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 2012
Previous corresponding period – period ended	30 June 2011

Results for Announcement to the Market

	Percentage change Up or Down	%		$'000
Revenue from ordinary activities	up	176%	to	1,291
Profit /(Loss) from ordinary activities after tax attributable to members	up	28%	to	(2,114)
Net Profit /(Loss) for the period attributable to members	up	28%	to	(2,114)

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 2012**	**June 2011**
Net Tangible Assets per security	8.7 Cents	7.9 Cents

China Magnesium Corporation Limited

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

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. Production from the upgraded plant is currently suspended due to integration work linking it to the adjacent first stage expansion plant.

The first stage expansion reached practical completion by 30 December 2011. The Company expects to be operating at nameplate capacity (20,000tpa) by 30 October 2012.

Commentary on Results

Refer attached annual report

Dividends

No dividends were paid or declared during the period ending 30 June 2012.

Compliance Statement

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

Tom Blackhurst
Managing Director

Date: 22 August 2012

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China Magnesium Corporation Limited

ABN 14 125 236 731

Annual Report
For the year ended 30 June 2012

YEAR'S HIGHLIGHTS

Achieved practical completion of the Pingyao magnesium production upgrade and expansion, on time and within budget.

Produced and sold magnesium from the upgraded magnesium plant.

Entered into an agreement to acquire a stand-alone, profitable, ferrosilicon producer in China's Ningxia province.

Acquired the Baiyun quarry, which provides dolomite to the Group for magnesium production and to other customers, including those in the steel industry.

Increased ownership in the Chinese joint venture company from 90.7% to 91.25% to finalise the joint venture equity structure.

Raised $4,913,284 before costs in two share placements, and a further $395,920 on 3 July 2012.

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Managing Director's Report

Dear Shareholder,

Your company is on the verge of a watershed period in its quest to become one of the largest, low cost, vertically integrated producers of magnesium and magnesium alloy in the world.

During the past year, we achieved practical completion of the upgrade and first phase expansion at our flagship operation, the Pingyao Magnesium Project – a significant project, which is strategically positioned in the major magnesium producing Shanxi province of Northern China.

We also progressed our vertical integration strategy by completing the acquisition of the dolomite quarry that has and will supply raw magnesium ore to the magnesium operation, and entered into an agreement to acquire an established, profitable ferrosilicon producer located in China's Ningxia province. These bolt-on acquisitions represent exceptional value to CMC by securing raw material supply of some of the key cost inputs in the magnesium manufacturing process, and by adding additional sales markets in dolomite and ferroalloys which complements CMC's existing magnesium and magnesium alloy markets.

A recent upswing in magnesium prices on the back of growing demand for magnesium and magnesium alloy augers well for the commissioning and ramping up of pure magnesium and magnesium alloy production upon which your company is about to embark at the upgraded/first phase expanded (20,000tpa) magnesium plant.

Earlier, small-scale pure magnesium production from the partially upgraded existing plant was temporarily suspended in October 2011 to allow completion of, and integration of the existing facilities with, the new magnesium production facilities. The dolomite quarry re-commenced operations in late June and, whilst the ferrosilicon acquisition – which has just received final government approvals – and commencing the commissioning of the new plant have taken some time, they are now imminent.

CMC's management team and commercial partners have significant experience and long-term personal relationships in business and regional politics within China. With this comes a very strong know-how to seize on unique opportunities and solve problems that would completely stop, and have stopped, others in their tracks – even other locals. We continue to benefit from this, and from our "preferred project" status (granted by local authorities), without all of which the opportunities we have grasped may not have appeared, and the typical issues we have faced may have turned into serious problems. We are fortunate to have such depth of local know-how, relationships and support.

These strengths enabled CMC to accomplish the following, amongst many other matters, throughout the past year:

- acquire and renew the mining license for the dolomite quarry – at a time when almost every other quarry in the region was being shut down by government authorities into fewer, larger producers (no other quarry of our size was allowed to remain open);
- secure an agreement and approvals to acquire the ferrosilicon business from a state-owned power company; and
- complete the upgrade and first phase expansion of the magnesium project at bare minimum cost to CMC.

The Company also continues to benefit from a change in Chinese government policy to rationalise the magnesium industry into fewer, larger producers. 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 a very large 105,000tpa. Our existing plant upgrade and first phase expansion are already designed to conform to the strict new regulatory and environmental requirements.

All these achievements are a credit to our team in Pingyao led by our Executive Director and Chief Operating Officer, Xinping Liang and our local Chairman, Ming Li. I wish to extend my thanks to them, to my fellow

directors and to all our staff, in both Australia and China for their relentless efforts to establish a significant, internationally competitive business – efficiently and cost effectively.

All this has been recognised by various Australian and Asian-based investment groups, who have given a very strong vote of confidence in CMC by subscribing for a total of $5.3m of CMC shares over the past financial year, all between $0.30-0.35 per share and at a premium to the prevailing market price. This included $4 million raised in June this year, in historically difficult stock market conditions, yet at significant premiums of up to 62% to the prevailing market price. Impressed by what we have achieved to date, they have backed our team to deliver substantial returns into the future.

