China Magnesium Corporation Ltd.

Appendix 4D

Name of Entity:	China Magnesium Corporation Limited
ABN:	14 125 236 731
Current Financial Period Ended:	Half-Year ended 31 December 2017
Previous Corresponding Reporting Period	Half-Year ended 31 December 2016

Results for Announcement to the Market

	Percentage change Up or Down	%		$'000
Revenue from ordinary activities	Down	96%	to	9
(Loss) from ordinary activities after tax attributable to members	Up	36%	to	(1,497)
(Loss) for the period attributable to members	Up	36%	to	(1,497)

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

Net Tangible Assets (NTA)	**December 2017**	**December 2016**
Net Tangible Assets per security	$0.04	$0.04

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

During the half-year the Group:

- brought to account impairment of the Jiexui City Baiyun Quarry assets & land use rights pursuant to cancellation of the extraction license in July 2017. The impairment expense totalled $599,107. A gain of $386,800 on derecognition of a liability relating to the assets and rights was also brought to account

- incurred costs of $87,266 on decommissioning of the Pingyao plant pursuant to assessment against environmental protection standards introduced in the period to December 2017.

- did not conduct production at the magnesium and magnesium alloy plant. Production is anticipated to recommence in the half year to 30 June 2018, pursuant to introduction of alternative EPP compliant processing technology.

Compliance Statement

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

Tom Blackhurst
Managing Director
Southport QLD
27 February 2018

China Magnesium Corporation Ltd.

ABN 14 125 236 731

Interim financial report for the half-year ended 31 December 2017

China Magnesium Corporation Limited ABN 14 125 236 731
Interim financial report – 31 December 2017

Contents

Directors' report

The Directors of China Magnesium Corporation Limited (the Company) present their Report together with the interim financial statements of the consolidated entity, being the Company and its controlled entities (the Group) for the half-year ended 31 December 2017.

Directors

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

W Bass T Blackhurst P Robertson X Liang

Review of operations

During the half-year the Group:-

- brought to account impairment of the Jiexui City Baiyun Quarry assets & land use rights pursuant to cancellation of the extraction license in July 2017. The impairment expense totalled $599,107. A gain of $386,800 on derecognition of a liability relating to the assets and rights was also brought to account.
- incurred costs of $87,266 on decommissioning of the Pingyao plant pursuant to assessment against environmental protection standards introduced in the period to December 2017.
- did not conduct production at the magnesium and magnesium alloy plant. Production is anticipated to recommence in the half year to 30 June 2018, pursuant to introduction of alternative EPP compliant processing technology
- progressed funding for the Greenbushes lithium project, with completion of A$1,048,586 placement in late January 2018.
- Consequent to the cancellation of the mining licence of *Jiexiu City Baiyun Quarry* on 31 July 2017, the vendor under the contract is obliged to return payments of RMB 3,000,000 made by SYMC. Pursuant to the contract SYMC and the vendor are actively working to minimise the consequences of the cancellation.

Results

For the half-year ended 31 December 2017 the consolidated entity recorded a loss after tax from continuing operations of $1,551,823 (2016: loss of $1,136,612) and total comprehensive loss of $1,294,087 (2016: comprehensive loss: $1,229,172).

Dividends

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

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

Tom Blackhurst
Managing Director
27 February 2018

Grant Thornton

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Auditor's Independence Declaration
To the Directors of China Magnesium Corporation Limited.

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of China Magnesium Corporation Limited for the half-year ended 31 December 2017. I declare that, to the best of my knowledge and belief, there have been:

a No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b No contraventions of any applicable code of professional conduct in relation to the review.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

Andrew Newman
Partner – Audit & Assurance

Brisbane, 27 February 2018

Consolidated statement of comprehensive income
for the half-year ended 31 December 2017

