



# China Magnesium Corporation Limited

## Appendix 4E – Preliminary Final Report

<b>Name of Entity:</b>	China Magnesium Corporation Limited
<b>ABN:</b>	14 125 236 731
<b>Reporting Period - year ended:</b>	30 June 2016
<b>Previous corresponding period – period ended</b>	30 June 2015

## Results for Announcement to the Market

	Percentage change Up or Down	%		\$'000
Revenue from ordinary activities	down	100%	to	11
(Loss) from ordinary activities after tax attributable to members	down	34%	to	(2,136)
(Loss) for the period attributable to members	down	34%	to	(2,136)

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 2016	June 2015
Net Tangible Assets per security	5.2 Cents	6.2 Cents

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

No trading of magnesium, semi coke, metallurgical coke, tar oil or calcium metals occurred during the year as CMC completed the installation and testing of crackers.

Net income from termination of FMW Co-Operation Agreement of \$484K.

## Commentary on Results

Refer attached annual report

## Dividends

No dividends were paid or declared during the period ending 30 June 2016.

## Compliance Statement

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



Tom Blackhurst  
Managing Director

Date: 9 September 2016

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China Magnesium Corporation Limited

ABN 14 125 236 731

Annual Report  
For the year ended 30 June 2016

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# China Magnesium Corporation Limited and its subsidiaries

## Managing Director's Report – 30 June 2016

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### Managing Director's Report

Dear Shareholders

I am pleased to report on continued positive progress in our journey to become a large, low cost, integrated producer of magnesium, semi coke, tar oil and other industrial products.

#### Financial summary

The Group has recorded a net loss after tax of \$2.3M compared with a 2015 loss of \$3.5M.

During the year CMC completed the installation and testing of semi coke crackers. This allows CMC to commence magnesium production using semi-coke gas instead of coal-to-gas facilities.

No trading of magnesium, semi coke, metallurgical coke, tar oil or calcium metals occurred during the year, as CMC completed the installation and testing of crackers.

The Co-Operation Agreement with Shanxi Pingyao County Fengyan (Fengyan) relating to Pingyao County Fengyan Mineral Wool Co. Ltd. (FMW) was terminated on 24 June 2016. The financial result includes \$4.5M share of income pursuant to the termination agreement terms

#### Pingyao County Fengyan Mineral Wool Co. Ltd. (FMW)

CMC completed the upgrades of the FMW production line during the financial period to 24 June 2016.

During the financial period 1 July 2015 to 24 June 2016 FMW produced 13,567 tonnes of pig iron, 10,465 tonnes of ferronickel and 415 tonnes of mineral wool.

CMC terminated the Co-Operation Agreement with Fengyan with respect to FMW effective from 24 June 2016. As part of the termination agreement Fengyan acquired CMC's 60% interest and assumed all rights and responsibilities including CMC's share of operating losses in FMW from 1 February 2015 to 24 June 2016.

#### Fine Chemicals & Fertiliser Agreement

During the year CMC signed a conditional agreement with Taiyuan Hailifeng Science & Technology Co. Ltd for the 20 year lease of business and production facilities in Taiyuan, Shanxi Province. This plant currently produces G3 (a cross linking agent in powder coatings for various indoor and outdoor applications), G1 (used in water treatment, in paints and coatings & also as slow release fertiliser) and other chemicals.

Negotiation for a second 20 year lease at Shandong (Shandong Province) producing magnesium nitrate, sodium nitrate and other chemicals is in progress.

CMC has commenced small scale chemical and fertilizer trading in the financial year.

#### Working capital

Pursuant to the Investment and Co-Operation Agreement with Fengyan, CMC & Fengyan have continued evaluation of direct working capital facilities.

The termination of the FMW Co-Operation Agreement does not affect Fengyan's continued working capital support, including their intention to act as guarantor for relevant working capital loans.

#### Commodities Trading Desk

The international trading desk is the exclusive trading desk for a number of Fengyan operations (including FMW) in addition to the CMC Group.

## China Magnesium Corporation Limited and its subsidiaries Managing Director's Report – 30 June 2016

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### Looking forward

CMC has now substantially completed all work necessary to commence production. We are encouraged by the co-incidental mid-year recovery in magnesium prices.

We continue to seek diversification in the market offerings from magnesium and magnesium alloy into an array of other manufactures including semi coke and calcium metal.

CMC remains committed to becoming one of the world's largest, integrated, low cost magnesium producers, whilst building capacity in other industries to further leverage our strengths and advantages.

Yours sincerely,



Tom Blackhurst  
Managing Director

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# China Magnesium Corporation Limited and its subsidiaries

## Directors' Report – 30 June 2016

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### 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 2016.

### 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

### Principal activities

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

- Progressing diversification of production base to include semi-coke, calcium metal, tar oil and synergistic products to support more robust and stable cash flow and profitability in the longer term; and
- Co-management of FMW operations with Fengyan in production and sales of pig iron, ferro-nickel and tar oil

### Dividends

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

### Review of operations and financial position

The Group's financial results for the financial year ended 30 June 2016 are set out in the financial statements following page 20 of this annual report. Significant results include:

	<b>Consolidated 2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Revenues</b>	11,350	19,912,402
<b>Net (loss) before tax</b>	(2,341,665)	(3,453,782)
<b>Net (loss) after tax</b>	(2,341,665)	(3,453,782)

During the year the Group produced no semi-coke (2015: 1,786 tonnes), no calcium metal (2015: 449 tonnes), and no tar oil (2015: 123 tonnes) from the Group's Pingyao operation.

No dolomite (2015:nil) was produced at the Group's Baiyun quarry which provides dolomite to the Group for magnesium production and other customers, including those in the steel industry. Production at the quarry has been suspended pending re-commencement of operations at the Group's magnesium plant.

The Company continued to invest in other capital equipment including in house retort production, and pneumatic loading and discharging machines.

Negotiations to secure local loan funding in China for working capital continued throughout the year, supplementing working capital provided by Fengyan under the 17 December 2013 Investment and Co-operation Agreement. The Board reaffirms its confidence that local funding facilities will be approved and can be drawn down in the near future.

Further information on the operations and financial position of the Group and its business strategies and prospects is set out in the Managing Director's Report on pages 1 - 2 of this annual report.

# China Magnesium Corporation Limited and its subsidiaries

## Directors' Report – 30 June 2016

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### Significant changes in the state of affairs

CMC sold its 60% interest in FMW on 24 June 2016 to Fengyan. As part of the agreement Fengyan assumed all rights and responsibilities including CMC's share of the operating losses in FMW from 1 February 2015 to 24 June 2016.

CMC completed the installation and testing of crackers at the Pingyao plant. This allows CMC to commence magnesium production using semi-coke gas instead of coal-to-gas facilities.

### Matters subsequent to the end of the financial year

During the year CMC acquired 2 tenements in Western Australia. In July 2016 CMC entered into a conditional Framework Agreement for the establishment of a Special Purpose Vehicle (SPV) for the assessment and exploitation of lithium from the 2 tenements. Pursuant to satisfaction of the conditions of the Framework Agreement CMC will acquire a 40% share of the SPV, with the contribution of the 2 tenements only being at an agreed valuation of RMB 3.5M (\$700K).

Except for the matters discussed above, no other matter or circumstance has arisen since 30 June 2016 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:

- Increased production of magnesium, magnesium alloy and semi coke from the Pingyao operation.
- Increased production from the Baiyun quarry for use by the Group and for external customers.
- Expansion of the Group's trading desk operations

Additional comments on expected results of certain operations of the group are included in this annual report under the Managing Director's Report on pages 1 – 2 of this annual report.

### 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 year's 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.



# China Magnesium Corporation Limited and its subsidiaries

## Directors' Report – 30 June 2016

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### Information on directors (Continued)

#### *Special responsibilities*

Managing Director.

#### *Interests in shares and options*

32,888,390 ordinary shares in the Company.

5,906,011 options exercisable at 7 cents on or before 30 September 2016

#### **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 25 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*

20,958,450 ordinary shares in the Company.

5,566,450 options exercisable at 7 cents on or before 30 September 2016

#### **William Bass BEcon, CA, FGIA, FInstIB, MAICD, JP (Qual) Non-executive Chairman.**

#### *Experience and expertise*

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

#### *Other current directorships*

Nil

#### *Former directorships in last 3 years*

1300SMILES Limited

#### *Special responsibilities*

Chair of the Board.

#### *Interests in shares and options*

1,582,331 ordinary shares in the Company.