CMC has also been in discussions with various Chinese and Singaporean industrial and listed companies with a view to establishing further strategic relationships to continue to grow the company's business, products and operating presence into the future.

Finally, I would like to thank all of our shareholders, old and new, for your continued support of CMC. We remain on course to become a world-leading producer of magnesium and related products.

Yours sincerely,

Tom Blackhurst
Managing Director

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 2012.

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

X Liang

P Robertson

Mr M Clarey, who was appointed a director on 3 July 2008, retired at the Annual General Meeting on 7 October 2011.

Principal activities

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

- Upgrading and expansion of magnesium production facilities belonging to the Group's 91.25% 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

Capital works were undertaken to upgrade the existing SLMC magnesium plant and build the Phase one expansion in Pingyao, northern China. A certificate of Practical Completion was issued by the Pingyao Development and Reform Commission in respect of the Phase 1 Upgrade and First Phase Expansion to 20,000 tonnes per annum (tpa) on 29 December 2011.

484 tonnes of magnesium were produced and sold from the existing, upgraded, magnesium plant before integration of the existing plant to the first phase expansion was commenced.

The Group acquired the Baiyun quarry which provides dolomite to the Group for magnesium production and to other customers, including those in the steel industry. The Group began production from the quarry after its acquisition in April and made sales to external customers.

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 $4,604,441 (from $12,339,319 to $16,943,760) as the result of two share placements. Details of the changes in contributed equity are disclosed in note 16 to the financial statements.

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 2012 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:

- Further production of magnesium and commencement of magnesium alloy production as the Project develops.
- Increased production from the Baiyun quarry for use within the Group and for external customer requirements
- Acquisition of a stand-alone, profitable ferrosilicon producer in China's Ningxia province.

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.*

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.

Information on directors (Continued)

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

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.*

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.

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

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 19 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.

Information on directors (Continued)

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

1,085,360 ordinary shares in the Company.

Company secretaries

Mr Garry Edwards MBA, FIPA, FAICD, ACSA, is the Company's primary Company Secretary and the Chief Financial Officer. He has served as Company Secretary of several ASX listed companies over the past 17 years.

Mr Damien Kelly MBA, BCom, FFINSIA, CPA, is a founding director of corporate advisory firm, Western Tiger Corporate Advisers. He has broad corporate and commercial experience spanning more than 14 years, providing professional services to ASX and AIM listed companies predominantly in the mining and energy sector.

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 2012, 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	10	10	2	2
T Blackhurst	10	10	2	2
X Liang	9	10	1	2
P Robertson	10	10	2	2
M Clarey	3	4	1	1

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 key management personnel.

Remuneration report – Audited (Continued)

Directors and executives disclosed in this report

Non-executive directors	W Bass – Chairman
	M Clarey – Director (retired 7 October 2011)
	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

Changes since the end of the reporting period: NIL

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.

Since the Company listed on the Australian Securities Exchange on 9 November 2010, the primary focus of the Group has been;

- financing the upgrade and re-commissioning of existing magnesium production facilities and the building of new production capacity;
- acquisition of a dolomite quarry which provides dolomite to the Group for magnesium production and to other customers, including those in the steel industry;
- raising further equity to fund the acquisition of a ferrosilicon producer as part of the Group's vertical integration objective.

The Company's share price on listing was $0.25 per share, which equated to a market capitalisation of $31.8 million. At 30 June 2012 the share price was $0.20, a market capitalisation of $28.6million. Remuneration to date has not been dependant 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.

	1 November 2010 until 1 September 2011	From September 2011
Chairman	$70,000pa	$70,000pa
Non-executive director - P Robertson	$35,000pa	$52,500pa
Non-executive director – M Clarey	$35,000pa	$35,000pa (until retirement on 7 Oct 2011)

Remuneration report – Audited (Continued)

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 key management personnel 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 2012 (2011- Nil).

Details of remuneration

2012

	Short term benefits		Post-employ-ment benefits			
Name	Cash Salary and fees $	Other $	Super-annuation $	Long Term Benefits $	Termination Benefits $	Total $
Non-executive directors						
W Bass	64,220	-	5,780	-	-	70,000
M Clarey – retired 7 October 2011	4,580	-	4,850	-	-	9,430
P Robertson	45,489	-	4,094	-	-	49,583
Executive directors						
T Blackhurst	350,004	-	-	-	-	350,004
X Liang	300,000	-	-	-	-	300,000
Other key management personnel						
G Edwards	100,420	-	49,586	-	-	150,006
Total	**864,713**	-	**64,310**	**-**	**-**	**929,023**

2011

	Short term benefits		Post-employ-ment benefits			
Name	Cash Salary and fees $	Other $	Super-annuation $	Long Term Benefits $	Termination Benefits $	Total $
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
Total	**776,484**	-	**38,987**	**-**	**-**	**815,471**