	Note	Consolidated Half-year ended 31 Dec 2017 $	31 Dec 2016 $
Revenue from continuing operations		9,027	247,385
Gain on derecognition of liability		386,800	-
Impairment expense		(599,107)	-
Decommissioning expense		(87,266)	-
Costs of raw materials and consumables		(4,488)	(242,461)
Auditing and accounting expenses		(58,356)	(50,387)
Depreciation and amortisation		(131,950)	(174,204)
Employee benefits expense		(837,855)	(717,397)
Finance costs		(67,755)	(111,120)
Other expenses		(107,476)	(71,382)
Exchange (loss)/gain		(269)	13,123
Lease interest & amortisation		(35,923)	-
Travel expenses		(17,205)	(30,169)
		(1,560,850)	(1,383,997)
Profit/(loss) before income tax		(1,551,823)	(1,136,612)
Income tax		-	-
Profit/(loss) after tax from continuing operations		(1,551,823)	(1,136,612)
Other comprehensive income			
Items that will be reclassified to profit and loss			
Foreign currency translation differences		257,736	(92,560)
Income tax on items of other comprehensive income		-	-
Other comprehensive income for the period (net of tax)		257,736	(92,560)
Total comprehensive income / (loss) for the period		(1,294,087)	(1,229,172)
Profit/(loss) at end of reporting period is attributable to:			
Owners of the parent		(1,497,397)	(1,100,034)
Non-controlling interests		(54,426)	(36,578)
		(1,551,823)	(1,136,612)
Total comprehensive income / (loss) at end of reporting period is attributable to:			
Owners of the parent		(1,244,922)	(1,189,059)
Non-controlling interests		(49,165)	(40,113)
		(1,294,087)	(1,229,172)
Earnings per share			
Basic and diluted earnings/(loss) per share (cents per share)		(0.5)	(0.5)

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

Consolidated statement of financial position as at 31 December 2017

	Note	Consolidated 31 Dec 2017 $	30 June 2017 $
ASSETS			
Current assets			
Cash and cash equivalents		721,738	1,433,592
Trade and other receivables		1,086,392	1,087,219
Inventories		103,739	145,603
Total Current Assets		1,911,869	2,666,414
Non-current assets			
Prepayments		2,402,349	2,350,990
Property, plant and equipment	2	17,231,870	16,450,269
Rights of use assets		173,065	201,130
Tenement		10,000	10,000
Total Non-Current Assets		19,817,284	19,012,389
Total assets		**21,729,153**	**21,678,803**
LIABILITIES			
Current liabilities			
Trade and other payables		2,379,474	1,910,082
Lease liabilities		61,050	61,050
Other liabilities		199,374	199,374
Employee benefits		15,280	29,152
Total Current Liabilities		2,655,178	2,199,658
Non-current liabilities			
Lease liabilities		121,936	144,838
Trade and other payables		7,880,035	6,968,034
Total non-current liabilities		8,001,971	7,112,872
Total liabilities		**10,657,149**	**9,312,530**
Net assets		**11,072,004**	**12,366,273**
EQUITY			
Contributed equity	4	23,189,036	23,189,218
Reserves		3,648,704	3,396,229
Accumulated losses		(15,769,225)	(14,271,828)
Total equity attributable to owners of the parent		11,068,515	12,313,619
Non-controlling interest		3,489	52,654
Total equity		**11,072,004**	**12,366,273**

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

Consolidated statement of changes in equity for the half-year ended 31 December 2017

	Contributed equity	Accumulated losses	Foreign currency translation reserve	Change of interest in subsidiary reserve	Total	Non-controlling interest	Total equity
	$	$	$	$	$	$	$
At 1 July 2016	**21,111,526**	**(13,423,627)**	**3,436,705**	**518,930**	**11,643,534**	**210,893**	**11,854,426**
(Loss) for the half-year	-	(1,100,034)	-	-	(1,100,034)	(36,578)	(1,136,612)
Other comprehensive income:							
Foreign currency translation difference	-	-	(89,025)	-	(89,025)	(3,535)	(92,560)
Total comprehensive income for the half-year	-	(1,100,034)	(89,025)	-	(1,189,059)	(40,113)	(1,229,172)
Transactions with owners in their capacity as owners							
Issue of shares	2,116,771	-	-	-	2,116,771	-	2,116,771
Cost of share issues	(37,245)				(37,245)		(37,245)
At 31 December 2016	**23,191,052**	**(14,523,661)**	**3,347,680**	**518,930**	**12,534,001**	**170,779**	**12,704,780**
At 1 July 2017	**23,189,218**	**(14,271,828)**	**2,877,299**	**518,930**	**12,313,619**	**52,654**	**12,366,273**
(Loss) for the half-year	-	(1,497,397)	-	-	(1,497,397)	(54,426)	(1,551,823)
Other comprehensive income:							
Foreign currency translation difference	-	-	252,475	-	252,475	5,261	257,736
Total comprehensive income for the half-year	-	(1,497,397)	252,475	-	(1,244,922)	(49,165)	(1,294,087)
Transactions with owners in their capacity as owners							
Issue of shares	622	-	-	-	622	-	622
Cost of share issue	(804)				(804)		(804)
At 31 December 2017	**23,189,036**	**(15,769,225)**	**3,129,774**	**518,930**	**11,068,515**	**3,489**	**11,072,004**

