

CHINA MAGNESIUM CORPORATION LIMITED and its Subsidiaries
Directors' Report

Your directors present their report on the consolidated entity consisting of China Magnesium Corporation Limited ("CMC") and the entities it controlled at the end of, or during, the year ended 30 June 2010.

Directors

The names of persons who were directors of CMC during the whole of the year and up to the date of this report are:

T Blackhurst

P Robertson

M Clarey

X Liang

D Macoboy was a director from the beginning of the year until his resignation on 30 September 2009.

W Bass was appointed as a director on 15 February 2010 and continues in office until the date of this report.

Mr William Bass (aged 53) B.Econ, CA, FCS, FTIA, AInstIB, JP (Qual.) - Non-Executive Chairman

Mr Bass has considerable corporate and listed company experience. He brings extensive commercial and financial management experience from a range of leading Australian and international public companies. He is currently a Non Executive Director and Company Secretary of 1300SMILES Limited and was formerly Company Secretary of GE Capital Limited, Billabong International Limited, Country Road Limited and On Card International Limited. Mr Bass is an Associate of the Institute of Chartered Accountants and the Institute for Independent Business and is a Fellow of the Institute of Chartered Secretaries and Taxation Institute of Australia.

Mr Thomas Blackhurst (aged 46) - Chief Executive Officer and co-founder

Mr Blackhurst co-founded the Company in May 2007 with Messrs Xiping Liang Ming Li and Guicheng Jia. He has more than 20 years experience in building new businesses and consulting to various businesses in Australia and Asia. Beginning his career in metals trading, he later embarked upon various other successful entrepreneurial ventures. Since 2005, Mr Blackhurst has been pursuing business ventures in China and has consulted to two Singapore listed companies which held interests in or were seeking to acquire interests in various Chinese businesses.

Mr Xiping Liang (aged 47) BEng, MEng - Chief Operating Officer and co-founder

Mr Liang is a Chinese engineer based in Singapore with more than 22 years experience in international project and corporate development, mainly focussing on infrastructure assets, heavy industries and supporting technologies to support those industries. He has extensive senior executive experience in project evaluation, financial analysis and project/business development for numerous private, public and state owned enterprises in Asia (particularly China and Singapore), Australia and the UK.

Mr Liang grew up in Pingyao and introduced CMC to its Chinese joint venture partner in January 2007, which led to him co-founding the Company in May 2007 with Messrs. Blackhurst, Ming Li and Guicheng Jia. □

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Mr Michael Clarey (aged 63) BA (Mathematics), MIM - Non-Executive Director

Mr Clarey is a dual Australian and United States national with over 30 years international banking, insurance and corporate finance experience in Australia, Asia, Europe and North America working mostly with the natural resources sector including mining, oil & gas, and forest products as well as in the construction, engineering and ship building industries.

After serving as an officer in the US Navy, Mr Clarey commenced his business career at JP Morgan where he spent 18 years in diverse roles in corporate finance and in the capital markets. During the 1990's Mr Clarey was Executive Director, Corporate Finance at Chemical Australia Limited and Managing Director of Non-ferrous Metals & Mining with Chemical Securities in New York, later becoming Head of Forest Products and Aluminium for Chase Securities after the Chemical/Chase merger. From 1999 to 2004, he served as Head of Structured Trade and Project Finance for the Australian Government's Export Finance Insurance Corporation. From 2004 Mr Clarey served as a Non-Executive Director of Anzon Australia Limited until its take-over by Roc Oil in October 2008. Mr Clarey also served as a Non-Executive Director of ASX-listed company ERG Limited from January 2005 until it voluntarily delisted from the ASX in 2009. ERG changed its name to Videlli Limited, and Mr. Clarey remains a Director of that Company. □

Mr Peter Robertson (aged 53) BE (Met), MBA - Non-Executive Director

Mr Robertson is an Australian metallurgist with more than 25 years of experience in mineral processing, smelting and rolling of aluminium and developing new technologies for the recycling of aluminium waste material. Over the past 15 years, Mr Robertson has been involved in the manufacture and supply of consumables and consulting services to the aluminium cast house industry through his role as General Manager of Leymont Pty Ltd. He is also currently a director of Macquarie Harbour Mining Limited (an ASX listed exploration company) and the Digipak/PDC/Leymont JV, which is involved in the recycling of aluminium salt cake waste material.

