



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 2014 |
| Previous Corresponding Reporting Period | Half-Year ended 31 December 2013 |

Results for Announcement to the Market

| | Percentage change Up or Down | % | | \$'000 |
|--|------------------------------|------|----|---------|
| Revenue from ordinary activities | Up | 844% | to | 11,362 |
| Profit/(loss) from ordinary activities after tax attributable to members | Up | 59% | to | (1,534) |
| Profit/(loss) for the period attributable to members | Up | 59% | to | (1,534) |

| 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 2014 | December 2013 |
|----------------------------------|---------------|---------------|
| Net Tangible Assets per security | \$0.07 | \$0.08 |

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

Compliance Statement

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

A handwritten signature in blue ink, appearing to read 'TBA', with a stylized flourish at the end.

Tom Blackhurst
Managing Director
Southport QLD
24 February 2015



China Magnesium Corporation Ltd.

ABN 14 125 236 731

**Interim financial report
for the half-year ended 31 December 2014**

China Magnesium Corporation Limited ABN 14 125 236 731

Interim financial report – 31 December 2014

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Directors' report

Your directors present their report on the consolidated entity consisting of China Magnesium Corporation Limited (the Company) and the entities it controlled at the end of, or during, the half-year ended 31 December 2014.

Directors

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

| | |
|-------------|--------------|
| W Bass | T Blackhurst |
| P Robertson | X Liang |

Review of operations

During the half-year the Company:-

- completed a 1:453668 rights issue for 25,256,154 ordinary shares on 8 October 2014 raising \$1,003,310 after costs.
- completed successful conversion of first semi-coke cracker from coal-to-gas unit
- commenced small scale production at Pingyao
- expanded its trading desk operations which now cover magnesium, semi-coke, metallurgical coke, calcium metal and tar oil trading in line with current efforts in international brand-building.

Results

For the half-year ended 31 December 2014 the consolidated entity recorded a (loss) after tax from continuing operations of (\$1,570,268) (2013: (\$988,503) and total comprehensive income of \$447,986 (2013: (\$483,134)).

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
Southport
24 February 2015

DECLARATION OF INDEPENDENCE BY CHRIS SKELTON TO THE DIRECTORS OF CHINA MAGNESIUM CORPORATION LIMITED

As lead auditor for the review of China Magnesium Corporation Limited for the half-year ended 31 December 2014, I declare that, to the best of my knowledge and belief, there have been:

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

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



Chris Skelton
Director

Brisbane, 24 February 2015

Consolidated statement of comprehensive income for the half-year ended 31 December 2014

| | | Consolidated Half-year ended | |
|--|------|---------------------------------|--------------------|
| | Note | 31 Dec 2014 \$ | 31 Dec 2013 \$ |
| Revenue from continuing operations | | | |
| Sales | 4 | 11,355,505 | 1,197,078 |
| Interest received | | 6,769 | 6,799 |
| | | <u>11,362,274</u> | <u>1,203,877</u> |
| Expenses | | | |
| Purchases of raw materials and consumables | 5 | (11,545,136) | (1,207,437) |
| Auditing and accounting | | (35,765) | (35,824) |
| Consulting fees | | (24,322) | (48,173) |
| Depreciation and amortisation | | (113,453) | (147,976) |
| Employee benefits | | (925,258) | (641,078) |
| Finance costs | | (43,736) | (15,663) |
| Other | | (158,531) | (133,671) |
| Exchange (loss)/gain | | (50,876) | 60,851 |
| Travel | | (35,465) | (23,409) |
| | | <u>(12,932,542)</u> | <u>(2,192,380)</u> |
| Loss before income tax | | (1,570,268) | (988,503) |
| Income tax | | - | - |
| Loss after tax from continuing operations | | <u>(1,570,268)</u> | <u>(988,503)</u> |
| Other comprehensive income | | | |
| Items that will be reclassified to profit and loss | | | |
| Foreign currency translation differences | | 2,018,254 | 505,369 |
| Income tax on items of other comprehensive income | | - | - |
| Other comprehensive income for the period (net of tax) | | <u>2,018,254</u> | <u>505,369</u> |
| Total comprehensive income / (loss) for the period | | <u>447,986</u> | <u>(483,134)</u> |
| Loss for the period is attributable to: | | | |
| Owners of the parent | | (1,534,257) | (962,285) |
| Non-controlling interests | | (36,011) | (26,218) |
| | | <u>(1,570,268)</u> | <u>(988,503)</u> |
| Total comprehensive income / (loss) for the period is attributable to: | | | |
| Owners of the parent | | 375,375 | (499,772) |
| Non-controlling interests | | 72,611 | 16,638 |
| | | <u>447,986</u> | <u>(483,134)</u> |
| Earnings per share | | | |
| Basic and diluted earnings/(loss) per share (cents per share) | | (0.8) | (0.7) |