*from 29 November 2010

Remuneration report – Audited (Continued)

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 ***Managing Director***	Consulting through Orient Pacific Consultants Pte Ltd for 3 years commencing 1 November 2010	$350,000	12 months' fee
XP Liang , *Chief Operating Officer*	Consulting through Singapore Energy and Equipment Investment Pte Ltd for 3 years commencing 1 November 2010	$300,000	12 months' fee
W Bass, *Chairman*	Consulting agreement for 3 years commencing 1 November 2010	$70,000	12 months' fee unless terminated for cause or because Mr Bass ceases to be a director
G Edwards, *Chief Financial Officer*	Ongoing	$150,000	3 months' salary

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

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 to 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

No ordinary shares of China Magnesium Corporation Limited are under option at the date of this report (2011: 12,000,000). All options expired on 30 December 2011 upon Practical Completion of 20,000tpa plant capacity pursuant to the prospectus dated 20 September 2010. No ordinary shares have been issued since July 2011 as a result of the exercise of an option (2011: Nil)

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 entities 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*.

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. No amounts were paid or payable to the auditor for non-audit services provided during the year.

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 11.

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

Tom Blackhurst
Managing Director
Southport
22 August 2012

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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 2012, 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 China Magnesium Corporation Limited and the entities it controlled during the period.

A J Whyte

Director

BDO Audit Pty Ltd

Brisbane: 22 August 2012

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 Corporate Governance Council Recommendations ("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. Instances where the Company has not adopted Recommendations are set out on the final page of this Corporate Governance Statement.

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

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 Board has not been comprised of a majority of independent non-executive directors since the resignation of Mr Michael Clarey on 7 October 2011.

- The Chair is an independent non-executive director. In recognition of the importance of independent views and the Board's role in supervising the activities of management, 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 meets regularly with the Managing Director.

- The Company maintains a mix of directors on the Board from different backgrounds with complementary skills and experience.

- The Board undertakes 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 2012.

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.

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.

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, 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. At the date of the annual report no executive director has accepted an appointment outside the Company.

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 recommendation that the audit committee consist of only non-executive directors has not been adopted as all directors are members of the audit committee,.

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.

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.

The Company recognises that a diverse and talented workforce is a competitive advantage and that the Company's international success is the result of the quality and skills of our people, who are primarily resident in northern China. Our practice is to recruit and manage on the basis of qualification for the position and performance, regardless of gender, age, nationality, race, religious beliefs, cultural background, sexuality or physical ability. It is essential that the Company employs the appropriate person for each job and that each person strives for a high level of performance.

In light of this, the Board has not adopted a formal diversity policy which includes requirements to establish measurable objectives for achieving gender diversity. At 30 June 2012, the Group employed 60 people including 5 women, there were no women senior executives or women on the Board.

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 two 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 2012 financial year the Company did not comply with the structure set out in Recommendation 4.2 as the audit committee did not consist of only non-executive directors.

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;

- 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 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:

- 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 2012 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 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 principle 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 2012 financial year all matters which would normally be referred to the remuneration committee 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 performance of senior executives is assessed against Group and individual performance targets at least at the time each of their contracts are due for renewal.

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.

Adoption of Principles and Recommendations
The Group has adopted the Recommendations 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.

Recommendations 3.2 – 3.3
The Company recognises that a diverse and talented workforce is a competitive advantage and that the Company's international success is the result of the quality and skills of our people, who are primarily resident in northern China. Our practice is to recruit and manage on the basis of qualification for the position and performance, regardless of gender, age, nationality, race, religious beliefs, cultural background, sexuality or physical ability. It is essential that the Company employs the appropriate person for each job and that each person strives for a high level of performance.
In light of this, the Board has not adopted a formal diversity policy which includes requirements to establish measurable objectives for achieving gender diversity.

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 are appropriate given the size of the Board and the development stage of the Company.

Consolidated statement of comprehensive income for the year ended 30 June 2012

	Note	Consolidated 2012 $	2011 $
Revenue from continuing operations	5	1,290,948	467,482
Expenses			
Changes in inventories		(392,945)	209,244
Purchase of raw materials and consumables		(783,807)	(450,150)
Auditing and accounting		(78,095)	(86,234)
Consulting fees		(187,311)	(195,079)
Depreciation and amortisation	6	(167,870)	(160,093)
Employee benefits		(1,266,097)	(1,006,577)
Finance costs		(2,574)	(1,025)
Foreign exchange loss		(89,811)	-
Other expenses		(337,880)	(413,496)
Travel		(145,542)	(151,171)
Total expenses		(3,451,932)	(2,254,581)
Loss before income tax		(2,160,984)	(1,787,099)
Income tax benefit	7	-	-
Loss for the year		(2,160,984)	(1,787,099)
Other comprehensive income			
Foreign currency translation differences		659,312	(325,128)
Income tax on items of other comprehensive income		-	-
Other comprehensive income for the year (net of tax)		659,312	(325,128)
Total comprehensive income for the year		(1,501,672)	(2,112,227)
Loss for the year is attributable to:			
Owners of the parent		(2,114,370)	(1,658,489)
Non-controlling interests		(46,614)	(128,610)
		(2,160,984)	(1,787,099)
Total comprehensive income for the year is attributable to:			
Owners of the parent		(1,518,058)	(1,892,356)
Non-controlling interests		16,386	(219,871)
		(1,501,672)	(2,112,227)
Earnings per share		Cents	Cents
Basic and diluted earnings per share for the year	27	(1.6)	(1.5)