Meetings of directors:-

The number of meetings of Director held during the year and the number of meetings attended by each Director is as follows:

Director	Board	
	Number of meetings held whilst in office	Meetings attended
W Bass	10	10
T Blackhurst	13	13
M Clarey	13	13
D Macoboy	2	2
X Liang	13	12
P Robertson	13	13

Review of Operations

China Magnesium Corporation Limited owns 31% of the ordinary shares in Shanxi Luyuan Magnesium Company Limited ("SLMC"). Pingyao Maoyuan Porcelain Industry Co Ltd (formerly Ping Yao Lu Yuan Industry Corporation Limited) owns the remaining 69% of ordinary shares in SLMC. SLMC operated for 4 months between July and October 2008. The production facility was then put under Care & Maintenance for the balance of the financial year. As at 30 June 2010 the capital injection from CMC to the Joint Venture is not fulfilled. The equity entitlement of CMC to dividends (if any) of the Joint Venture at 30 June 2010 is determined at 31%.

The principal activity of the company during the financial year was investment in SLMC.

No significant changes in the the nature of these activities occurred during the year.

During the financial year the company issued 2,790,000 shares raising \$1,326,000. In addition to this, the company issued 59,370,000 bonus shares for no consideration. There were not other significant changes in the state of affairs of the company during the financial year.

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No matters or circumstances have arisen since the end of the financial period which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future financial periods other than China Magnesium Corporation Limited is well advanced in the issue of a prospectus in late September 2010 for the raising of \$12,000,000 through the issue of 48 million shares at 25 cents, together with performance related options. The raising of \$12,000,000 will allow the Group to meet the remainder of its 75% interest in CMC China. CMC China intends to use the funds provided by CMC to fund the equity component of the upgrade and first phase expansion to 20,000 tpa capacity.

Likely developments in the operations of the company and the expected results of those operations in future financial periods have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the company.

The company's operations are not regulated by any significant environmental regulation under a law of the Australian Commonwealth or of a state or territory. The consolidated entity's operations in China are subject to relevant laws and regulations imposed by the Chinese government. These operations are subject to review by Chinese government inspectors. The directors are not aware on any matters suggesting that the consolidated entity's operations is not in full compliance with the relevant laws and regulations.

No dividends have been paid or declared since the start of the financial period.

There were no unissued ordinary shares of CMC under option at the date of this report.

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the period

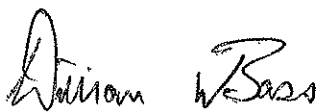
During the financial year the company paid a premium in respect of a contract insuring directors, secretaries and executive officers of the company and its controlled entities against a liability incurred as director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or any of its controlled entities against a liability incurred as such an officer or auditor.

Auditor's Independence Declaration

A copy of the independence declaration by the auditor under section 307C is included on page to these financial statements.

This report is made in accordance with a resolution of the Board of Directors and is signed for and behalf of the directors by:



W Bass
Director

Gold Coast
20 September 2010

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

As lead auditor of China Magnesium Corporation Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

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

BDO Audit (QLD) Pty Ltd



Anthony J Whyte

Director

Brisbane, 20 September 2010

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CHINA MAGNESIUM CORPORATION LIMITED and its Subsidiaries

Consolidated Statement of Comprehensive Income
for the Year Ended 30 June 2010

Consolidated Entity			
	Note	2010 \$	2009 \$
Revenue from continuing operations	2	-	2,920,276
Other Income	2	2,858	136,796
Operating costs		-	(2,584,806)
Depreciation and amortisation expenses		(152,232)	(195,196)
Finance costs		(185)	(3,370)
Other expenses		<u>(382,220)</u>	<u>(224,240)</u>
Loss before income tax		(531,779)	49,460
Income tax	3	<u>-</u>	<u>-</u>
Loss after tax from continuing operations		<u>(531,779)</u>	49,460
Net loss for the year		<u>(531,779)</u>	<u>49,460</u>
Other comprehensive income			
Foreign currency translation differences		15,645	(84,046)
Income tax on items of other comprehensive income		<u>-</u>	<u>-</u>
Other comprehensive income for the year, net of tax		<u>15,645</u>	<u>(84,046)</u>
Total comprehensive income for the year		<u>(516,134)</u>	<u>(34,586)</u>
Loss for the year is attributable to:			
Owners of CMC		(389,965)	(142,827)
Non-controlling interest		<u>(141,814)</u>	192,287
		<u>(531,779)</u>	<u>49,460</u>
Total comprehensive income for the year is attributable to:			
Owners of CMC		(374,320)	(226,873)
Non-controlling interest		(141,814)	192,287
		<u>(516,134)</u>	<u>(34,586)</u>
Earnings per share			
Basic and diluted earnings per share		(0.024)	0.003

