



China Magnesium Corporation Limited

Appendix 4E – Preliminary Final Report

Name of Entity:	China Magnesium Corporation Limited
ABN:	14 125 236 731
Reporting Period - year ended:	30 June 2016
Previous corresponding period – period ended	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 are being audited by our external auditors.



Tom Blackhurst
Managing Director

Date: 30 August 2016



China Magnesium Corporation Limited

ABN 14 125 236 731

Preliminary Final Report
For the year ended 30 June 2016

CONTENTS

Managing Director's report	1
Consolidated statement of profit or loss and other comprehensive income	3
Consolidated statement of financial position	4
Consolidated statement of changes in equity	5
Consolidated statement of cash flows	6
Notes to the consolidated financial statements	7
Corporate directory	32

China Magnesium Corporation Limited and its subsidiaries

Managing Director's Report – 30 June 2016

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


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,

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

Tom Blackhurst
Managing Director

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

		Consolidated	
	Note	2016	2015
		\$	\$
Revenue from continuing operations	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)
Total expenses		(2,836,897)	(22,882,302)
Loss before income tax		(2,341,665)	(3,453,782)
Income tax benefit	7	-	-
Loss for the year		(2,341,665)	(3,453,782)
Other comprehensive income			
<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		-	-
Other comprehensive income for the year (net of tax)		(561,193)	3,028,724
Total comprehensive income for the year		(2,902,858)	(425,058)
Loss for the year is attributable to:			
Owners of the parent		(2,135,628)	(3,255,644)
Non-controlling interests		(206,037)	(198,138)
		(2,341,665)	(3,453,782)
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)
		(2,902,858)	(425,058)
Earnings per share		Cents	Cents
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

		Consolidated	
	Not e	2016 \$	2015 \$
ASSETS			
Current assets			
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
Total Current Assets		3,359,687	4,728,667
Non-current assets			
Other	11	2,240,816	2,283,441
Property, plant and equipment	13	16,340,275	16,724,342
Tenement		10,000	-
Total Non-Current Assets		18,591,091	19,007,783
Total assets		21,950,778	23,736,450
LIABILITIES			
Current liabilities			
Trade and other payables	14	2,420,816	3,987,900
Borrowings	15	-	-
Provisions	16	17,318	29,159
Total Current Liabilities		2,438,134	4,017,059
Non-Current liabilities			
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
Total Non-Current Liabilities		8,106,982	5,398,139
Total liabilities		10,545,116	9,415,198
Net assets		11,405,662	14,321,252
EQUITY			
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
Total equity		11,405,662	14,321,252

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
	\$	\$	\$	\$	\$	\$	\$
At 30 June 2014	20,114,724	(8,441,852)	1,101,134	518,930	13,292,936	443,814	13,736,777
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
Total comprehensive income for the year	-	(3,255,644)	2,872,205	-	(383,439)	(41,619)	(425,058)
Transactions with owners in their capacity as owners							
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)
At 30 June 2015	21,124,258	(11,697,496)	3,973,339	518,930	13,919,031	402,221	14,321,252
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)
Total comprehensive income for the year	-			-	(2,672,262)	(230,596)	(2,902,858)
Transactions with owners in their capacity as owners							
Issue of shares	-	-	-	-	-	-	-
Share buyback	(12,610)	-	-	-	(12,610)	-	(12,610)
Issue/buyback costs	(122)	-	-	-	(122)	-	(122)
At 30 June 2016	21,111,526	(13,833,125)	3,436,705	518,930	11,234,036	171,626	11,405,662

The above consolidated statement of changes in equity 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 cash flows for the year ended 30 June 2016

Consolidated			
	Note	2016 \$	2015 \$
Cash flows from operating activities			
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		-	-
Net cash inflow/(outflow) from operating activities	24	<u>(2,115,345)</u>	<u>2,580,815</u>
Cash flows from investing activities			
Payments for property plant and equipment		(488,025)	(1,468,672)
Net cash inflow/(outflow) from investing activities		<u>(488,025)</u>	<u>(1,468,672)</u>
Cash flows from financing activities			
Net share issue/share option/share buyback		(12,610)	1,012,343
Share issue costs		(122)	(2,809)
Proceeds from borrowings		-	-
Net cash inflow/(outflow) from financing activities		<u>(12,732)</u>	<u>1,009,534</u>
Net increase / (decrease) in cash and cash equivalents		(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		<u>1,496,083</u>	<u>(311,891)</u>
Cash and cash equivalents at the end of the year	8	<u><u>2,194,662</u></u>	<u><u>3,314,681</u></u>