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

Consolidated statement of financial position as at 30 June 2012

	Note	Consolidated 2012 $	2011 $
ASSETS			
Current assets			
Cash and cash equivalents	8	5,726,387	4,750,714
Trade and other receivables	9	474,996	158,251
Inventories	10	197,729	590,674
Other	11	82,865	480,238
Total Current Assets		6,481,977	5,979,877
Non-current assets			
Property, plant and equipment	12	10,245,363	5,468,904
Total Non-Current Assets		10,245,363	5,468,904
Total assets		**16,727,340**	**11,448,781**
LIABILITIES			
Current liabilities			
Trade and other payables	13	2,409,689	402,576
Borrowings	14	157,500	-
Provisions	15	22,285	11,108
Total Current Liabilities		2,589,474	413,684
Total liabilities		**2,589,474**	**413,684**
Net assets		**14,137,866**	**11,035,097**
EQUITY			
Contributed equity	16	16,943,760	12,339,319
Reserves	17	758,312	111,049
Accumulated losses		(4,241,478)	(2,127,108)
Total equity attributable to owners of the parent		13,460,594	10,323,260
Non-controlling interest		677,272	711,837
Total equity		**14,137,866**	**11,035,097**

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

Consolidated statement of changes in equity for the year ended 30 June 2012

	Contributed equity	Accumulated losses	Foreign currency translation reserve	Change of interest in subsidiary reserve	Total	Non-Controlling interest	Total equity
	$	$	$	$	$	$	$
At 1 July 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)
Other comprehensive income:							
Foreign currency translation difference	-	-	(233,867)	-	(233,867)	(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**
Loss for the year	-	(2,114,370)	-	-	(2,114,370)	(46,614)	(2,160,984)
Other comprehensive income:							
Foreign currency translation difference	-	-	596,312	-	596,312	63,000	659,312
Total comprehensive income for the year	-	(2,114,370)	596,312	-	(1,518,058)	16,386	(1,501,672)
Transactions with owners in their capacity as owners							
Issue of shares	4,913,284	-	-	-	4,913,284	-	4,913,284
Cost of share issue	(308,843)	-	-	-	(308,843)	-	(308,843)
Adjustment of non-controlling interest upon increasing interest in subsidiary	-	-	-	50,951	50,951	(50,951)	-
At 30 June 2012	**16,943,760**	**(4,241,478)**	**239,382**	**518,930**	**13,460,594**	**677,272**	**14,137,866**

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

Consolidated statement of cash flows for the year ended 30 June 2012

	Note	Consolidated 2012 $	2011 $
Cash flows from operating activities			
Receipts from customers		1,154,776	253,560
Payments to suppliers and employees		(2,870,495)	(2,406,603)
Interest received		95,426	201,207
Interest and other costs of finance paid		(2,538)	(1,025)
Income taxes paid		-	(5,554)
Net cash inflow/(outflow) from operating activities	26	(1,622,831)	(1,958,415)
Cash flows from investing activities			
Payments for property plant and equipment		(2,556,431)	(4,599,843)
Net cash inflow/(outflow) from investing activities		(2,556,431)	(4,599,843)
Cash flows from financing activities			
Proceeds from issue of shares		4,913,284	12,000,000
Share issue costs		(308,843)	(1,846,031)
Proceeds received for shares not issued by year end		395,920	-
Proceeds from borrowings		157,545	-
Net cash inflow/(outflow) from financing activities		5,157,906	10,153,969
Net increase in cash and cash equivalents		978,644	3,595,711
Cash and cash equivalents at the beginning of the year		4,750,714	1,157,340
Effects of exchange rate changes on cash and cash equivalents		(2,971)	(2,337)
Cash and cash equivalents at the end of the year	8	5,726,387	4,750,714

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

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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(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.* China Magnesium Corporation Limited is a for-profit entity for the purpose of preparing the financial statements.

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 subsidiaries of China Magnesium Corporation Limited ("Company" or "parent entity") as at 30 June 2012 and the results of its subsidiaries for the year then ended. China Magnesium Corporation Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

Subsidiaries (as stated in note 24) 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.

Non-controlling interests in the results and equity of the subsidiaries 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 subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Accordingly, management currently identifies the Group as having only one reportable segment, being the processing and sale of magnesium and magnesium alloys. 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 income or 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 arrangement.
Revenue is recognised for the major business activities as follows:

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Sale of magnesium, magnesium alloys and dolomite

The Group sells magnesium, magnesium alloys and dolomite.