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

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CHINA MAGNESIUM CORPORATION LIMITED and its Subsidiaries

Consolidated Statement of Financial Position
as at 30 June 2010

	Note	Consolidated Entity	
		2010 \$	2009 \$
CURRENT ASSETS			
Cash and cash equivalents	4	1,157,340	181,962
Trade and other receivables	5	154,459	143,088
Inventories		381,430	439,190
Prepayments	6	151,886	-
Total Current Assets		1,845,115	764,240
NON-CURRENT ASSETS			
Property, plant and equipment	7	1,241,487	1,393,719
Other		151,900	151,900
Total Non-Current Assets		1,393,387	1,545,619
TOTAL ASSETS		3,238,502	2,309,859
CURRENT LIABILITIES			
Trade and other payables	8	156,827	38,050
Current tax liabilities	9	88,320	88,320
Total Current Liabilities		245,147	126,370
NON-CURRENT LIABILITIES			
Total Non-Current Liabilities		-	-
TOTAL LIABILITIES		245,147	126,370
NET ASSETS		2,993,355	2,183,489
EQUITY			
Contributed equity	10	2,185,350	859,350
Reserves	12	(68,401)	(84,046)
Retained earnings		(468,619)	(78,654)
Total equity attributable to owners of CMC		1,648,330	696,650
Attributable to owners of non-controlling interest		1,345,025	1,486,839
TOTAL EQUITY		2,993,355	2,183,489

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

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CHINA MAGNESIUM CORPORATION LIMITED and its Subsidiaries

Consolidated Statement of Changes in Equity
for the Year Ended 30 June 2010

	Contributed equity \$	Retained earnings \$	Foreign currency translation reserve \$	Total \$	Non- controlling interest \$	Total equity \$
At 1 July 2008	859,350	64,173	-	923,523	1,323,821	2,247,344
Total comprehensive income for the half-year						
Loss for the year	-	(142,827)	-	(142,827)	192,287	49,460
<i>Other comprehensive income</i>						
Foreign currency translation difference	-	-	(84,046)	(84,046)	-	(84,046)
Total comprehensive income for the half-year	-	(142,827)	(84,046)	(226,873)	192,287	(34,586)
Transactions with owners in their capacity as owners						
Recognition of non-controlling interest upon increasing interest in subsidiary	-	-	-	-	(29,269)	(29,269)
	-	-	-	-	(29,269)	(29,269)
At 30 June 2009	859,350	(78,654)	(84,046)	696,650	1,486,839	2,183,489
Total comprehensive income for the year						
Loss for the year	-	(389,965)	-	(389,965)	(141,814)	(531,779)
<i>Other comprehensive income</i>						
Foreign currency translation difference	-	-	15,645	15,645	-	15,645
Total comprehensive income for the half-year		(389,965)	15,645	(374,320)	(141,814)	(516,134)
Transactions with owners in their capacity as owners						
Issue of shares	1,326,000	-	-	1,326,000	-	1,326,000
	1,326,000	-	-	1,326,000	-	1,326,000
At 30 June 2010	2,185,350	(468,619)	(68,401)	1,648,330	1,345,025	2,993,355

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

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CHINA MAGNESIUM CORPORATION LIMITED and its Subsidiaries

Consolidated Statement of Cash Flows
for the Year Ended 30 June 2010

	Consolidated Entity	
	2010 \$	2009 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	-	1,699,195
Payments to suppliers and employees	(134,125)	(1,917,866)
Interest received	2,858	12,325
Interest and other costs of finance paid	(137)	(3,594)
Income taxes (paid) recovered	7,045	(374,835)
Net cash inflow from operating activities	<u>(124,359)</u>	<u>(584,775)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Advance payment - land security	-	(151,900)
Payment to SLMC joint venture	-	(127,671)
Net cash (outflow)/inflow from investing activities	<u>-</u>	<u>(279,571)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	1,326,000	377,104
Share issue costs	(225,204)	-
Net cash (outflow)/inflow from financing activities	<u>1,100,796</u>	<u>377,104</u>
NET INCREASE IN CASH HELD	976,437	(487,242)
Net cash at beginning of period	181,962	609,315
Effects of exchange rate changes on the balances of cash held in foreign currencies at the beginning of the period	(1,059)	59,889
NET CASH AT END OF PERIOD	<u><u>1,157,340</u></u>	<u><u>181,962</u></u>

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

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CHINA MAGNESIUM CORPORATION LIMITED CONSOLIDATED FINANCIAL STATEMENTS

CHINA MAGNESIUM CORPORATION LIMITED and its Subsidiaries

Notes To The Consolidated Financial Statements
for the Year Ended 30 June 2010

CORPORATE INFORMATION

The financial statements of China Magnesium Corporation Limited (CMC) for the year ended 30 June 2010 were authorised for issue in accordance with a resolution of the directors on 20 September 2010 and covers the consolidated entity consisting of China Magnesium Corporation Limited and its subsidiaries as required by the Corporations Act 2001.