900,331 options exercisable at 7 cents on or before 30 September 2016

# China Magnesium Corporation Limited and its subsidiaries

## Directors' Report – 30 June 2016

### Information on directors (Continued)

**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 30 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 23 years, Mr Robertson has been involved in the manufacture and supply of consumables and consulting services to the aluminium cast house industry through his role as General Manager of Leymont Pty Ltd.

#### *Other current directorships*

Nil.

#### *Former directorships in last 3 years*

Nil

#### *Special responsibilities*

Nil.

#### *Interests in shares and options*

3,178,668 ordinary shares in the Company.

813,167 options exercisable at 7 cents on or before 30 September 2016

### Company secretary

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 15 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 2016, and the numbers of meetings attended by each director were:

	A	B	C	D	E	F
W Bass	10	10	2	2	1	1
T Blackhurst	10	10	2	2	-	-
X Liang	10	10	2	2	-	-
P Robertson	10	10	2	2	1	1

A: Director Meetings attended

B: Director Meetings held during time of office

C: Audit Committee Meetings attended

D: Audit Committee Meetings held during time of office

E: Remuneration Meetings attended

F: Remuneration Meetings held during time of office

# China Magnesium Corporation Limited and its subsidiaries

## Directors' Report – 30 June 2016

### 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.

### Directors and executives disclosed in this report

<b>Non-executive directors</b>	W Bass – Chairman
	P Robertson – Director
<b>Executive directors</b>	T Blackhurst – Managing Director
	X Liang – Chief Operating Officer
<b>Other key management personnel</b>	Nil

Changes since the end of the reporting period: NIL

### Principles used to determine the nature and amount of remuneration

The performance of the Group depends on the quality of its directors and executives. Accordingly 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.

The Nomination & Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. Consideration is given to normal commercial rates of remuneration for similar levels of responsibility, and the Company's financial performance.

Emoluments comprise the following:

- Base pay (salaries/fees) and benefits, including superannuation
- Short-term incentives (bonuses); and
- Long-term (including critical acquisition) incentives including shares.

All executives have detailed job descriptions with identified key performance indicators against which reviews are compared in relationship between the benefits contained in the employment agreement and the Group's performance in the 2016 financial year.

Remuneration for certain individuals is directly linked to performance of the Group. Bonus payments are dependent on key criteria, being EBITDA. During the year the Group has generated losses in its principal activity of production and distribution of magnesium, semi coke, tar oil and other industrial products.

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 2016 the share price was \$0.015 (2015: \$0.45), representing a market capitalisation of \$2.9 million (2015 : \$8.8 million). There has been no share-based remuneration.

Year	2011	2012	2013	2014	2015	2016
Share price at year end	0.37	0.16	0.046	0.045	0.045	0.015

# China Magnesium Corporation Limited and its subsidiaries

## Directors' Report – 30 June 2016

### Remuneration report – Audited (Continued)

#### Use of remuneration consultants

The Board adopted the recommendations of an independent remuneration consultant and has implemented the recommendations with effect from the commencement of respective contracts with executive directors from November 2013.

A set of protocols were put in place to ensure that the remuneration recommendations would be free from undue influence from key management personnel. The Board is satisfied that these protocols were followed and as such there was no undue influence.

#### 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

#### 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 2016 (2015 - Nil).

#### Details of remuneration

2016

Name	Short term benefits		Post-employment benefits			Total
	Cash Salary and fees	Other	Super-annuation	Long Term Benefits	Termination Benefits	
	\$	\$	\$	\$	\$	\$
<b>Non-executive directors</b>						
W Bass	63,899	-	6,101	-	-	70,000
P Robertson	47,924	-	4,576	-	-	52,500
<b>Executive directors</b>						
T Blackhurst	500,000	-	-	-	-	500,000
X Liang	470,000	-	-	-	-	470,000
<b>Other key management personnel</b>						
Nil						
<b>Total</b>	<b>1,081,823</b>	<b>-</b>	<b>10,677</b>	<b>-</b>	<b>-</b>	<b>1,092,500</b>

**China Magnesium Corporation Limited and its subsidiaries**  
**Directors' Report – 30 June 2016**

**Remuneration report – Audited (Continued)**

2015

Name	Short term benefits		Post-employment benefits			Total
	Cash Salary and fees	Other	Super-annuation	Long Term Benefits	Termination Benefits	
	\$	\$	\$	\$	\$	\$
<b>Non-executive directors</b>						
W Bass	63,899	-	6,101	-	-	70,000
P Robertson	47,924	-	4,576	-	-	52,500
<b>Executive directors</b>						
T Blackhurst	600,000	-	-	-	-	600,000
X Liang	583,333	-	-	-	-	583,333
<b>Other key management personnel</b>						
Nil		-		-	-	
<b>Total</b>	<b>1,295,156</b>	<b>-</b>	<b>10,677</b>	<b>-</b>	<b>-</b>	<b>1,305,833</b>

**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 and Chief Operating Officer are also formalised in service agreements as follows:

Name	Term of agreement	Base salary / consulting fee including any superannuation	Termination benefit *
<b>T Blackhurst</b> <i>Managing Director</i>	Consulting through Orient Pacific Consultants Pte Ltd for 5 years commencing 1 November 2013. Bonus per Remuneration Committee approval of :- Short term incentive :0 – 40% Long term incentive :0 – 90% Critical acquisition : 0 – 40% Non-solicitation and non-compete clauses	\$500,000	12 months' fee
<b>XP Liang , Chief Operating Officer</b>	Consulting through Singapore Energy and Equipment Investment Pte Ltd for 5 years commencing 1 November 2013. Bonus per Remuneration Committee approval of :- Short term incentive :0 – 40% Long term incentive :0 – 90% Critical acquisition : 0 – 40% Non-solicitation and non-compete clauses.	\$470,000	12 months' fee

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

# China Magnesium Corporation Limited and its subsidiaries

## Directors' Report – 30 June 2016

### Remuneration report – Audited (Continued)

#### 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. None of these share holdings are held nominally. There were no shares granted during the reporting year as compensation (2015: Nil).

2016				
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
*W Bass	1,582,331	-	-	1,582,331
T Blackhurst	32,791,694	-	96,696	32,888,390
X Liang	20,958,450	-	-	20,958,450
P Robertson	2,974,979	-	203,689	3,178,668

##### ii) Option holdings

Options over ordinary shares in the Company acquired and held during the financial year by any director of China Magnesium Corporation Limited or other key management personnel of the Group, including their personally related parties are as follows:

2016					
Name	Balance at the start of the year	Other changes during the year	Options exercised	Balance at the end of the year	Vested and exercisable at end of the year
W Bass	900,331	-	-	900,331	900,331
T Blackhurst	5,906,011	-	-	5,906,011	5,906,011
X Liang	5,566,450	-	-	5,566,450	5,566,450
P Robertson	813,167	-	-	813,167	813,167

(2015: 13,185,959).

There were no options granted during the reporting year as compensation (2015: Nil). None of these option holdings are held nominally.

##### Other transactions with key management personnel

No transactions occurred between key management personnel and their related entities with the Group during the year (2015: Nil).

##### Loans to directors and executives

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

#### END OF AUDITED REMUNERATION REPORT

### Shares under option

Ordinary shares of China Magnesium Corporation Limited under option at the date of this report:-

Grant date	Expiry date	Exercise price	Number under option
30 September 2014	30 September 2016	7 cents	24,855,705

(2015: 24,855,705).

## Shares buy-back

During the year China Magnesium Corporation Limited bought back 305,482 (2015: 453,788) ordinary shares for \$12,753 (2015: \$25,934) pursuant to an on market share buyback program. The buyback was commenced as part of an effective capital management strategy to maximise shareholder value and return on 11 November 2014 and remains in effect. It is limited to 10% of the issued shares.

## 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 current or previous 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 12.

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



**Tom Blackhurst**  
Managing Director  
Southport  
9 September 2016

**Auditor's Independence Declaration under Section 307C of the Corporations Act  
2001 to the directors of China Magnesium Limited**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2016 there have been:

- (i) No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit, and
- (ii) No contraventions of any applicable code of professional conduct in relation to the audit.