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

Notes to the consolidated financial statements

<u>NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u>	8
<u>NOTE 2: FINANCIAL RISK MANAGEMENT</u>	17
<u>NOTE 3: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS</u>	19
<u>NOTE 4: SEGMENT INFORMATION</u>	21
<u>NOTE 5: REVENUE</u>	21
<u>NOTE 6: EXPENSES</u>	21
<u>NOTE 7: INCOME TAX BENEFIT</u>	22
<u>NOTE 8: CURRENT ASSETS – CASH AND CASH EQUIVALENTS</u>	23
<u>NOTE 9: CURRENT ASSETS – TRADE AND OTHER RECEIVABLES</u>	23
<u>NOTE 10: CURRENT ASSETS - INVENTORIES</u>	23
<u>NOTE 11: CURRENT ASSETS - OTHER</u>	23
<u>NOTE 13: CURRENT ASSETS – SHARE OF LOSSES FROM CONTRACTUAL ARRANGEMENTS</u>	23
<u>NOTE 11: NON-CURRENT ASSETS – PROPERTY PLANT & EQUIPMENT</u>	24
<u>NOTE 14: CURRENT LIABILITIES – TRADE AND OTHER PAYABLES</u>	24
<u>NOTE 15: CURRENT LIABILITIES –BORROWINGS</u>	24
<u>NOTE 16: CURRENT LIABILITIES – PROVISIONS</u>	25
<u>NOTE 17: CONTRIBUTED EQUITY</u>	25
<u>NOTE 18: RESERVES</u>	26
<u>NOTE 19: REMUNERATION OF AUDITORS</u>	27
<u>NOTE 20: CONTINGENCIES</u>	27
<u>NOTE 21: COMMITMENTS</u>	27
<u>NOTE 22: RELATED PARTY TRANSACTIONS</u>	28
<u>NOTE 23: PARENT ENTITY DISCLOSURES</u>	28
<u>NOTE 24: SUBSIDIARIES AND TRANSACTIONS WITH NON-CONTROLLING INTERESTS</u>	29
<u>NOTE 25: RECONCILIATION OF PROFIT / (LOSS) AFTER INCOME TAX TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES</u>	31
<u>NOTE 26: EARNINGS PER SHARE</u>	31

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*. China Magnesium Corporation Limited is a for-profit entity for the purpose of preparing the financial statements.

i) Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements of China Magnesium Corporation Limited comply with International Financial Reporting Standards (IFRS).

ii) Historical cost convention

These financial statements have been prepared under the historical cost convention.

iii) Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

(b) Principles of consolidation

i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of the subsidiaries of China Magnesium Corporation Limited ("Company" or "parent entity") as at 30 June 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

No new or revised Australian Accounting Standards that have been issued but not yet effective have been applied in the preparation of these financial statements. Such standards are not expected to have a material impact on the Group's financial report on initial application.

NOTE 2: FINANCIAL RISK MANAGEMENT

(a) General Objectives, Policies and Processes

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

The principal financial instruments from which financial instrument risk arises are:

- Cash and cash equivalents
- Trade and other receivables
- Secured loans
- Trade and other payables

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.

NOTE 2: FINANCIAL RISK MANAGEMENT (Continued)

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.

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

Maturities of financial liabilities

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

	Consolidated 2016			
	\$ 0 to 6 months	\$ 6 to 12 months	\$ Greater than 12 months	\$ Carrying Amount
Secured loan				
Trade and other payables	2,420,816	-	8,106,982	10,527,798
	2,420,816	-	8,106,982	10,527,798

China Magnesium Corporation Limited and its subsidiaries

Notes to the Consolidated Financial Statements - 30 June 2016

NOTE 2: FINANCIAL RISK MANAGEMENT (Continued)

Maturities of financial liabilities (continued)

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

	Consolidated 2015			
	\$	\$	\$	\$
	0 to 6 months	6 to 12 months	Greater than 12 months	Carrying Amount
Secured loan	-	-	1,064,000	1,064,000
Trade and other payables	3,987,900	-	3,850,257	7,287,157
	3,987,900	-	4,914,257	8,902,157

(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

NOTE 3: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS
(continued)

.(b) Going concern (continued)

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

(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%.