The financial statements are presented in Australian currency.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by The Group and adopted in the preparation of the historical financial information included in this Report has been set out below.

(a) Basis of preparation of financial statements

These general purpose financial statements for the year ended 30 June 2010 have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial statements comply with the International Financial Reporting Standards (IFRS).

The historical cost basis has been used, except for investment properties, land and buildings, derivatives and available-for-sale financial assets which have been measured at fair value.

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

The same accounting policies and methods of computation have generally been followed in these financial statements as compared with the most recent annual financial statements.

The consolidated financial statements have been prepared on the going concern basis. The ultimate recoupment of the carrying value of the magnesium production facility assets is dependent upon the successful development and commercial operation of the processing facility.

Should the current capital raising efforts not be successful in raising the minimum capital prescribed, the Company has sufficient working capital to implement a substantially slower redevelopment of this facility. The Company and Group would continue as a going concern, and would realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report. Accordingly no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the directors' plans not be successful.

(b) Foreign Currency Translation

The functional and presentation currency of The Group is Australian dollars(AUD)

The functional currency of the overseas subsidiary is the Chinese renminbi. At the end of the reporting period, the assets and liabilities of this overseas subsidiary are translated into the presentation currency of China Magnesium Corporation Limited at the closing rate at the end of the reporting period and income and expenses are translated at the weighted average exchange rates for the year. All resulting exchange differences are recognised in other comprehensive income as a separate component of equity (foreign currency translation reserve). On disposal of a foreign entity, the cumulative exchange differences recognised in foreign currency translation reserves relating to that particular foreign operation is recognised in profit or loss.

(c) Functional and presentation

Items included in the financial report of The Group are measured using the currency of the primary economic environment in which the entity operates("the functional currency"). This financial report is presented in Australian dollars, which is The Group's functional and presentation currency.

(d) Revenue Recognition

Revenue from the sale of goods and disposal of other assets is recognised when The Group has passed control of the goods or other assets to the buyer. Revenue is measured at the fair value of the consideration received or receivable.

Interest income on cash balances is recognised when it becomes payable. Where this interest income relates to project construction funds, the interest income is offset against interest expense and capitalized under development expenses.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of The Group's activities. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. 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.

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Notes To The Consolidated Financial Statements
for the Year Ended 30 June 2010**(e) Income Tax**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit and loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax for the period is the expected tax payable on the current period's taxable income based on the notional income tax rate for each jurisdiction adjusted by changes in deferred tax attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates, which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure deferred tax. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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 assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities 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 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.

(f) Impairment of Assets

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 that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(g) Cash and Cash Equivalents

"Cash and cash equivalents" includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments 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 within borrowings in current liabilities on the Statement of Financial Position.

(h) Investments and Other Financial Assets

All investments and other financial assets are initially stated at cost, being the fair value of consideration given plus acquisition costs. Purchases and sales of investments are recognised on trade date which is the date on which The Group commits to purchase or sell the asset. Accounting policies for each category of investments and other financial assets subsequent to initial recognition are set out below.

Held for Trading

Investments held for trading are measured at fair value with gains or losses recognised in profit and loss. A financial asset is classified as held-for-trading if acquired principally for the purpose of selling in the short term or if it is a derivative that is not designated as a hedge. Investments held for trading are classified as current assets on the statement of financial position.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that The Group has the positive intention and ability to hold-to-maturity and are measured at amortised cost subsequent to initial recognition using the effective interest method.

Available-for-sale financial assets

Available-for-sale financial assets comprise investments in listed and unlisted entities and any non-derivatives that are not classified as any other category, and are classified as non-current assets. After initial recognition, these investments are measured at fair value with gains or losses recognised as a separate component of equity (available-for-sale investments revaluation reserve). Where losses have been recognised in equity and there is objective evidence that the asset is impaired, the cumulative loss, being the difference between the acquisition cost and current fair value less any impairment loss previously recognised in the profit and loss, is removed from equity and recognised in the profit and loss.