*ShineWing Australia*

**ShineWing Australia**  
Chartered Accountants

Nick Michael  
Partner

Melbourne, 9 September 2016



**China Magnesium Corporation Limited and its subsidiaries**  
**Consolidated Financial Statements – 30 June 2016**

**Consolidated statement of profit or loss and other comprehensive income for the year ended 30 June 2016**

		<b>Consolidated</b>	
	<b>Note</b>	<b>2016</b>	<b>2015</b>
		<b>\$</b>	<b>\$</b>
<b>Revenue from continuing operations</b>	5	11,350	19,912,402
Share of losses from contractual arrangement		(3,985,345)	(483,882)
Share of income from contractual arrangement		4,469,227	
Purchase of raw materials and consumables		(7,222)	(19,921,292)
Auditing and accounting		(116,018)	(76,273)
Consulting fees			(25,447)
Depreciation and amortisation	6	(379,825)	(259,986)
Employee benefits		(1,504,001)	(1,697,106)
Finance costs		(494,096)	(214,488)
Foreign exchange gain/(loss)		(13,990)	(79,640)
Other expenses		(275,861)	(529,777)
Travel		(45,884)	(78,293)
<b>Total expenses</b>		<u>(2,836,897)</u>	<u>(22,882,302)</u>
<b>Loss before income tax</b>		<u>(2,341,665)</u>	<u>(3,453,782)</u>
Income tax benefit	7	-	-
<b>Loss for the year</b>		<u>(2,341,665)</u>	<u>(3,453,782)</u>
<b>Other comprehensive income</b>			
<i>Items that will be reclassified to profit or loss</i>			
Foreign currency translation differences		(561,193)	3,028,724
Income tax on items of other comprehensive income		-	-
<b>Other comprehensive income for the year (net of tax)</b>		<u>(561,193)</u>	<u>3,028,724</u>
<b>Total comprehensive income for the year</b>		<u>(2,902,858)</u>	<u>(425,058)</u>
Loss for the year is attributable to:			
Owners of the parent		(2,135,628)	(3,255,644)
Non-controlling interests		(206,037)	(198,138)
		<u>(2,341,665)</u>	<u>(3,453,782)</u>
Total comprehensive income for the year is attributable to:			
Owners of the parent		(2,672,262)	(383,439)
Non-controlling interests		(230,596)	(41,619)
		<u>(2,902,858)</u>	<u>(425,058)</u>
<b>Earnings per share</b>		<b>Cents</b>	<b>Cents</b>
Basic earnings per share for the year	26	(1.1)	(1.7)
Diluted earnings per share for the year	26	(0.9)	(1.5)

*The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.*

**China Magnesium Corporation Limited and its subsidiaries**  
**Consolidated Financial Statements – 30 June 2016**

**Consolidated statement of financial position as at 30 June 2016**

	Not e	Consolidated	
		2016 \$	2015 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	8	2,194,662	3,314,681
Trade and other receivables	9	916,945	1,024,222
Inventories	10	248,080	289,608
Other	11	-	100,156
<b>Total Current Assets</b>		<b>3,359,687</b>	<b>4,728,667</b>
<b>Non-current assets</b>			
Other	11	2,240,816	2,283,441
Property, plant and equipment	13	16,340,275	16,724,342
Tenement		10,000	-
<b>Total Non-Current Assets</b>		<b>18,591,091</b>	<b>19,007,783</b>
<b>Total assets</b>		<b>21,950,778</b>	<b>23,736,450</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	14	2,420,816	3,987,900
Borrowings	15	-	-
Provisions	16	17,318	29,159
<b>Total Current Liabilities</b>		<b>2,438,134</b>	<b>4,017,059</b>
<b>Non-Current liabilities</b>			
Share of losses from contractual arrangements	12	-	483,882
Trade and other payables	14	8,106,982	3,850,257
Borrowings	15	-	1,064,000
<b>Total Non-Current Liabilities</b>		<b>8,106,982</b>	<b>5,398,139</b>
<b>Total liabilities</b>		<b>10,545,116</b>	<b>9,415,198</b>
<b>Net assets</b>		<b>11,405,662</b>	<b>14,321,252</b>
<b>EQUITY</b>			
Contributed equity	17	21,111,526	21,124,258
Reserves	18	3,955,635	4,492,269
Accumulated losses		(13,833,125)	(11,697,496)
		11,234,036	13,919,031
Total equity attributable to owners of the parent			
Non-controlling interest		171,626	402,221
<b>Total equity</b>		<b>11,405,662</b>	<b>14,321,252</b>

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

**China Magnesium Corporation Limited and its subsidiaries**  
**Consolidated Financial Statements – 30 June 2016**

**Consolidated statement of changes in equity for the year ended  
30 June 2016**

	Contributed equity	Accumulated losses	Foreign currency translation reserve	Change of interest in subsidiary reserve	Total	Non- Controlling interest	Total equity
	\$	\$	\$	\$	\$	\$	\$
<b>At 30 June 2014</b>	<b>20,114,724</b>	<b>(8,441,852)</b>	<b>1,101,134</b>	<b>518,930</b>	<b>13,292,936</b>	<b>443,814</b>	<b>13,736,777</b>
Loss for the year	-	(3,255,644)	-	-	(3,255,644)	(198,138)	(3,453,782)
<i>Other comprehensive income:</i>							
Foreign currency translation difference	-	-	2,872,205	-	2,872,205	156,519	3,028,724
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>(3,255,644)</b>	<b>2,872,205</b>	<b>-</b>	<b>(383,439)</b>	<b>(41,619)</b>	<b>(425,058)</b>
<b>Transactions with owners in their capacity as owners</b>							
Issue of shares	1,038,277	-	-	-	1,038,277	-	1,038,277
Share buy back	(25,934)	-	-	-	(25,934)	-	(25,934)
Issue/buy back costs	(2,809)	-	-	-	(2,809)	-	(2,809)
<b>At 30 June 2015</b>	<b>21,124,258</b>	<b>(11,697,496)</b>	<b>3,973,339</b>	<b>518,930</b>	<b>13,919,031</b>	<b>402,221</b>	<b>14,321,252</b>
Loss for the year	-	(2,135,628)	-	-	(2,135,628)	(206,037)	(2,341,665)
<i>Other comprehensive income:</i>							
Foreign currency translation difference	-	-	(536,634)	-	(536,634)	(24,559)	(561,193)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,672,262)</b>	<b>(230,596)</b>	<b>(2,902,858)</b>
<b>Transactions with owners in their capacity as owners</b>							
Issue of shares	-	-	-	-	-	-	-
Share buyback	(12,610)	-	-	-	(12,610)	-	(12,610)
Issue/buyback costs	(122)	-	-	-	(122)	-	(122)
<b>At 30 June 2016</b>	<b>21,111,526</b>	<b>(13,833,125)</b>	<b>3,436,705</b>	<b>518,930</b>	<b>11,234,036</b>	<b>171,626</b>	<b>11,405,662</b>

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

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**China Magnesium Corporation Limited and its subsidiaries**  
**Consolidated Financial Statements – 30 June 2016**

**Consolidated Statement of cash flows for the year ended 30 June 2016**

		<b>Consolidated</b>	
	<b>Note</b>	<b>2016</b>	<b>2015</b>
		<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>			
Receipts from customers		7,054	21,792,356
Payments to suppliers and employees		(1,632,665)	(19,006,025)
Interest received		4,275	10,6218
Interest and other costs of finance paid		(494,009)	(216,137)
Income taxes paid		-	-
<b>Net cash inflow/(outflow) from operating activities</b>	<b>24</b>	<u>(2,115,345)</u>	<u>2,580,815</u>
<b>Cash flows from investing activities</b>			
Payments for property plant and equipment		(488,025)	(1,468,672)
<b>Net cash inflow/(outflow) from investing activities</b>		<u>(488,025)</u>	<u>(1,468,672)</u>
<b>Cash flows from financing activities</b>			
Net share issue/share option/share buyback		(12,610)	1,012,343
Share issue costs		(122)	(2,809)
Proceeds from borrowings		-	-
<b>Net cash inflow/(outflow) from financing activities</b>		<u>(12,732)</u>	<u>1,009,534</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>		(2,616,102)	2,121,677
Cash and cash equivalents at the beginning of the year		3,314,681	1,504,896
Effects of exchange rate changes on cash and cash equivalents		1,496,083	(311,891)
<b>Cash and cash equivalents at the end of the year</b>	<b>8</b>	<u>2,194,662</u>	<u>3,314,681</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**

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# China Magnesium Corporation Limited and its subsidiaries

## Notes to the Consolidated Financial Statements - 30 June 2016

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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. The financial statements were authorised for issue on 9 September 2016 by the directors of the company.

#### (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 2016 and the results of its subsidiaries for the year 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 23) are all those entities (including special purpose entities) over which the Group has control. The Group has control over an entity when the Group is exposed to, or has rights to variable returns from its investment with the entity and has the power to affect those returns.

