



China Magnesium Corporation Ltd.

Appendix 4D

Name of Entity:	China Magnesium Corporation Limited
ABN:	14 125 236 731
Current Financial Period Ended:	Half-Year ended 31 December 2013
Previous Corresponding Reporting Period	Half-Year ended 31 December 2012

Results for Announcement to the Market

	Percentage change Up or Down	%		\$'000
Revenue from ordinary activities	Up	677%	to	1204
Profit/(loss) from ordinary activities after tax attributable to members	Down	13%	to	(962)
Profit/(loss) for the period attributable to members	Down	13%	to	(962)

Dividends	Amount per Security	Franked amount per security
Interim 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)	December 2013	December 2012
Net Tangible Assets per security	\$0.08	\$0.08

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

Compliance Statement

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



Tom Blackhurst
Managing Director
Southport QLD
25 February 2014

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China Magnesium Corporation Ltd.

ABN 14 125 236 731

**Interim financial report
for the half-year ended 31 December 2013**

China Magnesium Corporation Limited ABN 14 125 236 731
Interim financial report – 31 December 2013

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Directors' report

Your directors present their report on the consolidated entity consisting of China Magnesium Corporation Limited (the Company) and the entities it controlled at the end of, or during, the half-year ended 31 December 2013.

Directors

The following persons were directors of the Company during the whole of the half-year and up to the date of this report:

W Bass	T Blackhurst
P Robertson	X Liang

Review of operations

During the half-year, the Company;

- Signed an Investment and Co-operation Agreement ("Agreement") on 17 December 2013 with Mr Wang Feng, representing Shanxi Pingyao Fengyan Coal & Coke Group Company Limited ("Fengyan") an industrial conglomerate incorporated in China. The Agreement provides for Mr Wang Feng to subscribe for shares in the Company to the value of RMB15 million (approximately A\$2.7 million), at approximately A\$0.13 per share. This equates to approximately 12% of the post-issue capital. The additional equity funding is being sought to build new semi coke facilities to produce 200,000 tpa semi coke, 20,000 tpa tar oil, and use of waste gas to support magnesium production, significantly reducing the energy costs and working capital needs.
- Issued 5,495,964 ordinary shares on 21 November 2013 at \$0.04 per share raising \$219,838 before costs.
- Continued customer due diligence with respect to the proposed 20 year lease agreement with Shaanxi San Xin Company Limited Second Branch ("San Xin") in Fugu County, Shaanxi Province under an effective joint venture. This relates to i) 240,000 tpa semi coke with approximately 16,800 tpa tar oil as a by-product and ii) an 8,000 tpa pure magnesium production plant which uses the waste coke gas from the semi coke plant to heat the reduction ovens.
- The trading desk has recorded increased magnesium trading in line with current efforts in international brand-building.

Results

For the half-year ended 31 December 2013 the consolidated entity recorded a profit (loss) after tax from continuing operations of (\$988,503) (2012: (\$1,135,840)) and total comprehensive income of (\$483,134) (2012: (\$1,374,089)).

Dividends

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

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 5.

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



Tom Blackhurst
Managing Director
Southport
25 February 2014

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

As lead auditor for the review of China Magnesium Corporation Limited for the half-year ended 31 December 2013, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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



Anthony Whyte
Director

BDO Audit Pty Ltd

Brisbane, 25 February 2014

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Consolidated statement of comprehensive income for the half-year ended 31 December 2013

	Consolidated Half-year ended	
	31 Dec 2013	31 Dec 2012
	\$	\$
Revenue from continuing operations		
Sales	1,197,078	126,979
Interest received	6,799	27,803
	<u>1,203,877</u>	<u>154,782</u>
Expenses		
Purchases of raw materials and consumables	(1,207,437)	(195,908)
Auditing and accounting	(35,824)	(37,800)
Consulting fees	(48,173)	(120,000)
Depreciation and amortisation expenses	(147,976)	(126,593)
Employee benefits	(641,078)	(602,880)
Finance costs	(15,663)	(9,146)
Other expenses	(72,820)	(128,048)
Travel expenses	(23,409)	(70,247)
Total expenses	<u>(2,192,380)</u>	<u>(1,290,622)</u>
Loss before income tax	(988,503)	(1,135,840)
Income tax	-	-
Loss after tax from continuing operations	<u>(988,503)</u>	<u>(1,135,840)</u>
Other comprehensive income		
Foreign currency translation differences	505,369	(238,249)
Income tax on items of other comprehensive income	-	-
Other comprehensive income for the period (net of tax)	<u>505,369</u>	<u>(238,249)</u>
Total comprehensive income for the period	<u>(483,134)</u>	<u>(1,374,089)</u>
Loss for the period is attributable to:		
Owners of the parent	(962,285)	(1,105,798)
Non-controlling interests	(26,218)	(30,042)
	<u>(988,503)</u>	<u>(1,135,840)</u>
Total comprehensive income for the period is attributable to:		
Owners of the parent	(499,772)	(1,321,241)
Non-controlling interests	16,638	(52,848)
	<u>(483,134)</u>	<u>(1,374,089)</u>
Earnings per share		
Basic and diluted earnings/(loss) per share (cents per share)	(0.7)	(0.8)