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 purchasers 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 national 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.

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 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 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 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.

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.

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 3-15 years
– Vehicles 5-8 years
– Leasehold land 50 years
– Quarry 10 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. Amounts received in respect of subscriptions for the issue of shares in the Company are also included in trade and other payables until the shares are issued.

(p) Borrowings

All loans and borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the loans and borrowings using the effective interest method. Fees paid for establishing loan facilities are recognised as transaction costs if it is probable that some or all of the facility will be drawn down, and deferred until the draw down occurs. If it is not probable that the facility will be drawn down, fees are capitalised as prepayments for liquidity services and amortised over the period to which the facility relates.

Borrowings are derecognised from the statement of financial position when the obligation specified in the contract has been discharged, cancelled or expires. The difference between the carrying amount of the borrowing derecognised and the consideration paid is recognised in profit or loss as other income or finance costs

Where the terms of a borrowing are renegotiated and the group issues equity instruments to a creditor to extinguish all or part of a borrowing, the equity instruments issued as part of the debt for equity swap are measured at the fair value of the equity instruments issued, unless the fair value cannot be measured reliably, in which case, they are measured at the fair value of the debt extinguished. The difference between the carrying amount of the debt extinguished and the fair value of the equity instruments issued is recognised as a gain or loss in profit or loss.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

All borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(q) 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.

(r) Employee benefits

i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave 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.

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.

(s) 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.

(t) 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.

(u) Earnings per share

i) Basic earnings per share

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

(v) 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 not recoverable from the taxation authority it is recognised as part of the cost of acquisition of the asset or as part of the expense.

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.

(w) 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
- Secured loans
- Trade and other payables

NOTE 2: FINANCIAL RISK MANAGEMENT (Continued)

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 and a secured loan are the only financial instruments of the Group that are subject to interest rate risk. Cash earns interest at a standard variable rate and the secured loan bears interest at a variable rate, currently 7.8%.

Foreign currency risk arises from the Group's investment in its foreign controlled subsidiaries. The currency in which transactions with these investments are primarily denominated is the Chinese Renminbi and Singapore Dollar. The Group's investment in its subsidiaries 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 and the Singapore Dollar.

Foreign exchange risk arises in particular from the Group's loans, payables and commitment for capital expenditure that is denominated in Chinese Renminbi that is not offset by financial assets denominated in Chinese Renminbi. The Group's exposure to such expenditure at 30 June 2012 was AUD $2,419,748 (2011: AUD $1,632,949). These payables and capital commitments are expected to be settled within six months. A change of 10% + or – in the exchange rate of the Australian Dollar to the Chinese Renmimbi would have an impact on Other Comprehensive Income of an increase of AUD $220,049 or a decrease of AUD $268,937, respectively.

Foreign exchange risk also arises from the Group's cash holdings in Singapore Dollars. At 30 June 2012 the Group held AUD$3,814,998 in Singapore Dollars (2011: Nil). A change of 10% + or – in the exchange rate of the Australian Dollar to the Singapore Dollar would have an impact on Other Comprehensive Income of a decrease of AUD $346,818 or an increase of AUD $423,889, respectively.

(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, (National Australia Bank, Macquarie Bank and Bank of China), China (China Construction Bank) and Singapore (United Overseas Bank).

(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.

NOTE 2: FINANCIAL RISK MANAGEMENT (Continued)

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 2012			
	$	$	$	$
	0 to 6 months	6 to 12 months	Greater than 12 months	Carrying Amount
Secured loan	-	157,500	-	157,500
Trade and other payables	2,409,689	-	-	2,409,689

	Consolidated 2011			
	$	$	$	$
	0 to 6 months	6 to 12 months	Greater than 12 months	Carrying Amount
Trade and other payables	402,576	-	-	402,576

(f) Fair value

The carrying value of cash and cash equivalents, receivables, payables and borrowings 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 commissioning of the first phase expansion of magnesium production facilities.

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, magnesium alloys and related products. 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.

NOTE 4: SEGMENT INFORMATION (Continued)

(b) Entity-wide disclosures

Consolidated revenues from each product or service;

	Magnesium and by-products	Total
	$	$
2012	1,195,514	1,195,514
2011	266,275	266,275

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

All of the Group's property, plant and equipment is located in the People's Republic of China except for $24,475 (2011 – $28,969) of plant and equipment that is located in Australia.