Notes To The Consolidated Financial Statements
for the Year Ended 30 June 2010

Reversals of impairment losses on equity instruments classified as available-for-sale cannot be reversed through the profit and loss. Reversals of impairment losses on debt instruments classified as available-for-sale can be reversed through the profit and loss where the reversal relates to an increase in the fair value of the debt instrument occurring after the impairment loss was recognised in the profit and loss.

Loans and receivables

Non-current loans and receivables include loans due from related parties repayable no earlier than 365 days of balance sheet date. As these are non-interest bearing, fair value at initial recognition requires an adjustment to discount these loans using a market-rate of interest for a similar instrument with a similar credit rating. The discount is credited to the income statement immediately and amortised using the effective interest method.

(i) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

Financial instruments traded in active markets

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the financial reporting date. The quoted market price used for financial assets held by The Group is the Current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

Financial instruments not traded in active markets

The fair value of financial instruments that are not traded in an active market (for example over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

Trade receivables and payables

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values due to their short term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to The Group for similar financial instruments.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of the future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that they do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

(j) Property Plant and Equipment

Recognition and measurement

Each class of property, plant and equipment is stated at historical cost less, where applicable, any accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the item.

The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to functionality of the related equipment is capitalised as part of the equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present value in determining recoverable amount.

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Notes To The Consolidated Financial Statements
for the Year Ended 30 June 2010*Subsequent costs*

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to The Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss during the financial period in which they are incurred.

Depreciation

Land is not depreciated. Depreciation on other assets is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

Buildings	25-40 years
Plant and equipment	3-8 years
Infrastructure	25-40 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

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 the income statement. When revalued assets are sold, it is The Group's policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(k) Payables

Trade and other payables represent liabilities for goods and services provided to The Group prior to the year end and which are unpaid. These amounts are unsecured and have 30-60 day payment terms.

(l) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowing are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the profit and loss over the period of the borrowings using the effective interest method. Fees are paid on the establishment of loan facilities which are not an incremental cost relating to the actual draw-down of the facility, are capitalised to the statement of financial position as deferred costs and amortised on a straight-line basis over the term of the facility.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

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 reporting date.

(m) Borrowings Cost

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year.

(n) Employee Benefits*Wages and Salaries, Annual Leave and Sick Leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of reporting date are recognised in respect of employees' services rendered up to reporting date and measured at amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when leave is taken and measured at the actual rates paid or payable. Liabilities for wages and salaries, annual and sick leave are included as part of other payables.

Long Service Leave

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Notes To The Consolidated Financial Statements
for the Year Ended 30 June 2010

Liabilities for long service leave are recognised as part of 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 to the reporting date using the projected unit credit method. Consideration is given to expected future salaries and wages levels, experience of employee departures and periods of service. Expected future payments are discounted using national government bond rates at reporting date with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Profit-sharing and Bonus Plans

The Group recognises an expense and a liability for bonuses and profit-sharing when the entity is contractually obliged to make such payments or where there is past practice that has created a constructive obligation

(o) Contributed Equity

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities.

Costs directly attributable to the issue of new shares or options are shown as a deduction from the equity proceeds, net of any income tax benefit. Costs directly attributable to the issue of new shares or options associated with the acquisition of a business are included as part of the purchase consideration.

(p) Goods and Services Tax

Revenues, expenses and assets are recognised net of GST except where GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(q) Share Based Payments

The Group may provide benefits to employees (including directors) of the Group in the form of share based payment transactions whereby employees render services in exchange for shares or options over shares ('equity-settled transactions').

The fair value of options is recognised as an expense with a corresponding increase in equity (share option reserve). The fair value is measured at grant date and recognised over the period during which the holder become unconditionally entitled to the options. Fair value is determined by an independent valuer using a Black-Scholes option pricing model. In determining fair value, no account is taken of any performance conditions other than those related to the share price of The Group (market conditions). The cumulative expense recognised between grant date and vesting date is adjusted to reflect the director's best estimate of the number of options that will ultimately vest because of internal conditions of the options, such as the employees having to remain with The Group until vesting date, or such that employees are required to meet internal sales targets. No expense is recognised for options that do not ultimately vest because internal conditions were not met. An expense is still recognised for options that do not ultimately vest because a market condition was not met.

Where the terms of options are modified, the expense continues to be recognised from grant date to vesting date as if the terms had never been changed. In addition, at the date of the modification, a further expense is recognised for any increase in fair value of the transaction as a result of the change.