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

Consolidated statement of financial position as at 31 December 2013

		Consolidated	
	Note	31 Dec 2013 \$	30 June 2013 \$
ASSETS			
Current assets			
Cash and cash equivalents		2,947,770	3,423,478
Trade and other receivables		665,832	777,878
Inventories		207,784	360,458
Other		221,997	122,587
Total Current Assets		<u>4,043,383</u>	<u>4,684,401</u>
Non-current assets			
Property, plant and equipment		<u>12,724,399</u>	<u>12,143,139</u>
Total Non-Current Assets		<u>12,724,399</u>	<u>12,143,139</u>
Total assets		<u>16,767,782</u>	<u>16,827,540</u>
LIABILITIES			
Current liabilities			
Trade and other payables		2,441,733	2,281,169
Borrowings		920,793	876,500
Provisions		23,567	18,763
Total Current Liabilities		<u>3,386,093</u>	<u>3,176,432</u>
Total liabilities		<u>3,386,093</u>	<u>3,176,432</u>
Net assets		<u>13,381,689</u>	<u>13,651,108</u>
EQUITY			
Contributed equity		17,538,434	17,324,720
Reserves		2,215,895	1,753,381
Accumulated losses		(7,018,442)	(6,056,157)
Total equity attributable to owners of the parent		<u>12,735,887</u>	<u>13,021,944</u>
Non-controlling interest		645,802	629,164
Total equity		<u>13,381,689</u>	<u>13,651,108</u>

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

Consolidated statement of changes in equity for the half-year ended 31 December 2013

	Contributed equity \$	Accumulated losses \$	Foreign currency translation reserve \$	Change of interest in subsidiary reserve \$	Total \$	Non- controlling interest \$	Total equity \$
At 1 July 2012	16,943,760	(4,241,478)	239,382	518,930	13,460,594	677,272	14,137,866
Loss for the half-year	-	(1,105,798)	-	-	(1,105,798)	(30,042)	(1,135,840)
Other comprehensive income:							
Foreign currency translation difference	-	-	(215,443)	-	(215,443)	(22,806)	(238,249)
Total comprehensive income for the half- year	-	(1,105,798)	(215,443)	-	(1,321,241)	(52,848)	(1,374,089)
Transactions with owners in their capacity as owners							
Issue of shares	395,920	-	-	-	395,920	-	395,920
Cost of share issue	(14,960)	-	-	-	(14,960)	-	(14,960)
At 31 December 2012	17,324,720	(5,347,276)	23,939	518,930	12,520,313	624,424	13,144,737
At 1 July 2013	17,324,720	(6,056,157)	1,234,451	518,930	13,021,944	629,164	13,651,108
Loss for the half-year	-	(962,285)	-	-	(962,285)	(26,218)	(988,503)
Other comprehensive income:							
Foreign currency translation difference	-	-	462,513	-	462,513	42,856	505,369
Total comprehensive income for the half- year	-	(962,285)	462,513	-	(499,772)	16,638	(483,134)
Transactions with owners in their capacity as owners							
Issue of shares	219,838	-	-	-	219,838	-	219,838
Cost of share issues	(6,124)	-	-	-	(6,124)	-	(6,124)
At 31 December 2013	17,538,434	(7,018,442)	1,696,964	518,930	12,735,886	645,802	13,381,689

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

Consolidated statement of cash flows for the half-year ended 31 December 2013

	Consolidated	
	Half-year ended	
	31 Dec 2013	31 Dec 2012
	\$	\$
Cash flows from operating activities		
Receipts from customers	1,339,415	126,954
Payments to suppliers and employees	(2,066,591)	(1,669,645)
Interest received	6,799	27,802
Interest and other costs of finance paid	(1,120)	(1,722)
Net cash inflow/(outflow) from operating activities	<u>(721,497)</u>	<u>(1,516,611)</u>
Cash flows from investing activities		
Purchase of plant and equipment	(114,299)	(706,685)
Net cash inflow/(outflow) from investing activities	<u>(114,299)</u>	<u>(706,685)</u>
Cash flows from financing activities		
Proceeds from issue of shares	213,714	-
Share issue costs	-	(14,961)
Proceeds from borrowings	-	603,956
Net cash inflow/(outflow) from financing activities	<u>213,714</u>	<u>588,995</u>
Net decrease in cash and cash equivalents	(622,082)	(1,634,301)
Cash and cash equivalents at the beginning of the period	3,423,478	5,726,387
Effects of exchange rate changes on the balances of cash held in foreign currencies	146,374	61,842
Cash and cash equivalents at the end of the period	<u>2,947,770</u>	<u>4,153,928</u>