NOTE 5: REVENUE

	Consolidated 2012 $	2011 $
From continuing operations		
Sales revenue		
Revenue from sale of;		
magnesium and related products	1,195,514	266,275
Other revenue		
Interest	95,434	201,207
Total revenue from operations	1,290,948	467,482

NOTE 6: EXPENSES

Profit/(loss) before income tax includes the following specific expenses:		
Depreciation		
Buildings	16,571	14,245
Vehicles	14,134	4,870
Plant and equipment	115,885	135,847
Amortisation		
Leasehold Land	21,280	5,131
Total depreciation and amortisation	167,870	160,093
Finance Costs		
Interest and finance charges paid/payable	2,574	1,025
Rental expenses relating to operating leases		
Minimum lease payments	69,231	88,234
Defined contributions superannuation expense	37,682	19,779

NOTE 7: INCOME TAX BENEFIT

(a) Income tax benefit		
Current tax	(611,723)	(386,081)
Deferred tax	(15,437)	(7,575)
Tax losses not recognised	627,160	334,744
Under provision from prior years	-	58,912
Income tax benefit	-	-
(b) Reconciliation of income tax benefit to prima facie tax payable		
Profit/(loss) from continuing operations before income tax expense	(2,160,984)	(1,787,099)
Tax at the Australian tax rate of 30% (2011:30%)	(648,295)	(536,130)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
CFC income attribution	-	57,533
Non-deductible expenditure - net	-	1,960
Foreign exchange translation differences	(9,467)	48,006
Other permanent differences	5,127	8,331
	4,340	115,830
Difference in overseas tax rate	25,475	26,644
Tax losses not recognised	627,160	334,744
Under (over) provision from prior years	-	58,912
Income tax expense/(credit)	-	-
(c) Unrecognised deferred tax assets		
Deferred tax assets at the applicable tax rate have not been recognised for the following:		
Unused tax losses	1,083,942	413,740
Deductible temporary differences	94,907	221,218
	1,178,849	**634,958**

NOTE 8: CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	Consolidated	
	2012	**2011**
	$	**$**
Cash at bank and in hand	4,262,975	783,516
Deposits at call	1,463,412	3,967,198
	5,726,387	**4,750,714**

Cash at bank and in hand earn interest rates between zero and 1.5% (2011: zero and 0.25%).
Deposits at call earn a floating interest rate of 5.44% (2011: 0.25% to 5.44%).

NOTE 9: CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated	
	2012	**2011**
	$	**$**
Other debtors	**474,996**	**158,251**

NOTE 10: CURRENT ASSETS - INVENTORIES

	Consolidated	
	2012	2011
	$	$
Raw materials and stores	181,705	218,765
Work in progress	-	14,772
Finished goods	16,024	357,137
Total inventory at cost	**197,729**	**590,674**

Inventory expense: Inventories recognised as expense during the year ended 30 June 2012 amounted to $1,176,752 (2011 – $240,906).

NOTE 11: OTHER ASSETS

	Consolidated	
	2012	2011
	$	$
Other assets - Current		
Prepayments	82,865	436,858
Deposit on acquisition	-	43,380
Total other assets - Current	**82,865**	**480,238**

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

Consolidated	Assets under construc-tion	Leasehold Land	Quarry	Buildings	Vehicles	Plant & equipment	Total
	$	$	$	$	$	$	$
Year ended 30 June 2012							
Opening net book amount	3,350,664	1,007,139	-	244,671	66,110	800,320	5,468,904
Transfer	(933,472)	-		-	-	933,472	-
Exchange differences	298,918	89,079	-	21,228	5,386	64,891	479,502
Additions	3,588,506	-	669,296	-	-	207,025	4,464,827
Depreciation / amortisation	-	(21,280)		(16,571)	(14,134)	(115,885)	(167,870)
Closing net book amount	6,304,616	1,074,938	669,296	249,328	57,362	1,889,823	10,245,363
At 30 June 2012							
Cost	6,304,616	1,102,500	669,296	311,073	77,065	2,447,228	10,911,778
Accumulated depreciation / amortisation	-	(27,562)	-	(61,745)	(19,703)	(557,405)	(666,415)
Net Book amount	6,304,616	1,074,938	669,296	249,328	57,362	1,889,823	10,245,363
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 / amortisation	-	(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 / amortisation	-	(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

NOTE 13: CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated 2012 $	2011 $
Trade payables	94,429	259,217
Other payables and accruals	1,919,340	143,359
Subscription money received for shares not issued at year end. *	395,920	-
	2,409,689	**402,576**

* See note 25 (Subsequent Events)

NOTE 14: CURRENT LIABILITIES –BORROWINGS

	Consolidated 2012 $	2011 $
Secured loan	**157,500**	**-**

The secured loan is secured loan is secured by a piece of machinery in China. The loan is repayable on 23 June 2013 and bears interest at 7.8%p.a.

NOTE 15: CURRENT LIABILITIES – PROVISIONS

	Consolidated 2012 $	2011 $
Employee benefits	22,285	11,108

NOTE 16: CONTRIBUTED EQUITY

	Consolidated 2012 Shares	2011 Shares	Consolidated 2012 $	2011 $
(a) Share capital				
Ordinary shares fully paid	142,894,755	127,160,000	16,943,760	12,339,319

(b) Movements in ordinary share capital

Date	Details	Number of shares	Issue price	$
1 July 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
11 November 2011	Share placement	3,857,142	0.35	1,350,000
25 June 2012	Share placement	11,877,613	0.30	3,563,284
	Less: Transaction costs of shares issued	-	-	(308,843)
30 June 2012	Balance	142,894,755		16,943,760

NOTE 16: CONTRIBUTED EQUITY (Continued)

(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
9 November 2010	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 2012	Shares in escrow, due for release on 8 November 2012	61,380,000

(e) Options

There are no unissued ordinary shares of China Magnesium Corporation Limited under option at the date of this report (2011- 12,000,000). All options expired on 30 December 2011 upon Practical Completion of 20,000tpa plant capacity pursuant to the prospectus dated 20 September 2010.