Where options are cancelled, they are treated as if vesting occurred on cancellation and any unrecognised expenses are taken immediately to the profit and loss. However, if new options are substituted for the cancelled options and designated as a replacement on grant date, the combined impact of the cancellation and replacement options are treated as if they were a modification.

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Notes To The Consolidated Financial Statements
for the Year Ended 30 June 2010

(r) Basis of consolidation

The consolidated financial statements comprise the financial statements of China Magnesium Corporation Limited and its subsidiaries at 30 June each year ("the Group"). Subsidiaries are entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Potential voting rights that are currently exercisable or convertible are considered when assessing control. Consolidated financial statements include all subsidiaries from the date that control commences until the date that control ceases. The financial statements of subsidiaries are prepared for the same reporting period as the parent, using consistent accounting policies.

All intercompany balances and transactions, including unrealised profits arising from intragroup transactions have been eliminated. Unrealised losses are also eliminated. Non controlled interests in the results and equity of subsidiaries are shown separately in the consolidated Statement of Comprehensive Income and Statement of Financial Position respectively. Total comprehensive income is attributable to owners of China Magnesium Corporation Limited and non-controlling interests even if this results in the non-controlling interests having a debit balance.

Subsidiaries are accounted for in the parent entity financial statements at cost.

In the case of CMC China, whilst China Magnesium Corporation Limited does not currently own in excess of 50% of the allotted shares, the financial statements of CMC China have been consolidated as China Magnesium Corporation Limited has the power to and does govern the financial and operating powers of CMC China.

Note 2 REVENUE

	Consolidated	
	2010 \$	2009 \$
Sale of goods	-	2,920,276
Other income	2,858	136,796
	<u>2,858</u>	<u>3,057,072</u>

Note 3 INCOME TAX EXPENSE

Current tax expense	-	-
The subsidiary located in China is not currently liable for income tax.		
Reconciliation between the prima facie Australian tax and actual tax expense:-		
Loss from continuing operations before income tax expense	(504,670)	(126,387)
Tax at the Australian tax rate of 30%	(151,401)	(37,916)
Tax not recognised as own liability	-	(81,372)
Tax losses not recognised as own asset	147,227	135,562
Difference in overseas tax rates	4,174	(16,274)
	<u>-</u>	<u>-</u>

NOTE 4 CASH AND EQUIVALENTS

Cash at bank	1,143,493	167,528
Notes receivable	13,847	14,434
	<u>1,157,340</u>	<u>181,962</u>

Reconciliation of Cash

The above figures are reconciled to cash as shown in the statement of cash flows as follows:

Balances as above	<u>1,157,340</u>	<u>181,962</u>
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NOTE 5 TRADE AND OTHER RECEIVABLES

	Consolidated	
	2010 \$	2009 \$
Trade receivables	133,593	143,088
Other receivables	20,866	-
	<u>154,459</u>	<u>143,088</u>

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Notes To The Consolidated Financial Statements
for the Year Ended 30 June 2010

NOTE 6 PREPAYMENTS

Due diligence costs deferred	151,886	-
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NOTE 7 PROPERTY, PLANT AND EQUIPMENT

	Consolidated	
	2010 \$	2009 \$
<i>Land and Buildings</i>		
At cost	284,817	284,817
Accumulated depreciation	-28,719	-14,934
	<u>256,098</u>	<u>269,883</u>
<i>Plant and equipment</i>		
At cost	1,271,498	1,271,498
Accumulated depreciation	-286,109	-147,662
	<u>985,389</u>	<u>1,123,836</u>
Total plant and equipment	<u>1,241,487</u>	<u>1,393,719</u>

Movement during the year:

	<i>Land & buildings</i>	<i>Plant & equipment</i>	<i>Total</i>
Balance from 1 July 2009	269,883	1,123,836	1,393,719
Depreciation	-13,785	-138,447	-152,232
Balance at 30 June 2010	<u>256,098</u>	<u>985,389</u>	<u>1,241,487</u>
Balance from 1 July 2008	232,655	1,268,116	1,500,771
Additions	51,013	37,131	88,144
Depreciation	-13,785	-181,411	-195,196
Balance at 30 June 2009	<u>269,883</u>	<u>1,123,836</u>	<u>1,393,719</u>

NOTE 8 TRADE AND OTHER PAYABLES

	Consolidated	
	2010 \$	2009 \$
Other payables	156,827	38,050

NOTE 9 CURRENT TAX LIABILITIES

VAT payable (China)	88,320	88,320
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Notes To The Consolidated Financial Statements
for the Year Ended 30 June 2010