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 Profit or Loss and other Comprehensive Income, Statement of Changes in Equity and Statement of Financial Position, respectively.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

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

**ii) Changes in ownership interests**

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

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

**(c) Business combinations**

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

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

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

Acquisition-related costs are expensed when incurred.

**(d) Segment reporting**

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

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

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

There have been no changes in the operating segments during the year. Accordingly, all significant operating decisions are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the consolidated entity as a whole.

**(e) Foreign currency translation**

**(i) Functional and presentation currency**

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

**(ii) Transactions and balances**

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



**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

Revenue is recognised for the major business activities as follows:

**(i) Sale of magnesium, coke, ferronickel and related products**

The Group sells magnesium, magnesium alloys, coke products, ferronickel and related products.

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

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

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.

**(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.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

**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.

**(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.

## **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

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 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. All other short-term employee benefit obligations are presented as payables.

#### **ii) Other long-term employee benefit obligations**

The liability for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the reporting period. They are 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.

#### **iii) Termination benefits**

The Group recognises termination benefits as an expense and a liability on the earlier of when the Group:

- can no longer withdraw the offer and the benefits; and
- recognises costs for restructuring under AASB137 Provisions, Contingent Liabilities and Contingent Assets which involves the payment of termination benefits. Benefits falling due more than 12 months after the end of the reporting period are discounted to the present value.

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

**(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**

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.

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### (w) New accounting standards and interpretations

Accounting Standards issued by the AASB that are not yet mandatorily applicable to the Group, together with an assessment of the potential impact of such pronouncements on the Group when adopted in future periods, are discussed below:

- AASB 9: *Financial Instruments* and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 January 2018).

The Standard will be applicable retrospectively (subject to the provisions on hedge accounting outlined below) and includes revised requirements for the classification and measurement of financial instruments, revised recognition and derecognition requirements for financial instruments and simplified requirements for hedge accounting.

The key changes that may affect the Group on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 also introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of the Standard, the application of such accounting would be largely prospective.

Although the directors anticipate that the adoption of AASB 9 may have an impact on the Group's financial instruments, including hedging activity, it is impracticable at this stage to provide a reasonable estimate of such impact.

- AASB 15: *Revenue from Contracts with Customers* (applicable to annual reporting periods beginning on or after 1 January 2018, as deferred by AASB 2015-8: *Amendments to Australian Accounting Standards – Effective Date of AASB 15*).

When effective, this Standard will replace the current accounting requirements applicable to revenue with a single, principles-based model. Except for a limited number of exceptions, including leases, the new revenue model in AASB 15 will apply to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract(s); and
- recognise revenue when (or as) the performance obligations are satisfied.

The transitional provisions of this Standard permit an entity to either: restate the contracts that existed in each prior period presented per AASB 108: *Accounting Policies, Changes in Accounting Estimates and Errors* (subject to certain practical expedients in AASB 15); or recognise the cumulative effect of retrospective application to incomplete contracts on the date of initial application. There are also enhanced disclosure requirements regarding revenue.

Although the directors anticipate that the adoption of AASB 15 may have an impact on the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact.

## **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** **(Continued)**

- AASB 16: *Leases* (applicable to annual reporting periods beginning on or after 1 January 2019).

When effective, this Standard will replace the current accounting requirements applicable to leases in AASB 117: *Leases* and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases.

The main changes introduced by the new Standard include:

- recognition of a right-to-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets);
- depreciation of right-to-use assets in line with AASB 116: *Property, Plant and Equipment* in profit or loss and unwinding of the liability in principal and interest components;
- variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability using the index or rate at the commencement date;
- by applying a practical expedient, a lessee is permitted to elect not to separate non-lease components and instead account for all components as a lease; and
- additional disclosure requirements.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

Although the directors anticipate that the adoption of AASB 16 will impact the Group's financial statements, it is impracticable at this stage to provide a reasonable estimate of such impact

- AASB 2014-3: *Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations* (applicable to annual reporting periods beginning on or after 1 January 2016)

This Standard amends AASB 11: *Joint Arrangements* to require the acquirer of an interest (both initial and additional) in a joint operation in which the activity constitutes a business, as defined in AASB 3: *Business Combinations*, to apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except for those principles that conflict with the guidance in AASB 11; and disclose the information required by AASB 3 and other Australian Accounting Standards for business combinations.

The application of AASB 2014-3 will result in a change in accounting policies for the above described transactions, which were previously accounted for as acquisitions of assets rather than applying the acquisition method per AASB 3.

The transitional provisions require that the Standard should be applied prospectively to acquisitions of interests in joint operations occurring on or after 1 January 2016. As at 30 June 2016, management is not aware of the existence of any such arrangements that would impact the financial statements of the entity going forward and as such is not capable of providing a reasonable estimate at this stage of the impact on initial application of AASB 2014-3.

## **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.



## **NOTE 2: FINANCIAL RISK MANAGEMENT (Continued)**

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

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.

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, United States Dollar 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, Singapore Dollar and the United States 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 2016 was AUD \$3,485,424 (2015: AUD \$3,799,774). A change of 10% + or – in the exchange rate of the Australian Dollar to the Chinese Renminbi would have an impact on Other Comprehensive Income of an increase of AUD \$316,857 (2015: AUD\$345,434) or a decrease of AUD\$387,269 (2015: AUD \$422,197), respectively.

Foreign exchange risk arises from the Group's cash holdings in Singapore Dollars. At 30 June 2016 the Group held AUD\$329,424 in Singapore Dollars (2015: AUD\$721,427). 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 \$29,948(2015: AUD \$65,584) or an increase of AUD \$36,603 (2015: AUD \$80,159), respectively.

Foreign exchange risk also arises from the Group's cash holdings and trade receivables in United States Dollars. At 30 June 2016 the Group had cash holdings and receivables of AUD\$82,715 in United States Dollars (2015: AUD\$603,609). A change of 10% + or – in the exchange rate of the Australian Dollar to the United States Dollar would have an impact on Other Comprehensive Income of a decrease of AUD \$7,520 (2015: AUD \$54,874) or an increase of AUD \$9,191 (2015: AUD \$67,068), respectively.

**China Magnesium Corporation Limited and its subsidiaries**  
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**NOTE 2: FINANCIAL RISK MANAGEMENT (Continued)**

**(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 and Bank of China), China (China Construction Bank), and Singapore (United Overseas Bank and CIMB Bank Berhad).

**(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 monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

**Maturities of financial assets and liabilities**

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

<b>Consolidated 2016</b>				
	\$	\$	\$	\$
	<b>0 to 6 months</b>	<b>6 to 12 months</b>	<b>Greater than 12 months</b>	<b>Carrying Amount</b>
Secured loan				-
Trade and other payables	2,420,816	-	8,106,982	10,527,798
	<u>2,420,816</u>	<u>-</u>	<u>8,106,982</u>	<u>10,527,798</u>
<b>Consolidated 2015</b>				
	\$	\$	\$	\$
	<b>0 to 6 months</b>	<b>6 to 12 months</b>	<b>Greater than 12 months</b>	<b>Carrying Amount</b>
Secured loan	-	-	1,064,000	1,064,000
Trade and other payables	3,987,900	-	3,850,257	7,287,157
	<u>3,987,900</u>	<u>-</u>	<u>4,914,257</u>	<u>8,902,157</u>
<b>Consolidated 2016</b>				
	\$	\$	\$	\$
	<b>0 to 6 months</b>	<b>6 to 12 months</b>	<b>Greater than 12 months</b>	<b>Carrying Amount</b>
Current assets	3,359,687			3,359,687
Non-current assets		-	18,591,091	18,591,091
	<u>3,359,687</u>	<u>-</u>	<u>18,591,091</u>	<u>21,950,778</u>
<b>Consolidated 2015</b>				
	\$	\$	\$	\$
	<b>0 to 6 months</b>	<b>6 to 12 months</b>	<b>Greater than 12 months</b>	<b>Carrying Amount</b>
Current assets	4,728,667	-	-	4,728,667
Non-current assets		-	19,007,783	19,007,783
	<u>4,728,667</u>	<u>-</u>	<u>19,007,783</u>	<u>23,736,450</u>

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## **NOTE 2: FINANCIAL RISK MANAGEMENT (Continued)**

### **(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.

### **(b) Going concern**

The Directors have prepared the financial report on a going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the normal course of business.

The Group incurred a net loss of \$2,341,665 and an operating cash outflow of \$2,115,345 for the financial year ended 30 June 2016. At that date the Group was in a net current asset position of \$921,553. Included in net current assets is VAT receivable of \$811,095 that will only be recovered once the Group generates sufficient income in China.