(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 17: RESERVES

	Consolidated	
	2012	2011
	$	$
Foreign currency translation reserve	239,382	(356,930)
Change of interest in subsidiary reserve	518,930	467,979
Total reserves	758,312	111,049

(i) Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences on translation of the foreign controlled subsidiaries. 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 18: KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key management personnel compensation

	Consolidated 2012 $	Consolidated 2011 $
Short term employee benefits	864,713	776,484
Post-employment benefits	64,310	38,987
	929,023	815,471

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 (2011: Nil).

2012

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	520,000	-	-	520,000
T Blackhurst	24,320,000	-	-	24,320,000
M Clarey*	240,000	-	(60,000)	180,000
X Liang	12,000,000	-	-	12,000,000
P Robertson	600,000	-	485,360	1,085,360
*Retired 7 October 2011				
Other key management personnel of the Group				
Ordinary Shares				
G Edwards	100,000	-	65,000	165,000

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

NOTE 18: KEY MANAGEMENT PERSONNEL DISCLOSURES (Continued)

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: Nil).

2012

Name	Balance at the start of the year	Granted as compensation	Other changes during the year (expired)	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)	-
*Retired 7 October 2011				
7 October 2011				
Other key management personnel of the Group				
Options				
G Edwards	-	-	-	-

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	-	-	-	-

(c) Other transactions with key management personnel

No transactions occurred between Key management personnel and their related entities with the Group during the year (2011-nil).

NOTE 19: REMUNERATION OF AUDITORS

	Consolidated	
	2012 $	2011 $
i) Audit services		
BDO Audit Pty Ltd		
Audit and review of financial reports	67,070	23,500
Total remuneration for audit services	67,070	23,500
ii) Non-audit services		
BDO Audit Pty Ltd and related entities		
IPO advisory services	-	10,420
Taxation services	-	22,180
Total remuneration for non-audit services	-	32,600

NOTE 20: CONTINGENCIES

The Group had no contingent liabilities or contingent assets at 30 June 2012 (2011: Nil).

NOTE 21: COMMITMENTS

(a) Capital commitments

2012
The Group had a capital commitment at 30 June 2012 in respect of the purchase price of 100% of the issued shares in Chinese ferrosilicon producer Ningxia Tianjing Tianda Metals Smelting Co Ltd ("NTTMS"). The acquisition is expected to be completed during the period to 31 December 2012, however, the Group is not obliged to complete the transaction. The purchase price is to be finalised by reference to the net tangible assets of NTTMS on the date of settlement and is expected to be approximately $6,000,000.

2011
The Group had a capital commitment 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. The contract to purchase was completed in April 2012.

	Consolidated	
	2012 $	2011 $
The Group had the following additional commitments in relation to capital expenditure contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	623,607	2,146,932
Later than one year but no later than five years	-	-
Later than five years	-	-
	623,607	2,146,932

NOTE 21: COMMITMENTS (Continued)

	Consolidated	
	2012 $	2011 $
(b) Lease commitments :		
Commitments in relation to non-cancellable operating leases for premises not recognised as liabilities, payable:		
Within one year	47,725	41,845
Later than one year but no later than five years	28,635	63,992
Later than five years	-	-
	76,360	105,837

NOTE 22: 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 23: PARENT ENTITY DISCLOSURES

As at, and throughout, the financial year ended 30 June 2012 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.

a) Summary financial information

	2012 $	2011 $
Result of parent entity		
Profit / (loss) for the year after tax	(1,694,037)	(855,057)
Other comprehensive income	-	-
Total comprehensive income for the year	(1,694,037)	(855,057)
Financial position of parent entity at year end		
Current assets	6,037,488	3,094,350
Non-current assets	8,391,694	7,863,319
Total assets	14,429,182	10,957,669
Current liabilities	690,810	129,700
Total liabilities	690,810	129,700
Net assets	13,738,372	10,827,969
Contributed equity	16,943,760	12,339,319
Accumulated (losses)	(3,205,388)	(1,511,350)
Total equity	13,738,372	10,827,969

NOTE 23: PARENT ENTITY DISCLOSURES (Continued)

b) Guarantees entered into by the parent entity
The parent entity has not entered into any guarantees in respect of its subsidiaries (2011 – nil).

c) Contingent liabilities
The parent entity had no contingent liabilities at 30 June 2012 (2011 – nil).

d) Contractual commitments
The Parent Entity had a capital commitment at 30 June 2012 in respect of the purchase price of 100% of the issued shares in Chinese ferrosilicon producer Ningxia Tianjing Tianda Metals Smelting Co Ltd ("NTTMS"). The acquisition is expected to be completed during 2012, however, the Company is not obliged to complete the transaction. The purchase price is to be finalised by reference to the net tangible assets of NTTMS on the date of settlement and is expected to be approximately $6,000,000 (2011 - nil).