NOTE 10 CONTRIBUTED EQUITY

	Number	Consolidated	
		2010 \$	2009 \$
Share Capital			
<i>Ordinary share - no par value</i>			
Fully paid	15,000,000	359,350	359,350
Called to 12.5 cents - 25 June 2008	2,000,000	250,000	250,000
Called to 12.5 cents - 15 August 2008	-	250,000	250,000
Called to 40 cents - 28 February 2010	690,000	276,000	-
Called to 50 cents - 31 May 2010	2,100,000	1,050,000	-
Bonus shares - 9 June 2010	59,370,000	-	-
	<u>79,160,000</u>	<u>2,185,350</u>	<u>859,350</u>

On 28 February 2010 the Company undertook a placement of 690,000 ordinary shares in the Company at 40 cents per share to raise capital of \$276,000. On 31 May 2010 the Company undertook a placement of 2,100,000 ordinary shares at 50 cents per share to raise capital of \$1,050,000. On 9 June 2010 the Company allotted 59,370,000 bonus shares being 3 bonus shares for every issued share.

Ordinary shareholders are entitled to participate in dividends and proceeds on a winding up of the company in proportion to the number of and amounts paid on the shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy at a meeting of the company.

NOTE 11 NON-CONTROLLING INTERESTS

	Consolidated	
	2010 \$	2009 \$
Non-controlling interests in:		
Share capital	1,102,744	1,102,744
Retained earnings	242,281	384,095
	<u>1,345,025</u>	<u>1,486,839</u>

NOTE 12 RESERVES

	Consolidated	
	2010 \$	2009 \$
Foreign exchange reserve	(68,401)	(84,046)
	<u>(68,401)</u>	<u>(84,046)</u>

The foreign currency translation reserve is used to record the exchange differences on translation of foreign controlled subsidiaries. Amounts are reclassified to profit or loss when the investment is disposed of.

NOTE 13 RELATED PARTY TRANSACTIONS

China Magnesium Corporation Limited is the parent entity of the Group, owning 31% of the ordinary shares of the Joint Venture entity, Shanxi Luyuan Magnesium Company Limited (SLMC) at 30 June 2010. The non-controlling interest, Pingyao County Maoyuan Porcelain Industry Co Ltd owns the remaining 69% of the ordinary shares of the Joint Venture entity at 30 June 2010. China Magnesium Corporation Limited is deemed to have control of the Joint Venture entity in substance, in accordance with AASB 127 Consolidated and Separate Financial Statements, although it does not control more than one half of the voting rights of the entity.

In accordance with the joint venture agreement entered into between CMC and Pingyao County Maoyuan Porcelain Industry Co Ltd, CMC is required to increase its interest in SLMC to 75% by 31 December 2010. This will require a further capital contribution to SLMC by CMC of approximately \$2,200,000.

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Notes To The Consolidated Financial Statements
for the Year Ended 30 June 2010

NOTE 14 EVENTS OCCURRING AFTER 30 JUNE 2010

China Magnesium Corporation Limited is well advanced in the issue of a prospectus in late September 2010 for the raising of \$12,000,000 through the issue of 48 million shares at 25 cents, together with performance related options. The raising of \$12,000,000 would allow the Group to meet the remainder of its 75% interest in CMC China. CMC China intends to use the funds provided by CMC to fund the equity component of the upgrade and first phase expansion to 20,000 tpa capacity.

NOTE 15 DIRECTORS AND KEY MANAGEMENT PERSONNEL COMPENSATION

Remuneration of directors and key management personnel [2009 : nil]:-

Director	2010 Fees	2010 Total
T Blackhurst	40,000	40,000
W Bass	20,000	20,000
X Liang	-	-
P Robertson	-	-
M Clarey	-	-
Total	<u>\$60,000</u>	<u>\$60,000</u>

NOTE 16 PARENT ENTITY INFORMATION

The following information relates to the parent entity, China Magnesium Corporation Limited. The information presented has been prepared using accounting policies that are consistent with those presented in Note 1.