Also included in net current assets are trade creditors of \$1,949,687 which the Group has entered into formal arrangements to extend payment terms for work completed up to 1 year after the commencement of production.

The Group also has \$1,211,769 capital commitments in relation to its Pingyao operations. Further details are provided in Note 20.

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

- Continued financial support from creditors who have agreed to extended terms of payment;
- Pingyao plant is projected to contribute to positive cash flow by 30 April 2017
- Fengyan will continue to provide working capital facilities to SYMC pursuant to the Investment and Co-Operation Agreement announced 17 December 2013
- Continued expansion of cash flow positive chemicals and fertiliser trading
- Capacity to raise working capital from exercise of options and other means, including directors' loans

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. If production were not to commence, there would be risks of impairment in Property, Plant and Equipment. No adjustment has been made to the financial statements relating to the recoverability and classification of the assets and the carrying amount and classification of the liabilities should the directors assumptions not eventuate.

**NOTE 3: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**  
**(continued)**

**(c) Pingyao Country Fengyan Mineral Wool Co. Ltd. (FMW)**

On 1 February 2015 CMC Commodities Pte Ltd, a wholly owned subsidiary of China Magnesium Corporation Limited, entered into a Co-operation Agreement with FMW, pursuant to which arose benefits of synergy in the marketing and distribution of magnesium, ferronickel, semi coke and other industrial products in which the two partnering entities specialise.

For a consideration of RMB100 Shanxi Pingyao County Fengyan Coal Group (Fengyan) acquired CMC's 60% interest in FMW, all rights & responsibilities of FMW, and CMC's share of the operating loss for the period 1 February 2015 to 24 June 2016. Pursuant to this the Co-operation Agreement between CMC and Fengyan with respect to FMW was terminated effective 24 June 2016.

**(d) Impairment Assessment**

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates and require the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate present value.

These calculations use cash flow projections covering a five year period that are based on financial forecasts of how the business is expected to operate based on current performance consistent with previous experience and external data, excluding any benefit expected to arise from future restructuring or from improved asset performance. Cash flows beyond the five-year period are extrapolated using perpetual growth rates.

The key assumptions used include the expansion of planned production, commodity pricing, costs of production and discount rate. Production is planned to increase to the First Phase magnesium capacity of 20,000tpa, together with increased production of semi-coke etc. assumed in the cash flow projections by March 2017. Commodity pricing has been based on current market prices for the different products produced. Costs of production are based on an assessment of costs following pilot production trials.

In performing value-in-use calculations, the company has applied a post-tax discount rate to discount the forecast future cash flows. Discount rates represent the current market assessment of the risks specific to each cash generating unit, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated into the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest bearing borrowings the Group is obliged to service. A risk premium is included in each CGU's discount rate, reflecting the level of forecasting, size, country and financing risk for that CGU. The post-tax discount rate used is 13.93%.

**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, ferronickel, coke and related products. There have been no changes in the operating segments during the year. All significant operating decisions are

**China Magnesium Corporation Limited and its subsidiaries**  
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**NOTE 4: SEGMENT INFORMATION (continued)**

based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the consolidated entity as a whole.

**(b) Entity-wide disclosures**

Consolidated revenues from each product or service;

	<b>Magnesium, ferronickel, coke and related products</b>	<b>Total</b>
	\$	\$
<b>2016</b>	7,075	7,075
<b>2015</b>	19,901,781	19,901,781

During the year \$7,075 (2015: \$19,901,781) revenue was derived from trading activities of magnesium, ferronickel, coke and related products conducted through Singapore and China. All of the Group's property, plant and equipment are located in the People's Republic of China except for \$2,642 (2015 \$5,186) of plant and equipment that is located in Australia.

**NOTE 5: REVENUE**

	<b>Consolidated</b>	
	2016	2015
	\$	\$
<b>From continuing operations</b>		
<i>Sales revenue</i>		
Revenue from sale of magnesium, ferronickel, coke and related products	7,075	19,901,781
Interest	4,275	10,621
<b>Total revenue from operations</b>	<b>11,350</b>	<b>19,912,402</b>

**NOTE 6: EXPENSES**

**Profit/(loss) before income tax includes the following specific expenses:**

*Depreciation*

Buildings	29,672	17,257
Vehicles	-	31,857
Plant and equipment	253,530	124,514

*Amortisation*

Leasehold Land	31,756	28,291
Quarry	64,867	58,667
<b>Total depreciation and amortisation</b>	<b>379,825</b>	<b>259,986</b>

	<b>Consolidated</b>	
	2016	2015
	\$	\$
<b>Finance Costs</b>		
Interest and finance charges paid/payable	494,096	214,488
<i>Rental expenses relating to operating leases</i>		
Minimum lease payments	102,112	121,075

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**China Magnesium Corporation Limited and its subsidiaries**  
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**NOTE 7: INCOME TAX BENEFIT**

<b>(a) Income tax benefit</b>		
Current tax	(618,378)	(674,137)
Deferred tax	618,378	674,137
<b>Income tax benefit</b>	<u>-</u>	<u>-</u>
<b>(b) Reconciliation of income tax benefit to prima facie tax payable</b>		
Profit/(loss) from continuing operations before income tax expense	(2,341,664)	(3,453,782)
Tax at the Australian tax rate of 30% (2014:30%)	<u>(702,499)</u>	<u>(1,036,135)</u>
<b>Tax effect of amounts which are not deductible (taxable) in calculating taxable income:</b>		
Foreign exchange translation differences	(40,515)	23,892
Other permanent differences	62	406
	<u>(40,454)</u>	<u>24,298</u>
Difference in overseas tax rate	136,257	88,837
Tax losses not recognised	600,975	922,999
Under/(over) provision from prior years	5,721	-
<b>Income tax expense/(credit)</b>	<u>-</u>	<u>-</u>
<b>(c) Unrecognised deferred tax assets</b>		
Deferred tax assets at the applicable tax rate have not been recognised for the following:		
Unused tax losses	3,837,338	3,146,936
Deductible temporary differences	25,581	42,984
	<u><b>3,862,919</b></u>	<u><b>3,189,920</b></u>

**NOTE 8: CASH AND CASH EQUIVALENTS**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Cash at bank and in hand	2,094,052	3,248,735
Deposits at call	100,610	65,946
	<u><b>2,194,662</b></u>	<u><b>3,314,681</b></u>

Cash at bank and in hand earn interest rates between zero and 1.0% (2015: zero and 1.0%). Deposits at call earn a floating interest rate of around 1% (2015: 2.6%). The balance includes a bill of exchange of RMB8M (\$1.6M) pursuant to the Investment and Cooperation Agreement announced to the ASX on 17 December 2013.

**NOTE 9: TRADE AND OTHER RECEIVABLES**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Trade debtors	7,054	-
Other debtors	909,891	1,024,222
Refundable Deposit	595,479	507,820
Provision for Refundable Deposit	(595,479)	(507,820)
	<u><b>916,945</b></u>	<u><b>1,024,222</b></u>

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**China Magnesium Corporation Limited and its subsidiaries**  
**Notes to the Consolidated Financial Statements - 30 June 2016**

**NOTE 10: INVENTORIES**

Raw materials and stores	248,080	289,608
<b>Total inventory at cost</b>	<b>248,080</b>	<b>289,608</b>

**Inventory expense:** Inventories recognised as expense during the year ended 30 June 2016 amounted to \$nil (2015 – \$19,921,292).

**NOTE 11: OTHER**

Prepayment - current	-	100,156
Prepayment – non-current	<b>2,240,816</b>	<b>2,283,441</b>

**NOTE 12: SHARE OF LOSSES FROM CONTRACTUAL ARRANGEMENTS**

Share of losses from contractual arrangements	(4,469,227)	(483,882)
Share of income from contractual arrangements	4,469,227	-
	<b>-</b>	<b>(483,882)</b>

Information relating to the contractual arrangements are as follows:-

Entity:	Pingyao County Fengyan Mineral Wool Co. Ltd (“FMW”)
Principal activities:	Production, sale of mineral wool, acoustic board& related products
Percentage interest in net result for period:-	0%

Share of net (loss) for period 1 February 2015	30 June 2015	(483,882)
Share of net (loss) for period 1 July 2015	24 June 2016	(3,985,345)

For a consideration of RMB100 Shanxi Pingyao County Fengyan Coal Group (Fengyan) acquired CMC's 60% interest in FMW, all rights & responsibilities of FMW, and CMC's share of the operating loss for the period 1 February 2015 to 24 June 2016. Pursuant to this the Co-operation Agreement between CMC and Fengyan with respect to FMW was terminated effective 24 June 2016.