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 2014

| | | Consolidated | |
|---|------|--------------------------|--------------------------|
| | Note | 31 Dec 2014 \$ | 30 June 2014 \$ |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | | 3,369,309 | 1,504,896 |
| Trade and other receivables | | 838,223 | 630,866 |
| Inventories | | 601,447 | 399,436 |
| Other | | 2,390,807 | 1,814,373 |
| Total Current Assets | | <u>7,199,786</u> | <u>4,349,571</u> |
| Non-current assets | | | |
| Property, plant and equipment | | <u>15,234,538</u> | <u>12,728,083</u> |
| Total Non-Current Assets | | <u>15,234,538</u> | <u>12,728,083</u> |
| Total assets | | <u>22,434,324</u> | <u>17,077,654</u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | | 6,217,833 | 2,450,475 |
| Borrowings | | 996,532 | 862,175 |
| Provisions | | 31,886 | 28,227 |
| Total Current Liabilities | | <u>7,246,251</u> | <u>3,340,877</u> |
| Total liabilities | | <u>7,246,251</u> | <u>3,340,877</u> |
| Net assets | | <u>15,188,073</u> | <u>13,736,777</u> |
| EQUITY | | | |
| Contributed equity | 3 | 21,118,034 | 20,114,724 |
| Reserves | | 3,529,696 | 1,620,064 |
| Accumulated losses | | (9,976,109) | (8,441,852) |
| Total equity attributable to owners of the parent | | <u>14,671,621</u> | <u>13,292,936</u> |
| Non-controlling interest | | <u>516,452</u> | <u>443,841</u> |
| Total equity | | <u>15,188,073</u> | <u>13,736,777</u> |

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

Consolidated statement of changes in equity for the half-year ended 31 December 2014

| | Contributed equity \$ | Accumulated losses \$ | Foreign currency translation reserve \$ | Change of interest in subsidiary reserve \$ | Total \$ | Non- controlling interest \$ | Total equity \$ |
|---|-----------------------------|-----------------------------|---|---|-------------|---------------------------------------|--------------------|
| At 1 July 2013 | 17,324,720 | (6,056,157) | 1,234,451 | 518,930 | 13,021,944 | 629,164 | 13,651,108 |
| Loss for the half-year | - | (962,285) | - | - | (962,285) | (26,218) | (988,503) |
| Other comprehensive income: | | | | | | | |
| Foreign currency translation difference | - | - | 462,513 | - | 462,513 | 42,856 | 505,369 |
| Total comprehensive income for the half- year | - | (962,285) | 462,513 | - | (499,772) | 16,638 | (483,134) |
| Transactions with owners in their capacity as owners | | | | | | | |
| Issue of shares | 219,838 | - | - | - | 219,838 | - | 219,838 |
| Cost of share issue | (6,124) | - | - | - | (6,124) | - | (6,124) |
| At 31 December 2013 | 17,538,434 | (7,018,442) | 1,696,964 | 518,930 | 12,735,886 | 645,802 | 13,381,689 |
| At 1 July 2014 | 20,114,724 | (8,441,852) | 1,101,134 | 518,930 | 13,292,936 | 443,841 | 13,736,777 |
| Loss for the half-year | - | (1,534,257) | - | - | (1,534,257) | (36,011) | (1,570,268) |
| Other comprehensive income: | | | | | | | |
| Foreign currency translation difference | - | - | 1,909,632 | - | 1,909,632 | 108,622 | 2,018,254 |
| Total comprehensive income for the half- year | - | (1,534,257) | 1,909,632 | - | 375,375 | 72,611 | 447,986 |
| Transactions with owners in their capacity as owners | | | | | | | |
| Issue of shares | 1,006,077 | - | - | - | 1,006,077 | - | 1,006,077 |
| Cost of share issues | (2,768) | - | - | - | (2,768) | - | (2,768) |
| At 31 December 2014 | 21,118,033 | (9,976,109) | 3,010,766 | 518,930 | 14,671,620 | 516,452 | 15,188,073 |

