China Magnesium Corporation Ltd.

CHINA MAGNESIUM CORPORATION LIMITED

FINANCIAL STATEMENTS FOR PERIOD ENDING 30 JUNE 2008

China Magnesium Corporation Limited
Income Statement

Period Ended 30 June 2008	**Note**	**Consolidated**	**Parent**
		AUD	**AUD**
Revenue	**2**	1,475,309	-
Other income		4,577	-
Changes in inventories of finished goods		(689,441)	-
Raw material and consumables		(402,453)	-
Employee benefits expense		(26,217)	-
Depreciation and amortisation		(9,917)	-
Other expenses		(86,614)	(77,535)
Profit before income tax		**265,343**	**(77,535)**
Income tax expense	**3**	(96,870)	-
Profit/(loss) for the period		**168,373**	**(77,535)**
Profit/(loss) is attributable to:			
Minority interest		191,809	-
Equity holders of the parent		(23,436)	(77,535)
		168,373	**(77,535)**

The equity holders of the parent hold 22% of the issued capital, however they have effective control and have accordingly consolidated the results of the subsidiary.

China Magnesium Corporation Limited
Balance Sheet

As at 30 June 2008	Note	Consolidated	Parent
		AUD	AUD
ASSETS			
Current Assets			
Cash and cash equivalents	4	609,315	377,636
Trade and other receivables	5	440,364	250,000
Investment in Joint Venture		-	231,679
Inventories		120,811	-
TOTAL CURRENT ASSETS		1,170,769	853,315
NON CURRENT ASSETS			
Property, plant and equipment	6	1,500,771	-
TOTAL NON CURRENT ASSETS		1,500,771	-
TOTAL ASSETS		**2,671,261**	**859,315**
LIABILITIES			
Current Liabilities			
Trade and other payables	7	114,354	77,500
Current tax liabilities	8	309,563	-
TOTAL CURRENT LIABILITIES		423,917	77,500
TOTAL LIABILITIES		**1,423,917**	**77,500**
NET ASSETS		**2,247,344**	**781,815**
EQUITY			
Contributed equity	9	859,350	859,350
Minority Interest	10	797,535	-
Other reserves	11	422,086	-
Retained earnings/(Accumulated losses)	12	168,373	(77,535)
		2,247,344	**781,815**
Equity attributable to:			
Parent entity interest		928,773	781,815
Minority interest		1,318,571	-
TOTAL EQUITY		**2,247,344**	**781,815**

CHINA MAGNESIUM CORPORATION LIMITED
CASH FLOW STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2008

	Note	Consolidated AUD	Parent AUD
Cash flows from operating activities			
Interest Paid		(35)	(35)
Net cash inflow/(outflow) from financing activities		(35)	(35)
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		-	(231,679)
Net cash inflow/(outflow) from investing activities		-	(231,679)
Cash flows from financing activities			
Proceeds from issue of shares		609,350	609,350
Net cash inflow/(outflow) from financing activities		609,350	609,350
Net increase in cash and cash equivalents		609,315	377,636
Cash and cash equivalents at end of period		**609,315**	**377,636**

The above cash flow statements should be read in conjunction with the accompanying notes.

There were no cash flows within China Magnesium's only controlled entity, SLMC, during the period as all cash transactions have been conducted via Pingyao Luyuan Industry Corporation Limited for SMLC for the period from 1 July 2008 to 31 July 2008.

CHINA MAGNESIUM CORPORATION LIMITED
STATEMENTS OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 2008

	Issued capital Parent AUD	Retained earnings Parent AUD	Other reserves Parent AUD	Total Parent AUD	Consolidated earnings attributable to the parent AUD	Minority interest (note 10) AUD	Total Consolidated equity AUD
CONSOLIDATED ENTITY							
At incorporation	-	-	-	-	-	-	
Share of joint venture entity's land and buildings revaluation surplus	-	-	92,859	92,859	-	329,227	422,086
Total income and expense for the period recognised directly in equity	**-**	**-**	**92,859**	**92,859**	**-**	**329,227**	**422,086**
Profit for the period	-	(77,535)	-	(77,535)	54,099	191,809	168,373
Total income and expense for the period	**-**	**(77,535)**	**92,859**	**15,324**	**54,099**	**521,036**	**590,459**
Issue of capital	859,350	-	-	859,350	-	-	859,350
Contribution of capital by Minority Interest	-	-	-	-	-	797,535	797,535
	859,350	**(77,535)**	**92,859**	**874,674**	**54,099**	**1,318,571**	**2,247,344**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation of financial statements

The historical financial information has been prepared in accordance with the measurement and recognition, but not all of the disclosure requirements of Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

The financial information has been prepared on an historical cost basis, except for derivatives and available-for-sale financial assets that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged are adjusted to record changes in the fair value attributable to the risks that are being hedged. Non-current assets and disposal groups held-for-sale are measured at the lower of carrying amounts and fair value less costs to sell.