**NOTE 13: PROPERTY, PLANT AND EQUIPMENT**

<b>Consolidated</b>	Assets under construction \$	Leasehold Land \$	Quarry \$	Buildings \$	Vehicles \$	Plant & equipment \$	Total \$
<b>Year ended 30 June 2016</b>							
Opening net book amount	12,143,991	1,418,407	767,647	383,117	79,772	1,931,408	16,724,342
Exchange differences	(603,972)	(19,576)	(49,977)	2,806	(43,304)	75,999	(638,024)
Additions	166,884	-	-	(83,671)	(21,757)	572,327	633,782
Depreciation / amortisation	-	(31,756)	(64,867)	(29,672)	-	(253,530)	(379,825)
Closing net book amount	<b>11,706,904</b>	<b>1,367,074</b>	<b>652,803</b>	<b>272,580</b>	<b>14,710</b>	<b>2,326,204</b>	<b>16,340,275</b>
<b>At 30 June 2016</b>							
Cost	11,706,904	1,496,691	859,318	421,127	77,179	3,648,025	18,209,245
Accumulated depreciation / amortisation	-	(129,617)	(206,515)	(148,547)	(62,469)	(1,321,821)	(1,868,970)
Net Book amount	<b>11,706,904</b>	<b>1,367,074</b>	<b>652,803</b>	<b>272,580</b>	<b>14,710</b>	<b>2,326,204</b>	<b>16,340,275</b>
<b>Year ended 30 June 2015</b>							
Opening net book amount	8,973,504	1,100,419	655,899	235,379	30,733	1,732,149	12,728,083
Exchange differences	2,100,270	260,852	169,815	54,027	9,830	471,615	3,066,409
Additions	1,070,217	85,425	-	110,969	71,065	-	1,337,676
Disposals	-	-	-	-	-	(147,840)	(147,840)
Depreciation / amortisation	-	(28,291)	(58,067)	(17,257)	(31,857)	(124,514)	(259,986)
Closing net book amount	<b>12,143,991</b>	<b>1,418,407</b>	<b>767,647</b>	<b>383,117</b>	<b>79,772</b>	<b>1,931,408</b>	<b>16,724,342</b>

**China Magnesium Corporation Limited and its subsidiaries**  
**Notes to the Consolidated Financial Statements - 30 June 2016**

**NOTE 13: PROPERTY, PLANT AND EQUIPMENT (continued)**

At 30 June 2015

Cost	12,143,991	1,575,026	904,294	531,262	175,189	3,170,797	18,500,560
Accumulated depreciation / amortisation		(156,619)	(136,647)	(148,145)	(95,417)	(1,239,389)	(1,776,217)
Net Book amount	<u>12,143,991</u>	<u>1,418,407</u>	<u>767,647</u>	<u>383,117</u>	<u>79,772</u>	<u>1,931,408</u>	<u>16,724,342</u>

**NOTE 14: TRADE AND OTHER PAYABLES**

	Consolidated	
	2016	2015
	\$	\$
<b>Current:-</b>		
Trade payables	915,170	146,000
Other payables and accruals	1,505,646	3,841,900
	<u>2,420,816</u>	<u>3,987,900</u>
<b>Non-Current:-</b>		
Payables	6,489,252	2,147,857
Income in advance	1,617,730	1,702,400
	<u>8,106,982</u>	<u>3,850,257</u>

**NOTE 15: BORROWINGS**

Secured loan – current	-	-
Secured loan – non current	-	1,064,000
	<u>-</u>	<u>1,064,000</u>

**NOTE 16: PROVISIONS**

	Employee benefits	
	2016	2015
	\$	\$
Opening balance 1 July 2015	29,159	
Additional provisions	9,488	
Unused amounts reversed	(17,020)	
Amounts used	(4,309)	
Balance at 30 June 2016	<u>17,318</u>	
	<u>17,318</u>	<u>29,159</u>

**NOTE 17: CONTRIBUTED EQUITY**

	Consolidated		Consolidated	
	2016	2015	2016	2015
	Shares	Shares	\$	\$
<b>(a) Share capital</b>				
Ordinary shares fully paid	<u>195,022,849</u>	<u>195,328,331</u>	<u>21,111,505</u>	<u>21,124,258</u>



**China Magnesium Corporation Limited and its subsidiaries**  
**Notes to the Consolidated Financial Statements - 30 June 2016**

**NOTE 17: CONTRIBUTED EQUITY (continued)**

**(b) Movements in ordinary share capital**

<b>Date</b>	<b>Details</b>	<b>Number of shares</b>	<b>Issue price</b>	<b>\$</b>
1 July 2013	Balance	144,214,490		17,324,720
21 November 2013	Rights Issue	5,495,964	0.04	219,839
30 April 2014	Share placement	20,415,062	0.13	2,587,137
	Less: Transaction costs of share issues	-	-	(16,972)
30 June 2014	Balance	170,125,516		20,114,724
21 November 2014	Rights Issue	25,256,154	0.04	1,010,246
2 December 2014	Share option exercised	449	0.07	31
20 March 2015	Share option exercised	400,000	0.07	28,000
25 November 2014	Share buyback	60,000	0.07	(4,200)
2 March 2015	Share buyback	116,500	0.05	(6,045)
3 March 2015	Share buyback	54,055	0.06	(3,366)
27 March 2015	Share buyback	100,000	0.05	(5,420)
18 May 2015	Share buyback	2,000	0.06	(116)
26 May 2015	Share buyback	50,000	0.06	(2,800)
28 May 2015	Share buyback	71,233	0.06	(3,988)
	Less: Transaction costs of share issues / buyback	-	-	(2,808)
30 June 2015	Balance	<b>195,328,331</b>		<b>21,124,258</b>
3 July 2015	Share buyback	57,426	0.05	(2,756)
8 July 2015	Share buyback	26,940	0.04	(1,212)
14 July 2015	Share buyback	19,000	0.05	(874)
10 August 2015	Share buyback	5,000	0.05	(230)
20 August 2015	Share buyback	35,000	0.05	(1,610)
21 August 2015	Share buyback	3,060	0.05	(138)
21 August 2015	Share buyback	50,000	0.05	(2,250)
14 September 2015	Share buyback	752	0.03	(19)
14 September 2015	Share buyback	50,000	0.03	(1,500)
22 October 2015	Share buyback	3,304	0.04	(116)
22 October 2015	Share buyback	55,000	0.04	(1,925)
	Less: Transaction costs of share issues / buyback			(102)
30 June 2016	Balance	<b>195,022,849</b>		<b>21,111,526</b>

**(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**

There were no shares in escrow at 30 June 2016 (2015: nil).

**China Magnesium Corporation Limited and its subsidiaries**  
**Notes to the Consolidated Financial Statements - 30 June 2016**

**NOTE 17: CONTRIBUTED EQUITY (continued)**

**(e) Options**

In 2015 the company entered into a pro rata non renounceable rights issue of fully paid ordinary shares at \$0.04 each offered on the basis of one (1) new share for every 4.53668 shares held, together with one free listed option (exercisable at \$0.07 on or before 30 September 2016) for every new share offered.

During the year nil (2015: 400,449) options were exercised at \$0.07.

**(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 18: RESERVES**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Foreign currency translation reserve	3,436,705	3,973,339
Change of interest in subsidiary reserve	518,930	518,930
Total reserves	<u><b>3,955,635</b></u>	<u><b>4,492,269</b></u>
(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 19: REMUNERATION OF AUDITORS**

	<b>Consolidated</b>	
	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Audit services		
ShineWing Australia (2015: BDO Audit Pty Ltd)		
Audit and review of financial reports	90,000	71,500
Total remuneration for audit services	<u><b>90,000</b></u>	<u><b>71,500</b></u>

There have been no non-audit services during the year.

**NOTE 20: CONTINGENCIES**

On 1 March 2016 CMC entered into an Agreement to

[i] lease and lease-back on identical terms of production facilities over 20 years with Taiyuan Hailifeng Science & Technology Co. Ltd. (Hailifeng) in

[a] the Taiyuan High-tech Industrial Development Zone, Taiyuan, Shanxi Province, China.

[b] Shandong, Shandong Province, China

**China Magnesium Corporation Limited and its subsidiaries**  
**Notes to the Consolidated Financial Statements - 30 June 2016**

**NOTE 20: CONTINGENCIES (continued)**

[ii] acquire exclusive access to a number of patents and technical documents owned by Hailifeng in the respective districts. Negotiations with respect to the Shandong Plant are still in progress.