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

Consolidated statement of cash flows for the half-year ended 31 December 2017

	Consolidated	
	Half-year ended	
	31 Dec 2017 $	31 Dec 2016 $
Cash flows from operating activities		
Receipts from customers	-	185,466
Payments to suppliers and employees	(646,883)	(1,043,907)
Interest received	655	1,409
Interest expense adjustment	-	575,468
Interest and other costs of finance paid	(67,656)	(238,191)
Net cash inflow/(outflow) from operating activities	(713,884)	(519,755)
Cash flows from investing activities		
Purchase of plant and equipment	-	(1,227,431)
Net cash inflow/(outflow) from investing activities	-	(1,227,431)
Cash flows from financing activities		
Proceeds from issue of shares	622	2,116,771
Share issue costs	(804)	(37,246)
Lease capital repayment	(22,901)	-
Lease interest	(7,858)	-
Proceeds from borrowings	-	800,000
Net cash inflow/(outflow) from financing activities	(30,941)	2,879,525
Net increase (decrease) in cash and cash equivalents	(744,825)	1,132,339
Cash and cash equivalents at the beginning of the period	1,433,592	2,194,662
Effects of exchange rate changes on the balances of cash held in foreign currencies	32,971	236,441
Cash and cash equivalents at the end of the period	721,738	3,563,442

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Significant accounting policies

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

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

The Company is a type of Company referred to in ASIC Corporations (Rounding in Financial/Directors Reports) Instrument 2016/191, and therefore the amounts contained in this Report and the Financial Report have been rounded to the nearest Dollar.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2017 annual financial report. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

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

Going concern
The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and settlements of liabilities in the ordinary course of business. The Group incurred a net loss of $1,551,823 (2016: $1,136,612) and an operating cash outflow of $713,884 (2016: $519,755) for the period ended 31 December 2017. At that date the Group had a net current liability position of $743,309 (2017: net current assets $466,756).

Included in net assets are prepaid capital expenditure of $2,194,953 and VAT receivable of $780,420 that will only be recovered once the Group generates sufficient income in China. The Group also has capital commitments of $918,768 in relation to its Pingyao operations.

In forming the view that the Group is a going concern, the directors note

- under the Investment and Co-operation agreement with Shanxi Pingyao Fengyan Coal & Coke Group Company Limited ("Fengyan"), Fengyan have agreed to provide sufficient working capital for CMC's 91.25% owned joint venture company Shanxi Yushun Magnesium Company Limited which delivers substantially all Pingyao operational production;

- pursuant to the closure of the Jiexiu City Baiyun Quarry CMC is seeking to recover RMB 3,000,000 ($589,067) under the Option and Purchase from the original licence holder.

- continued financial support from creditors who have agreed to extended terms of payment;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Significant accounting policies (continued)

- capacity to raise working capital from exercise of options and other means including a Controlled Placement Agreement;
- the Pingyao plant will continue to satisfy the EPP disposal/emission specifications and thereby pass the inspection and review by the relevant expert environmental team for magnesium and alloy production recommencement;
- magnesium alloy production is scheduled to commence from March 2018
- under a Fine Chemicals/Fertiliser Agreement with Taiyuan Hailifeng Science & Technology Co. Ltd. ("Hailifeng"), Hailifeng have agreed to provide working capital required for existing and forward production for production of chemicals and fertilisers including G3 & G1.