NOTE 24: SUBSIDIARIES

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

Name of entity	Country of incorporation	Class of shares	Equity holding 2012 %	Equity holding 2011 %
Shanxi Luyuan Magnesium Corporation	China	Ordinary	91.25	90.7
CMC Commodities Pte Ltd	Singapore	Ordinary	100	-

Shanxi Luyuan Magnesium Corporation is a Sino-foreign joint venture entity. CMC Commodities Pte Ltd is a proprietary limited company, incorporated in Singapore on 29 February 2012.

NOTE 25: EVENTS OCCURRING AFTER THE REPORTING PERIOD

On 3 July 2012 the Company issued 1,319,735 fully paid ordinary shares at 30 cents per share

On 10 August 2012 the Group received a loan of 5,000,000 Chinese Renminbi ($787,500) from Pingyao County Maoyuan Porcelain Industry Co. Ltd for working capital. The loan is secured over Land Use Rights in China and is repayable at the end of one year.

NOTE 26: RECONCILIATION OF PROFIT / (LOSS) AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	Consolidated 2012 $	Consolidated 2011 $
Profit/(loss) for the year	(2,160,984)	(1,787,099)
Depreciation and amortisation	167,870	160,093
Decrease (increase) in trade and other receivables	(70,556)	(16,507)
Decrease (increase) in prepayments	371,701	(328,352)
Decrease (increase) in inventories	392,945	(209,244)
(Decrease) Increase in trade and other payables	(334,984)	211,586
(Decrease) Increase in other provisions	11,177	11,108
Net cash inflows / (outflows) from operating activities	(1,622,831)	(1,958,415)

NOTE 27: EARNINGS PER SHARE

	2012 Cents	2011 Cents
Basic earnings / (loss) per share	(1.6)	(1.5)
Diluted earnings / (loss) per share	(1.6)	(1.5)
	$	**$**
Net loss for the year attributable to owners of the parent used to calculate loss per share – basic and diluted	2,114,370	1,658,489
	Number	**Number**
Weighted average number of ordinary shares outstanding during the year used to calculate basic and diluted loss per share	129,817,479	111,510,685

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 2012 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 6 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
22 August 2012

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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 2012, 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 entities 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 gives a true and fair view and 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 company'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 company'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.

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:

(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 2012 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(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 pages six to nine of the directors' report for the year ended 30 June 2012. 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 2012 complies with section 300A of the *Corporations Act 2001*.

BDO Audit Pty Ltd

BDO

A J Whyte

Director

Brisbane: 22 August 2012

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

STATEMENT OF QUOTED SECURITIES AS AT 31 JULY 2012

(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	145
10,001 - 100,000	322
5,001 - 10,000	114
1,001 - 5,000	90
1 - 1,000	9
Total	680

There were 57 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	16.81%
MR XINPING LIANG	12,000,000	8.32%
MR GUICHENG JIA	12,000,000	8.32%
MR MING LI	12,000,000	8.32%
DATO' LEE HAN SIEW	7,000,000	4.85%
MR ONG HOCK SEONG	6,197,348	4.30%
JOHN WARDMAN & ASSOCIATES PTY LTD	3,600,000	2.50%
CITICORP NOMINEES PTY LTD	3,033,233	2.10%
MR GREGORY J & MRS JULIE G M^{C}CALL	2,610,665	1.81%
MR CLIVE THOMAS	1,890,000	1.31%
CUSTODIAL SERVICES LTD	1,829,500	1.27%
HENROTH PTY LTD	1,750,000	1.21%
WASHINGTON H SOUL PATTINSON	1,714,286	1.19%
MCGEE CONSTRUCTIONS PTY LTD	1,600,000	1.11%
MR JOHN CHARLES PLUMMER	1,400,000	0.97%
H & R GERAS PTY LTD	1,262,932	0.88%
MR TERRY MCINERNEY	1,200,000	0.83%
EDELLE TWO PTY LTD	1,151,114	0.80%
MR PETER ROBERTSON	1,085,360	0.75%
MR MATTHEW REX PERCY	916,500	0.64%
	98,480,938	**68.29%**

(c) Substantial holders

Substantial holders in the Company are set out below:

Ordinary Shares	Number Held	Percentage
MR THOMAS TROY BLACKHURST	24,240,000	16.81%
MR XINPING LIANG	12,000,000	8.32%
MR GUICHENG JIA	12,000,000	8.32%
MR MING LI	12,000,000	8.32%
	60,240,000	**41.77%**

(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 on vote

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 for 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 convertible 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

Company Secretaries
Garry Edwards
Damien Kelly

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