On completion of the head lease and lease-back agreements for the production facilities, CMC will issue 10M ordinary shares at the VWAP of the previous 5 days. No net financial impact on CMC is anticipated.

**NOTE 21: COMMITMENTS**

**(a) Capital commitments**

	2016 \$	2015 \$
The Group had the following commitments in relation to capital expenditure contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	-	-
Later than one year but no later than five years	1,211,769	1,275,191
Later than five years	-	-
	<u>1,211,769</u>	<u>1,275,191</u>

**(b) Lease commitments :**

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

Within one year	28,745	51,172
Later than one year but no later than five years	-	28,745
Later than five years	-	-
	<u>28,745</u>	<u>79,917</u>

On 1 March 2016 CMC entered into a lease and lease-back of production facilities over 20 years with Taiyuan Hailifeng Science & Technology Co. Ltd. (Hailifeng) in the Taiyuan High-tech Industrial Development Zone, Taiyuan, Shanxi Province, China. The agreement provides for the payment of 2,000RMB per ton of product withdrawn. As this is a variable lease payment, CMC will recognize such payments as expenses in the periods incurred.

CMC and Hailifeng also are in negotiations on a lease and lease-back of production facilities over 20 years in Shandong, Shandong Province, China. Negotiations with respect to the Shandong Plant are still in progress.

**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**

	Consolidated	
	2016 \$	2015 \$
Short term employee benefits	1,081,823	1,295,718
Post-employment benefits	10,677	10,677
	<u>1,092,533</u>	<u>1,305,833</u>

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**China Magnesium Corporation Limited and its subsidiaries**  
**Notes to the Consolidated Financial Statements - 30 June 2016**

**NOTE 22: RELATED PARTY TRANSACTIONS (continued)**

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

**NOTE 23: PARENT ENTITY DISCLOSURES**

As at, and throughout, the financial year ended 30 June 2016 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.

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Result of parent entity		
Profit / (loss) for the year after tax	(238,927)	(638,332)
Other comprehensive income	-	-
Total comprehensive income for the year	<u>(238,927)</u>	<u>(638,332)</u>
Financial position of parent entity at year end		
Current assets	9,818,018	8,693,076
Non-current assets	9,131,507	9,136,526
Total assets	<u>18,949,525</u>	<u>18,829,602</u>
Current liabilities	(1,191,579)	(607,805)
Total liabilities	<u>(1,191,579)</u>	<u>(607,805)</u>
Net assets	<u>17,757,946</u>	<u>18,221,797</u>
Contributed equity	21,111,506	21,124,258
Accumulated (losses)	(3,353,560)	(2,902,461)
Total equity	<u>17,757,946</u>	<u>18,221,797</u>

**a) Summary financial information**

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Result of parent entity		
Profit / (loss) for the year after tax	(238,927)	(638,332)
Other comprehensive income	-	-
Total comprehensive income for the year	<u>(238,927)</u>	<u>(638,332)</u>
Financial position of parent entity at year end		
Current assets	9,818,018	8,693,076
Non-current assets	9,131,507	9,136,526
Total assets	<u>18,949,525</u>	<u>18,829,602</u>
Current liabilities	(1,191,579)	(607,805)
Total liabilities	<u>(1,191,579)</u>	<u>(607,805)</u>
Net assets	<u>17,757,946</u>	<u>18,221,797</u>
Contributed equity	21,111,506	21,124,258
Accumulated (losses)	(3,353,560)	(2,902,461)
Total equity	<u>17,757,946</u>	<u>18,221,797</u>

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**China Magnesium Corporation Limited and its subsidiaries**  
**Notes to the Consolidated Financial Statements - 30 June 2016**

**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 (2015 – nil).

**c) Contingent liabilities**

The Group is not aware of any contingent liability, other than as disclosed at Note 20.

**d) Contractual commitments**

Nil

**NOTE 24: SUBSIDIARIES AND TRANSACTIONS WITH NON-CONTROLLING INTERESTS (NCI)**

**Interests in subsidiaries**

Information relating to the group's interests in principal subsidiaries at 30 June 2016 is set out below:

Name of entity	Country of incorporation	Group holding 2016 %	Group holding 2015 %	NCI holding 2016 %	NCI holding 2015 %
Shanxi Yushun Magnesium Corporation	China	91.25	91.25	8.75	8.75
CMC Commodities Pte Ltd	Singapore	100.00	100.00	0.00	0.00
CMC Commodities Pty Ltd	Australia	100.00	100.00	0.00	0.00
Fengyan Mineral Wool (FMW)*	China	0.00	60.00	0.00	40.00

Shanxi Yushun Magnesium Corporation (SYMC), previously Shanxi Luyuan Magnesium Corporation, is a Sino-foreign joint venture entity. CMC Commodities Pte Ltd is a proprietary limited company, incorporated in Singapore. CMC Commodities Pty Ltd was incorporated in Australia in March 2015 and initial transactions on fertilisers have been recorded during the financial year.

\* CMC Group was in an agreement with Fengyan Coal & Coke Group Company Limited (Fengyan), effective 1 February 2015 to 24 June 2016, to manage and account for 60% of FMW's business.

**Non-controlling interests (NCI)**

Below is the summarised financial information for each subsidiary that has non-controlling interests that are material to the group. Amounts disclosed are before inter-company eliminations.

Summarised statement of financial position	SYMC 2016 \$	SYMC 2015 \$
Current assets	2,717,880	5,162,826
Non-current assets	18,578,450	16,719,323
Total assets	21,296,330	21,882,149
Current liabilities	(1,237,192)	(8,353,889)
Non-current liabilities	(17,080,643)	(8,022,803)
Total liabilities	(18,317,835)	(16,376,692)
Net assets	2,978,495	5,505,457
Accumulated NCI	260,618	481,722

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**China Magnesium Corporation Limited and its subsidiaries**  
**Notes to the Consolidated Financial Statements - 30 June 2016**

**NOTE 24: SUBSIDIARIES AND TRANSACTIONS WITH NON-CONTROLLING INTERESTS (NCI) (continued)**

<b>Summarised statement of profit or loss and other comprehensive income</b>	<b>SYMC 2016 \$</b>	<b>SYMC 2015 \$</b>
Loss for the period	2,354,708	2,264,438
Other comprehensive income	280,677	(1,788,787)
Total comprehensive income	2,635,385	(475,651)

<b>Summarised cash flows</b>	<b>SYMC 2016 \$</b>	<b>SYMC 2015 \$</b>
Cash flows from operating activities	(2,507,853)	(404,432)
Cash flows from investing activities	(466,935)	(65,412)
Cash flows from financing activities	2,966,115	2,185,959
Effect of exchange rate changes	58,250	(35,052)
Net increase/(decrease) in cash and cash equivalents	49,577	1,681,063

**Significant restrictions**

Cash held in China is subject to exchange control regulations and as such, there are restrictions on the amount of dividend that can be paid by SYMC. The carrying amount of cash in the consolidated financial statements which these restrictions apply is \$1,618,169 (2015: \$1,711,970)

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

	<b>Consolidated</b>	
	<b>2016 \$</b>	<b>2015 \$</b>
Profit/(loss) for the year	(2,341,665)	(3,453,782)
Depreciation and amortisation	379,825	259,986
Loss on disposal of property plant and equipment	-	147,840
Share of losses from contractual arrangement	(483,882)	483,882
Foreign exchange loss/(gain)	42,730	79,640
Decrease (increase) in trade and other receivables	(1,510,453)	(393,356)
Decrease (increase) in prepayments	142,781	(569,224)
Decrease (increase) in inventories	41,528	109,828
(Decrease) Increase in trade and other payables	1,625,632	5,431,187
(Decrease) Increase in other provisions	(11,841)	484,814
	-	-
Net cash inflows / (outflows) from operating activities	2,115,345	2,580,815

**China Magnesium Corporation Limited and its subsidiaries**  
**Notes to the Consolidated Financial Statements - 30 June 2016**

**NOTE 26: EARNINGS PER SHARE**

	<b>2016 Cents</b>	<b>2015 Cents</b>
Basic earnings / (loss) per share	(1.1)	(1.7)
Diluted earnings / (loss) per share	(0.9)	(1.5)
	<b>\$</b>	<b>\$</b>
Net loss for the year attributable to owners of the parent used to calculate loss per share – basic and diluted	2,135,628	3,255,644
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares outstanding during the year used to calculate basic loss per share	195,063,545	188,451,687
Adjustments for calculation of diluted earnings per share:- options over ordinary shares	34,855,705	21,855,705
Weighted average number of ordinary shares outstanding during the year used to calculate diluted loss per share	229,919,250	210,307,392

**NOTE 27: SUBSEQUENT EVENTS**

During the year CMC acquired 2 tenements in Western Australia. In July 2016 CMC entered into a conditional Framework Agreement for the establishment of a Special Purpose Vehicle (SPV) for the assessment and exploitation of lithium from the 2 tenements. Pursuant to satisfaction of the conditions of the Framework Agreement CMC will acquire a 40% share of the SPV, with the contribution of the 2 tenements only being at an agreed valuation of RMB 3.5M (\$700K).