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

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 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;

	Magnesium, ferronickel, coke and related products	Total
	\$	\$
2016	7,075	7,075
2015	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

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

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
Total depreciation and amortisation	379,825	259,986

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

NOTE 6: EXPENSES (continued)

	Consolidated	
	2016	2015
	\$	\$
Finance Costs		
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
Defined contributions superannuation expense	23,875	27,416
Other expenses		

NOTE 7: INCOME TAX BENEFIT

(a) Income tax benefit		
Current tax	(618,378)	(674,137)
Deferred tax	618,378	674,137
Income tax benefit	-	-
(b) Reconciliation of income tax benefit to prima facie tax payable		
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%)	(702,499)	(1,036,135)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Foreign exchange translation differences	(40,515)	23,892
Other permanent differences	62	406
	(40,454)	24,298
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	-
Income tax expense/(credit)	-	-
(c) Unrecognised deferred tax assets		
Deferred tax assets at the applicable tax rate have not been recognised for the following:		
Unused tax losses	3,837,338	3,146,936
Deductible temporary differences	25,581	42,984
	3,862,919	3,189,920

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

NOTE 8: CASH AND CASH EQUIVALENTS

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

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

	Consolidated	
	2016	2015
	\$	\$
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)
	916,945	1,024,222

NOTE 10: INVENTORIES

Raw materials and stores	248,080	289,608
Finished goods		-
Total inventory at cost	248,080	289,608

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	2,240,816	2,283,441

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	-
	-	(483,882)

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:- 60%

Share of net (loss) for period 1 February 2015	30 June 2015	(383,882)
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.

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

NOTE 13: PROPERTY, PLANT AND EQUIPMENT

Consolidated	Assets under construction	Leasehold Land	Quarry	Buildings	Vehicles	Plant & equipment	Total
	\$	\$	\$	\$	\$	\$	\$
Year ended 30 June 2016							
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	11,706,904	1,367,074	652,803	272,580	14,710	2,326,204	16,340,275
At 30 June 2016							
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	11,706,904	1,367,074	652,803	272,580	14,710	2,326,204	16,340,275
Year ended 30 June 2015							
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	12,143,991	1,418,407	767,647	383,117	79,772	1,931,408	16,724,342
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	12,143,991	1,418,407	767,647	383,117	79,772	1,931,408	16,724,342

NOTE 14: TRADE AND OTHER PAYABLES

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

NOTE 15: BORROWINGS

Secured loan – current	-	-
Secured loan – non current	-	1,064,000
	-	1,064,000

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

NOTE 16: PROVISIONS

	2016 \$	Consolidated 2015 \$
Employee benefits	17,318	29,159
	<u>17,318</u>	<u>29,159</u>

NOTE 17: CONTRIBUTED EQUITY

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

(b) Movements in ordinary share capital

Date	Details	Number of shares	Issue price	\$
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	<u>195,328,331</u>		<u>21,124,258</u>
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	<u>195,022,849</u>		<u>21,111,526</u>

NOTE 17: CONTRIBUTED EQUITY (continued)

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

(d) Shares in escrow

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

(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

	2016	Consolidated
	\$	2015
		\$
Foreign currency translation reserve	3,436,705	3,973,339
Change of interest in subsidiary reserve	518,930	518,930
Total reserves	<u>4,645,635</u>	<u>4,492,269</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.

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

NOTE 19: REMUNERATION OF AUDITORS

	2016 \$	Consolidated 2015 \$
i) 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>90,000</u>	<u>71,500</u>
ii) Non-audit services		
ShineWing Australia (2015: BDO Audit Pty Ltd & related entities)		
Advisory services	-	-
Total remuneration for non-audit services	<u>-</u>	<u>-</u>

NOTE 20: CONTINGENCIES

On 1 March 2016 CMC entered into an Agreement to

[i] lease and lease-back 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

[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 two respective head lease and lease-back agreements for the production facilities, CMC will issue 10M ordinary shares at the VWAP of the previous 5 days.

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.

China Magnesium Corporation Limited and its subsidiaries

Notes to the Consolidated Financial Statements - 30 June 2016

NOTE 21: COMMITMENTS (continued)

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>

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.

	2016 \$	2015 \$
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	<u>(1,191,579)</u>	<u>(607,805)</u>
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)	<u>(3,353,560)</u>	<u>(2,902,461)</u>
Total equity	<u>17,757,946</u>	<u>18,221,797</u>

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

NOTE 23: PARENT ENTITY DISCLOSURES (continued)

a) Summary financial information

	2016 \$	2015 \$
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)	<u>(3,353,560)</u>	<u>(2,902,461)</u>
Total equity	<u>17,757,946</u>	<u>18,221,797</u>

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.

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.

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)

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	21,887,149
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
Summarised statement of profit or loss and other comprehensive income	SYMC 2016 \$	SYMC 2015 \$
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)
Summarised cash flows	SYMC 2016 \$	SYMC 2015 \$
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)

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

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

	Consolidated	
	2016	2015
	\$	\$
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

NOTE 26: EARNINGS PER SHARE

	2016	2015
	Cents	Cents
Basic earnings / (loss) per share	(1.1)	(1.7)
Diluted earnings / (loss) per share	(0.9)	(1.5)
	\$	\$
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
	Number	Number
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

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
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