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Significant accounting policies

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report and any public announcements made by China Magnesium Corporation Limited (the company) during the half-year in accordance with any continuous disclosure obligations arising under the Corporations Act 2001.

Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted. The fair value of the consolidated entity's financial assets and liabilities approximate their carrying value.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2013 annual financial report. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period. The adoption of these new and revised Standards and Interpretations did not have any material financial impact on the amounts recognised in the financial statements of the Group for the current or prior periods.

The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and settlements of liabilities in the ordinary course of business. The Group incurred a net loss of \$988,503 and an operating cash outflow of \$721,497 for the six month period ended 31 December 2013. At that date the Group had a net current asset position of \$657,290. Included in net current assets is VAT receivable of \$571,503 that will only be recovered once the Group generates sufficient income in China. Also included in net current assets are trade creditors of approximately \$1.7 million which the Group has entered into formal arrangements to extend payment terms for work completed and to be completed at Pingyao until the Pingyao facility is operational.

The Group has \$1,024,708 capital commitments due within one year in relation to its Pingyao operations and estimated \$1.6 million during the year for the construction of two semi-coke plants; it has been estimated that the working capital requirement to complete commissioning and commence the Pingyao operations is \$1,540,000.

In forming a view that the Group is a going concern, the directors have assumed that:

- Mr Wang Feng, representing Fengyan will pay RMB 15 million (approximately A\$2.7 million) for 20,415,062 new shares to be issued by CMC. The placement is expected to be completed by 31 March 2014.
- That the existing Pingyao operation is expected to contribute to cash flow by July 2014.
- The continued financial support from creditors that have agreed to extended terms of payment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

Should all of the above assumptions not eventuate, there exists a material uncertainty regarding the Company's and Group's ability to continue as a going concern and realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial statements. No adjustments have been made to the financial statements relating to the recoverability and classification of the assets and the carrying amounts and classification of liabilities should the director's assumptions not eventuate.

2. 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 makers) in assessing performance and determining the allocation of resources. Operating segments are determined on the basis of financial information reported to the board which is at the group level.

Accordingly, management currently identifies the Group as having only one reportable segment, being the processing and sale of magnesium. There have been no changes in the operating segments during the half-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.

3. Contributed equity

During the half-year, on 21 November 2013, the company issued 5,495,964 (2012: 1,319,735) ordinary shares at 4 cents per share (2012: 30 cents) raising \$219,838 before costs of \$6,124 (2012: Capital raised \$395,920, costs \$14,961).

4. Contingencies and Commitments

The Group had a contingent liability of AUD\$140,000 (2012: - Nil) in respect of a security bond to be lodged upon commencement of a lease for the Group to operate a semi coke, magnesium and tar oil operation in Fugu County, Shaanxi province, People's Republic of China. Due diligence in respect of the lease arrangement is continuing.

	Consolidated	
	31 Dec 2013	30 June 2013
	\$	\$
The Group had the following additional commitments for capital expenditure items at the end of the period:		
Expected to be paid within one year	1,024,708	1,016,467
Expected to be paid later than one year	-	-
Total	<u>1,024,708</u>	<u>1,016,467</u>

There were no changes in the contingent liabilities or contingent assets since the end of the last annual reporting period.

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 31 December 2013 and the performance for the half-year ended on that date of the consolidated entity; and
 - ii) Complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

- (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.

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



Tom Blackhurst
Managing Director

Southport
25 February 2014

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of China Magnesium Corporation Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of China Magnesium Corporation Limited, which comprises the consolidated statement of financial position as at 31 December 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of China Magnesium Corporation Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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Independence

In conducting our review, 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 review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of China Magnesium Corporation Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*

Emphasis of matter

Without modifying our conclusion, we draw attention to Note 1 in the half-year financial report, which indicates that the ability of the consolidated entity to continue as a going concern is dependent upon the future successful raising of necessary equity, the Pingyao operation contributing to the cash flow of the Group by July 2014 and the continued financial support from creditors that have agreed to extended terms of payment. These conditions, along with other matters as set out in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

BDO Audit Pty Ltd

BDO



A J Whyte
Director

Brisbane, 25 February 2014

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