Except for the matters discussed above, no other matter or circumstance has arisen since 30 June 2016 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.

# China Magnesium Corporation Limited and its subsidiaries

## Directors' Declaration - 30 June 2016

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### 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 2016 and the performance for the year ended on that date of the consolidated entity; and
  - ii) Complying with Accounting Standards, *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - iii) Complying with International Financial Reporting Standards as disclosed in Note 1(a); and
- (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (c) The audited Remuneration Report set out in the Directors' Report on pages 7 to 10 complies with Section 300A of the *Corporations Act 2001*.

The Directors have been given the declarations by the Chief Executive Officer and Financial Controller as 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  
9 September 2016



## INDEPENDENT AUDITOR'S REPORT

### TO THE MEMBERS OF CHINA MAGNESIUM LIMITED AND CONTROLLED ENTITIES

#### Report on the Financial Report

We have audited the accompanying financial report of China Magnesium Limited and Controlled Entities, which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the company and the consolidated entity comprising the company and the entities it controlled at the period's end or from time to time during the financial period.

#### *Directors' Responsibility for the Financial Report*

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

#### *Auditor's Responsibility*

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

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

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

#### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

*Opinion*

In our opinion:

- a) the financial report of China Magnesium Limited and Controlled Entities is in accordance with the *Corporations Act 2001*, including:
- i. giving a true and fair view of the company's financial position as at 30 June 2016 and of its performance for the period ended on that date; and
  - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b) the financial reports also complies with *International Financial Reporting Standards* as disclosed in Note 1.

*Significant Uncertainty Regarding Going Concern*

Without qualification to the opinion expressed above, we draw attention to Note 3 (b) to the financial statements which indicates that the company has incurred a net loss of \$2,341,665 for the financial year ended 30 June 2016 and had operating outflows of \$2,115,345. The directors believe that although there is significant uncertainty the company will be able to continue as a going concern on the basis the company commences production in its Chinese operations generating positive cash inflows. These conditions along with other matters as set forth in Note 3 (b), indicate the existence of a material uncertainty that may cast significant doubt about the company's ability to continue as a going concern and realise its assets and settle its liabilities in the normal course of business.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 7 to 10 of the directors' report for the year ended 30 June 2016. 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.

*Auditor's Opinion*

In our opinion the remuneration report of China Magnesium Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

*ShineWing Australia*

ShineWing Australia  
Chartered Accountants



**Nick Michael**  
Partner

Melbourne, 9 September 2016

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# China Magnesium Corporation Limited and its subsidiaries

## Corporate Directory

### Shareholder information

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

#### STATEMENT OF QUOTED SECURITIES AS AT 31 JULY 2016

##### (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	149
10,001 - 100,000	247
5,001 - 10,000	79
1,001 - 5,000	59
1 - 1,000	14
Total	548

There were 231 holders of less than a marketable parcel of ordinary shares.

##### (b) Quoted Equity security holders

Twenty largest quoted equity security holders

<u>Name</u>	<u>Quoted Ordinary Shares Held</u>	<u>Percentage of Issued Shares</u>
MR TOM BLACKHURST	32,888,390	16.86%
SHANXI PINGYAO FENGYAN COAL & COKE GROUP CO LTD	24,915,062	12.78%
MR XINPING LIANG	20,958,450	10.75%
MR GUICHENG JIA	12,000,000	6.15%
MR MING LI	12,000,000	6.15%
DATO LEE HAN SIEW	7,000,000	3.59%
MR ONG HOCK SEONG	6,197,348	3.18%
H & R GERAS PL	3,713,529	1.90%
JOHN WARDMAN & ASSOC PL	3,664,000	1.88%
MR PETER ROBERTSON	3,303,657	1.69%
MR JOHN CHARLES PLUMMER	3,000,000	1.54%
CITICORP NOMINEES PL	2,772,656	1.42%
CARMANT PL	2,148,262	1.10%
MR CLIVE THOMAS	1,890,000	0.97%
GDJ MECHANICAL INSTALLATIONS	1,742,469	0.89%
WASHINGTON H SOUL PATTINSON	1,714,000	0.88%
MCGEE CONSTRUCTIONS PL	1,600,000	0.82%
MR WILLIAM BASS	1,582,331	0.81%
DRYCA PL	1,300,000	0.67%
DOOMA HOLDINGS	1,289,325	0.66%
<b>Top 20 total</b>	<b>145,679,497</b>	<b>74.70%</b>
<b>Others</b>	<b>49,343,352</b>	<b>25.30%</b>
<b>Total as at 31 July 2016</b>	<b>195,022,849</b>	<b>100.00%</b>

**Shareholder information (Continued)**

**(c) Substantial holders**

Substantial holders in the Company are set out below:

<b>Ordinary Shares</b>	<b>Number Held</b>	<b>Percentage</b>
MR THOMAS TROY BLACKHURST	32,888,390	16.86%
SHANXI PINGYAO FENGYAN COAL & COKE GROUP CO LTD	24,915,062	12.78%
MR XINPING LIANG	20,958,450	10.75%
MR MING LI	12,000,000	6.15%
MR GUICHENG CHIA	12,000,000	6.15%
	<b>102,665,206</b>	<b>52.69%</b>

**(d) Quoted options security holders**

Twenty largest quoted options security holders

<b>Name</b>	<b>Quoted Options Held</b>	<b>Percentage of Issued Options</b>
MR TOM BLACKHURST	5,906,011	23.76%
MR XINPING LIANG	5,566,450	22.40%
SHANXI PINGYAO FENGYAN COAL & COKE GROUP CO LTD	4,500,000	18.10%
MR WILLIAM BASS	900,331	3.62%
MR PETER ROBERTSON	813,167	3.27%
JOHN WARDMAN & ASSOC PL	725,000	2.92%
MR JOHN CHARLES PLUMMER	720,000	2.90%
H & R GERAS PL	614,110	2.47%
DOOMA HOLDINGS	554,556	2.23%
EMERY & JUDY FEYZENY	500,000	2.01%
CARMANT PL	450,000	1.81%
DOURAMBEIS ANTONIOS	300,000	1.21%
GDJ MECHANICAL INSTALLATIONS	242,469	0.98%
BUCKINGHAM INV FINCL SVCS	154,298	0.62%
REMOND HLDGS PL	147,608	0.59%
SAM FRANCIPIANE	132,256	0.53%
DANIEL TYNAN INV PL	132,256	0.53%
PETERSON GLEN JAMES	123,990	0.50%
ELIPURE PL	110,000	0.44%
LANCEDALE HLDGS PL	100,000	0.40%
<b>Top 20 total</b>	<b>22,692,502</b>	<b>91.30%</b>
<b>Others</b>	<b>2,163,203</b>	<b>8.70%</b>
<b>Total as at 31 July 2016</b>	<b>24,855,705</b>	<b>100.00%</b>

**(e) Voting rights**

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

(i) Ordinary Shares

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

## 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 Secretary**

Damien Kelly

### **Websites**

[www.chinamagnesiumcorporation.com](http://www.chinamagnesiumcorporation.com)  
[www.chinamagnesiumcorporation.cn](http://www.chinamagnesiumcorporation.cn)

### **Lawyers**

Thomson Geer  
Level 16 Waterfront Place  
1 Eagle Street  
Brisbane QLD 4000  
Australia

### **Share Registry**

Security Transfer Registrars Pty Ltd  
770 Canning Highway  
APPLECROSS WA 6153  
Australia

### **Registered Office**

Seabank Building Level 10  
12 –14 Marine Parade  
Southport, QLD 4215 Australia  
Telephone: +61 7 5531 1808  
Facsimile: +61 7 5591 1059

### **Auditor**

ShineWing Australia  
Level 10, 530 Collins Street  
Melbourne VIC 3000 Australia

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