Having considered all of the above factors, the Directors are of the opinion that the use of the going concern basis of accounting is appropriate as they are satisfied that the Group will be able to generate sufficient cash flows, rely on the financial support as detailed, and rely on the continued financial support of its creditors.

Should all of the above not eventuate, there exists a material uncertainty regarding the Company and the Group's ability to continue as a going concern and realise its assets and settle its liabilities and commitments in the ordinary course of business and at the amounts stated in the financial statements. If production does not commence as anticipated there will be a risk of impairment of the Group's property, plant and equipment.

2. Property, Plant and Equipment

Consolidated	Assets under construction	Leasehold Land	Quarry	Fixed Assets	Total
	$	$	$	$	$
Net book value 1 July 2017	12,385,047	1,247,883	601,359	2,215,980	16,450,269
Transfers to/from	(4,872,061)			4,872,061	-
Additions	1,142,425	-	-	-	1,142,425
Disposals	-	-	-	-	-
Depreciation	-	(14,370)	(6,818)	(110,762)	(131,950)
Impairment	-	-	(599,107)	-	(599,107)
Exchange differences	287,933	28,473	4,566	49,261	370,233
At 31 December 2017	8,943,344	1,261,986	-	7,026,540	17,231,870
At 31 December 2017					
Cost	8,943,344	1,453,314	-	8,517,294	18,913,952
Accumulated Depreciation	-	(191,108)	-	(1,489,062)	(1,680,169)
Exchange differences		(220)		(1,692)	(1,912)
Net book value	8,943,344	1,261,986	-	7,026,540	17,231,870

3. Segment reporting

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

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

4. Contributed equity

During the half-year the company issued 12,445 (2016: 84,670,827) ordinary shares at 5 cents per share with capital raised $622 (2016: $2,116,771), incurring costs of $804 (2016: $37,276). This was pursuant to the exercise of listed options issued at 5 cents. The number of shares issued as at December 2017 was 279,706,121 (2016: 279,693,676)

5. Contingencies and Commitments

Consequent to the cancellation of the mining licence of *Jiexiu City Baiyun Quarry* on 31 July 2017, the vendor under the contract is obliged to return payments of RMB 3,000,000 made by SYMC. Pursuant to the contract SYMC and the vendor are actively working to minimise the consequences of the cancellation.

The Group also has capital commitments of $918,768 in relation to its Pingyao operations.

6. Events subsequent to half year

The Greenbushes lithium project finalised with A$1,048,586 placement completing in late January 2018.

No other matter or circumstance has occurred subsequent to half year end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group or economic entity in subsequent financial periods.

7. Significant events and transactions

During the period the company brought to account impairment of the Jiexui City Baiyun Quarry assets & land use rights pursuant to cancellation of the extraction license in July 2017. The impairment expense totalled $599,107. A gain of $386,800 on derecognition of a liability relating to the assets and rights was also brought to account.

8. Critical accounting judgements and estimates

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Directors' declaration

In the opinion of the directors:

(a) The attached interim 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 consolidated entity's financial position as at 31 December 2017 and the performance for the half-year ended on that, and
ii) Complying with Accounting Standard AASB 134 Interim Financial Reporting;

(b) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

Tom Blackhurst
Managing Director

Southport
27 February 2018

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Independent Auditor's Review Report
To the Members of China Magnesium Corporation Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of China Magnesium Corporation Limited (the Company) and its controlled entities (the Group), which comprises the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of China Magnesium Corporation Limited does not give a true and fair view of the financial position of the Group as at 31 December 2017, and of its financial performance and its cash flows for the half-year ended on that date, in accordance with the Corporations Act 2001, including complying with Accounting Standard AASB 134 *Interim Financial reporting*.

Material uncertainty regarding continuation as a going concern

We draw attention to Note 1 in the financial report, which indicates that China Magnesium Corporation Limited incurred a net loss of $1,539,252 during the half-year ended 31 December 2017 and, as of that date the Group's current liabilities exceeded its current assets by $743,309. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on China Magnesium Corporation Limited's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Directors' Responsibility for the Half-year Financial Report

The Directors of the Group are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Grant Thornton

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 2017 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of China Magnesium Corporation Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

AF Newman
Partner - Audit & Assurance

Brisbane, 27 February 2018