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 2014

| | Consolidated Half-year ended | |
|---|---------------------------------|-------------------------|
| | 31 Dec 2014 | 31 Dec 2013 |
| | \$ | \$ |
| Cash flows from operating activities | | |
| Receipts from customers | 12,949,956 | 1,339,415 |
| Payments to suppliers and employees | (10,961,368) | (2,066,591) |
| Interest received | 6,769 | 6,799 |
| Interest and other costs of finance paid | (1,311) | (1,120) |
| Net cash inflow/(outflow) from operating activities | <u>1,994,047</u> | <u>(721,497)</u> |
| Cash flows from investing activities | | |
| Purchase of plant and equipment | (1,235,543) | (114,299) |
| Net cash inflow/(outflow) from investing activities | <u>(1,235,543)</u> | <u>(114,299)</u> |
| Cash flows from financing activities | | |
| Proceeds from issue of shares | 1,010,278 | 219,838 |
| Share issue costs | (2,768) | (6,124) |
| Share buyback | (4,200) | - |
| Proceeds from borrowings | - | - |
| Net cash inflow/(outflow) from financing activities | <u>1,003,310</u> | <u>213,714</u> |
| Net decrease in cash and cash equivalents | 1,761,814 | (622,082) |
| Cash and cash equivalents at the beginning of the period | 1,504,896 | 3,423,478 |
| Effects of exchange rate changes on the balances of cash held in foreign currencies | 102,599 | 146,374 |
| Cash and cash equivalents at the end of the period | <u><u>3,369,309</u></u> | <u><u>2,947,770</u></u> |

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 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 2014 annual financial report. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

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

The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and settlements of liabilities in the ordinary course of business. The Group incurred a net loss of \$1,570,268 and an operating cash inflow of \$1,994,047 for the six month period ended 31 December 2014. At that date the Group had a net current liability position of \$46,465.

Included in net current assets are prepaid capital expenditure of \$2,113,990 and VAT receivable of \$686,890 that will only be recovered once the Group generates sufficient income in China. Also included in net current assets are trade creditors of \$1,543,000 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 commenced production in July 2014.

The Group also has capital commitments of \$1,194,293 in relation to its Pingyao operations.

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

- the Pingyao operation has been cash flow positive since July 2014
- 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;
- the successful 1:453668 rights issue for 25,256,154 ordinary shares on 8 October 2014 which raised \$1,003,310 after costs

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**1. Significant accounting policies (continued)**

- contingent options exercise proceeds of \$1.8M in October 2016 pursuant to the successful rights raising
- immediate additional contribution to profit and cash from Mineral Wool Co-operation Agreement from February 2015
- the continued financial support from creditors who have agreed to extended payment terms for work completed up to 1 year after the commencement of production

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

2. Segment reporting

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

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

3. Contributed equity

During the half-year the company issued 25,256,154 (2013: 5,495,964) ordinary shares at 4 cents per share (2014: 4 cents) raising \$1,010,246 before costs of \$2,768 (2013: Capital raised \$219,838, costs \$6,124). This was accompanied with 25,256,154 listed options issued at 7 cents, out of which 449 have been exercised.

4. Sales

Sales increased in the half year to \$11,355,505 (2014 \$1,197,078) as the Group expanded trading into magnesium, semi coke, metallurgical coke, tar oil and calcium metal.

5. Purchases of raw materials and consumables

Purchases of raw materials and consumables increased in the half year to \$11,545,136 (2014 \$1,207,437) as the Group expanded trading into magnesium, semi coke, metallurgical coke, tar oil and calcium metal.

6. Contingencies and Commitments

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

7. Events subsequent to half year

The Company's wholly owned subsidiary executed and commenced a Co-Operation Agreement with Pingyao County Fengyan Mineral Wool Co. Ltd. (FMW) effective from 1 February 2015.

FMW is an established and profitable medium sized metallurgy company. It can produce up to 150,000 tpa of ferronickel, and used waste slag from this production to produce mineral (rock) wool and mineral wool acoustic board products, amongst others. FMW currently purchases all CMC semi-coke production. Any external ferronickel requirements including recycling and production of retorts used in the magnesium production operation are supplied by FMW to CMC.

Under the Agreement CMC will

[i] have a 60% economic interest in the business of FMW (revenues, costs and ultimately profit or loss)

[ii] control a majority of the FMW board seats; and

[iii] be responsible for the management of FMW's business, including any improvements to the same.

As the initial accounting for the financial consequences of the Agreement are not complete CMC is not in a position to make disclosures otherwise required under AASB 3 Business Combinations at the date of signing.

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: 11
 - i) Giving a true and fair view of the financial position as at 31 December 2014 and the performance for the half-year ended on that date of the consolidated entity: and
 - ii) Complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.
- (b) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



Tom Blackhurst
Managing Director

Southport
24 February 2015

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of China Magnesium Corporation Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of China Magnesium Corporation Limited, which comprises the consolidated statement of financial position as at 31 December 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 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*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of China Magnesium Corporation Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion


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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Emphasis of matter

Without modifying our conclusion, we draw attention to Note 1 in the half-year financial report, which indicates that the ability of the consolidated entity to continue as a going concern is dependent upon the generation of cash flows from the Group's China based projects and support of creditors and financiers until this occurs. These conditions, along with other matters as set out in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

BDO Audit Pty Ltd



Chris Skelton
Director

Brisbane, 24 February 2015