Magnesium Corporation Limited and its subsidiary Shareholder Information

Information required by Australian Securities Exchange Limited and not shown elsewhere in this report is as follows:-

STATEMENT OF QUOTED SECURITIES AS AT 9 AUGUST 2011

(a) *Distribution of equity securities*

Analysis of number of equity security holders by size of holding:

Size of holding	Number of Shareholders
100,001 and Over	131
10,001 - 100,000	351
5,001 - 10,000	128
1,001 - 5,000	67
1 - 1,000	5
Total	682

There were 9 holders of less than a marketable parcel of ordinary shares.

(b) *Quoted Equity security holders*

Twenty largest quoted equity security holders

Name	Quoted Ordinary Shares held	Percentage of issued shares
MR THOMAS TROY BLACKHURST	24,240,000	19.06%
MR XINPING LIANG	12,000,000	9.44%
MR GUICHENG JIA	12,000,000	9.44%
MS MING LI	12,000,000	9.44%
HSBC CUSTODY NOMINEES	3,920,000	3.08%
JOHN WARDMAN & ASSOCIATES	2,726,918	2.14%
HENROTH PTY LTD	2,000,000	1.57%
INTEQ LIMITED	1,920,000	1.51%
MCGEE CONSTRUCTIONS PTY LTD	1,500,000	1.18%
MR JOHN CHARLES PLUMMER	1,400,000	1.10%
MR CLIVE THOMAS	1,450,000	1.14%
WASHINGTON H SOUL PATTINSON	1,000,000	0.79%
MR TERRY MCINERNEY	1,000,000	0.79%
WHITTINGHAM SECURITIES PTY LTD	1,000,000	0.79%
ACT2 PTY LTD	1,000,000	0.79%
CUSTODIAL SERVICES LTD	984,000	0.77%
EDELLE TWO PTY LTD	818,717	0.64%
MFPH SUPERANNUATION MANAGEMENT	800,000	0.63%
MR MATTHEW REX PERCY	792,000	0.62%
MR RZSZARD GERAS	765,650	0.60%
	83,317,285	65.52%

(c) *Substantial holders*

Substantial holders in the Company are set out below:

Ordinary Shares	Number Held	Percentage
MR THOMAS TROY BLACKHURST	24,240,000	19.06%
MR XINPING LIANG	12,000,000	9.44%
MR GUICHENG JIA	12,000,000	9.44%
MS MING LI	12,000,000	9.44%
	60,240,000	47.38%

China Magnesium Corporation Limited and its subsidiary Shareholder Information

(d) Voting rights

The voting rights attaching to each class of equity securities are set out below.

(i) Ordinary Shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share will have one vote

(ii) Options

There are no voting rights attached to the options

STATEMENT OF UNQUOTED SECURITIES AS AT 9 AUGUST 2011

There are on issue the following unquoted securities:-

12,000,000 options are exercisable at \$0.25 only if a Project Delay* occurs and expiring either upon Practical Completion Announcement* or, in any case, not later than 28 October 2013.

Size of holding	Number of optionholders
100,001 and Over	15
10,001 - 100,000	146
5,001 - 10,000	72
1,001 - 5,000	150
1 - 1,000	-
Total	383

* Defined Terms in respect of the unquoted options:

A Project Delay occurs if, on or before the Completion Date the Company has not made the Practical Completion Announcement.

Completion Date means 30 December 2011 unless extended in accordance with these terms and conditions of grant.

Practical Completion Announcement means an announcement to ASX by the Company that Practical Completion of the Upgrade and First Phase Expansion has been achieved at a capital expenditure cost of RMB 52.6 million or less.

Upgrade and First Phase Expansion refers to the Company's 90.7% owned Pingyao Magnesium Project located in the Shanxi Province of Northern China

ESCROWED (RESTRICTED) SECURITIES

At the end of the financial year the Company had on issue 61,380,000 ordinary shares subject to escrow (restricted) which are due from release from escrow on 8 November 2012.

OTHER INFORMATION

In accordance with ASX listing rule 4.10.19; the Company advises that it has used the cash and assets in a form readily converted to cash that it had at the time of admission to ASX on 9 November 2010, in a way consistent with its business objectives.

Corporate Directory

Board of Directors

William Bass, Non-Executive Chairman
Tom Blackhurst, Managing Director and Chief Executive Officer
Xinping Liang, Chief Operating Officer
Peter Robertson, Non-Executive Director
Michael Clarey, Non-Executive Director

Company Secretaries

Garry Edwards
Damien Kelly

Websites

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www.chinamagnesiumcorporation.cn

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