Compliance with Australian equivalents to International Financial Reporting Standards (AIFRS) ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

(b) Foreign Currency Translation

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

Foreign currency transactions are translated into the functional currency using the exchange rates ruling at the date of the transaction. This was 0.1519 Chinese Yuan Renminbi to $A as at 30 June 2008. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Foreign exchange gains and losses resulting from settling foreign currency transactions, as well as from restating foreign currency denominated monetary assets and liabilities, are recognised in the income statement, except for differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined.

(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.

(e) Income Tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in income statements 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 is recognised using the balance sheet method, providing for 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 entity 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 balance sheet.

(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 the income statement. 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 balance sheet.

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 income statement, is removed from equity and recognised in the income statement.

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

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 balance sheet 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.

Share-based payment transactions

The fair value of employee share options is measured using the Black-Scholes model. Measurement inputs include share price on a measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

(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 the 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.

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 income statement 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
Machinery	10-15 years
Vehicles	3-5 years
Furniture, fittings and equipment	3-8 years
Infrastructure	5-40 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet 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. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement 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 balance sheet as deferred costs and amortised on a straight-line basis over the term of the facility.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are removed from the balance sheet 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 balance sheet date.

(m) Borrowing Costs

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 balance sheet date are recognised in respect of employees' services rendered up to balance sheet 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 are included as part of Other Payables and liabilities for annual and sick leave are included as part of Employee Benefit Provisions.

Long Service Leave

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 balance sheet 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 balance sheet 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.

Retirement Benefit Obligations

The Group has a defined contribution superannuation fund. Contributions are recognised as expenses as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(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.

NOTE 2 REVENUE

	Consolidated AUD	Parent AUD
Sale of Goods	1,475,309	-

NOTE 3 INCOME TAX EXPENSE

	Consolidated AUD	Parent AUD
Current tax expense		
Current tax expense	96,870	-
Deferred tax expense	-	-
Total income tax expense in income statement	96,870	-
Attributable to:		
Continuing operations	96,870	-
Discontinuing operations	-	-
	96,870	-

The subsidiary located in China incurs a different tax rate (25% currently applicable) depending on whether profits are retained in the entity or paid out as dividends. The deferred tax expense has been measured using the tax rates applicable to undistributed profits. The table below shows a reconciliation between the prima facie Australian tax and the actual tax expense. The losses of the parent are considered to be Australian and therefore not offset against the profits made in China, increasing the effective tax rate.

	Consolidated	Parent
Profit from continuing operations before income tax expense	265,243	(77,535)
Tax at the Australian tax rate of 30%	79,573	(23,261)
Tax losses not recognised as own asset	23,261	23,261
	102,833	-
Difference in overseas tax rates	(5,963)	-
Income tax expense at effective tax rate of 36%	96,870	-

(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 balance sheet.

Cash flows are included in the cash flow statement 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 income statement. 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.

NOTE 4 CASH AND CASH EQUIVALENTS

	Consolidated AUD	Parent AUD
Cash at bank	609,315	377,636
Deposits at call	-	-
	609,315	377,636

Reconciliation of Cash

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

	Consolidated AUD	Parent AUD
Balances as above	609,315	377,636
Bank overdrafts	-	-
Balances per statement of cash flows	609,315	377,636

NOTE 5 TRADE AND OTHER RECEIVABLES (CURRENT)

Trade receivables	151,095	-
Other receivables	289,269	250,000
	440,364	250,000

For the parent entity, other receivables comprise receivables from shareholders for the second and final call on shares issued on 20 June 2008.

NOTE 6 PROPERTY, PLANT AND EQUIPMENT

	Consolidated AUD	Parent AUD
Land and Buildings		
At cost	290,324	-
Accumulated depreciation	(57,669)	-
	232,655	-
Plant and equipment		
At cost	1,173,355	-
Accumulated depreciation	(21,122)	-
	1,052,233	-
Plant and equipment under construction	215,883	-
Total plant and equipment	1,284,888	-
Total non-current property, plant and equipment	1,500,771	-

Revaluations

A revaluation of all fixed assets was carried out in December 2007 (prior to CMC's acquisition of the subsidiary) and were based on independent assessments by a registered member of the China Real Estate Valuers Association. The revaluation surplus was credited to other reserves in shareholders equity (note 11).