	2010 \$	2009 \$
Current assets		
Cash and cash equivalents	1,132,360	155,923
Trade and other receivables	20,886	3,587
Prepayments	151,886	-
	<u>1,305,132</u>	<u>159,510</u>
Non-current assets		
Investment in subsidiary	359,350	359,350
Total assets	<u>1,664,482</u>	<u>518,860</u>
Current liabilities		
Trade and other accounts payable	135,426	15,477
	<u>135,426</u>	<u>15,477</u>
Non-current liabilities		
	-	-
Total liabilities	<u>135,426</u>	<u>15,477</u>
Net assets	<u>1,529,056</u>	<u>503,383</u>
Equity		
Contributed equity	2,185,350	859,350
Retained earnings Note (a)	(656,294)	(355,967)
Total equity	<u>1,529,056</u>	<u>503,383</u>
Note (a)		
Reconciliation of Retained Earnings		
Loss for the year	(300,327)	(278,431)
Other comprehensive income/loss for the year	-	-
Retained Earnings - opening	(355,967)	(77,536)
Retained earnings	<u>(656,294)</u>	<u>(355,967)</u>

China Magnesium Corporation Limited has not guaranteed any leases of its subsidiary.

Notes To The Consolidated Financial Statements
for the Year Ended 30 June 2010

Contingent liabilities

China Magnesium Corporation Limited has no contingent liability in respect of termination benefits.

Capital Commitments

In accordance with the joint venture agreement entered into between CMC and Pingyao County Maoyuan Porcelain Industry Co Ltd, CMC is required to increase its interest in SLMC to 75% by 31 December 2010. This will require a further capital contribution to SLMC by CMC of approximately \$2,200,000.

NOTE 17 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 economic entity level.

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

NOTE 18 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
Trade and other receivables
Trade and other payables

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for

(b) 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 as reporting date is the balances recognised in cash and trade receivables. Cash is deposited with Macquarie.

(c) Market Risk

Market risk arises from the use of interest bearing and foreign currency financial instruments. It is the risk that the fair value or 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 is the only financial instrument of the group that is subject to interest rate risk. Cash earns interest at a standard variable rate.

Foreign currency risk arises from the Group's investment in its foreign controlled subsidiary. The currency in which transactions with in this investment are primarily denominated is renminbi. The Groups investment in its subsidiary is not hedged.

(d) Liquidity Risk

Liquidity risk is the risk that the entity 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.

Working capital consists primarily of cash. The entity has established a number of policies and processes for managing liquidity risk:

- Monitoring actual against budgeted cashflows.
- Regularly forecasting long term cashflows and stress testing.
- Regularly monitoring the availability of equity capital and current market conditions.

NOTE 19 COMMITMENTS

The group has not capital commitments.

NOTE 20 CONTINGENT LIABILITIES

The group has no contingent liabilities at reporting date.

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CHINA MAGNESIUM CORPORATION LIMITED and its Subsidiaries

Declaration by Directors

The directors of the company declare that:

(a) The financial statements comprising the statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cashflows and notes to the financial statements are in accordance with the Corporations Act 2001 and:

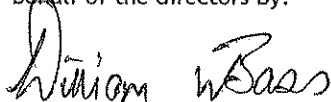
(i) comply with Accounting Standards AASB 134 *Interim Financial Reporting* Regulations 2001; and

(ii) give a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date.

(b) The company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

(c) In the directors' opinion, 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 Board of Directors and is signed for and behalf of the directors by:



W Bass
Director

Gold Coast
20 September 2010

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INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF CHINA MAGNESIUM CORPORATION LIMITED

We have audited the accompanying financial report of China Magnesium Corporation Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

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

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* would

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be in the same terms if it had been given to the directors at the time that this auditor's report was made.

Qualification

This is the first year that consolidated financial statements have been prepared for China Magnesium Corporation Limited. The consolidated financial statements for the year ended 30 June 2009 have not been audited. We can not determine the effect, if any, which this has on the results of the Group for the year ended 30 June 2010. We are also not in a position to, and do not express any assurance in respect of the comparative information for the year ended 30 June 2009.

Qualified Auditor's Opinion

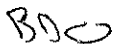
Except for the effect, if any, on the comparatives for the preceding financial year and the results for the year ended 30 June 2010 that may result from the qualification in the preceding paragraph, in our opinion:

- (a) the financial report of China Magnesium Corporation Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1 (a)

Emphasis of Matter

Without further qualification to the opinion expressed above, attention is drawn to the matter detailed in note 1. As detailed in that note, the financial statements have been prepared on a going concern basis. This contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the ordinary course of business. The company requires additional funds or alternative finance to fund the redevelopment of the magnesium production facility and to provide necessary working capital which will allow it to continue as a going concern. No adjustments have been made to the carrying amount of assets or the amount and classification of liabilities at 30 June 2010 should the directors' plans not eventuate.

BDO Audit (QLD) Pty Ltd



Anthony J Whyte

Director

Brisbane, 20 September 2010

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