If the revalued assets were stated on a historical cost basis, the amounts would be as follows:

	AUD
Cost	1,037,491
Accumulated Depreciation	(168,873)
Net carrying amount	868,618

NOTE 6 PROPERTY, PLANT AND EQUIPMENT CONT'D

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant & equipment at incorporation and the end of the current financial year are set out below:

	Consolidated AUD	Parent AUD
Total Land and Buildings		
Carrying amount at incorporation	233,350	-
Depreciation	(695)	-
Carrying amount at end of financial year	232,655	-
Total Plant & Equipment		
Carrying amount at incorporation	1,057,316	-
Additions	4,101	-
Depreciation	(9,185)	-
Carrying amount at end of financial year	1,052,233	-

NOTE 7 TRADE AND OTHER PAYABLES

Trade payables	-	-
Other payables	114,354	77,500
	114,354	77,500

NOTE 8 CURRENT TAX LIABILITIES

Current income tax payable (China)	309,563	-
	309,563	-

NOTE 9 CONTRIBUTED EQUITY

	Number	Consolidated AUD
Share Capital		
Ordinary shares – no par value		
Fully paid	15,000,000	359,350
Called to 12.5 cents (Note 13)	2,000,000	500,000
	17,000,000	859,350

Date	Details	Number	AUD
4 May 2007	Shares issued at incorporation	10,000,000	359,350
4 June 2008	1:1.5 Share split	5,000,000	-
20 June 2008	Issue of 25 cent ordinary shares partly paid to 12.5 cents	2,000,000	500,000
30 June 2008	Closing balance	17,000,000	859,350

NOTE 10 MINORITY INTERESTS

	Consolidated AUD	Parent AUD
Minority interests in:		
Share capital	797,535	-
Reserves	329,227	-
Retained earnings	191,809	-
	1,318,571	-

NOTE 11 RESERVES

	Consolidated AUD	Parent AUD
Asset revaluation reserve	422,086	-
	422,086	-

Movements in reserves

	Consolidated AUD	Parent AUD
Asset Revaluation Reserve		
Balance at start of period	-	-
Revaluation during the period	422,086	-
Balance at the end of period	422,086	-

The asset revaluation reserve records increments and decrements on the revaluation of individual parcels of land and buildings. The balance on the asset revaluation reserve can only be used to pay out a cash dividend. A revaluation of all fixed assets was carried out in December 2007 (prior to CMC's acquisition of the subsidiary) and were based on independent assessments by a registered member of the China Real Estate Valuers Association.

NOTE 12 RETAINED EARNINGS

	Consolidated AUD	Parent AUD
Retained Earnings		
Balance at start of period	-	-
Net profit/(loss) for the year	168,373	(77,535)
Balance at end of period	168,373	(77,535)

NOTE 13 RELATED PARTY TRANSACTIONS

China Magnesium Corporation Limited is the parent entity of the Group, owning 22% of the ordinary shares in the Joint Venture entity, Shanxi Luyuan Magnesium Corporation Limited at 30 June 2008. The Minority Interest, Pingyao Luyuan Industry Corporation Limited, owns the remaining 78% of the ordinary shares in the Joint Venture entity at 30 June 2008.

China Magnesium Corporation Limited has been deemed to have control of the Joint Venture entity in substance, in accordance with *AASB3 Business Combinations*, although it does not control more than one half of the voting rights of the entity.

NOTE 14 EVENTS OCCURING AFTER THE BALANCE SHEET DATE

Second and final call of shares placement in China Magnesium Corporation Limited
On 20 June 2008, the Company undertook a placement of 2,000,000 ordinary shares in the Company at $0.25 per share to raise capital of $500,000. These shares were issued on a part paid basis on 25 June 2008, with 12.5 cents per share paid by 30 June 2008.

The second and final call on the shares will be for the remaining 12.5 cents per share was received in August 2008.

Increase in shareholding in Shanxi Luyuan Magnesium Corporation Pty Ltd
Post 30 June, China Magnesium Corporation Limited (parent entity) increased its investment in the Joint Venture entity (Shanxi Luyuan Magnesium Corporation Limited) by RMB832,000, which takes its shareholder percentage to 31% from 22%.