



FAXED

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China Magnesium Corporation Limited A.C. 125 236 731  
Financial Report for the Year Ended 30 June 2009

**DIRECTORS' REPORT**

Your directors present their report on the company for the financial year ended 30 June 2009.

The names of the directors in office at any time during or since the end of the year are:

Thomas Blackhurst, Xinping Liang, Peter Robertson, Michael Clarey, David Macoboy (resigned 30 September 2009).

The loss of the company for the financial year after providing for income tax amounted to \$278,432 (2008: \$77,535)

China Magnesium Corporation Limited owns 31% of the ordinary shares in Shanxi Luyuan Magnesium Company Limited ("SLMC"). Pingyao Luyuan Industry Corporation Limited owns the remaining 69% of the 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.

No significant changes in the company's state of affairs occurred during the financial year.

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

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

No matters or circumstances have arisen since the end of the financial year 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 years.

Likely developments in the operations of the company and the expected results of those operations in future financial years 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 Commonwealth or of a state or territory.

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

No options over issued shares or interests in the company were granted during or since the end of the financial year and there were no options outstanding at the date of this report.

No indemnities have been given or insurance premiums paid, during or since the end of the financial year, for any person who is or has been an officer or auditor of the company.

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 year.

**Auditor's Independence Declaration**

A copy of the auditor's independence declaration as required under s 307C of the *Corporations Act 2001* is set out on page 2.

Signed in accordance with a resolution of the Board of Directors:

Director

Thomas Troy Blackhurst

Dated this TWENTY SEVENTH day of October 2009

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**China Magnesium Corporation Limited**  
**30 June 2009**  
**Director's Declaration**

In the Directors' opinion:

- (a) The financial statements and notes on pages 3 to 12 are in accordance with the Corporations Act 2001, including:-
- (i) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001, and
  - (ii) giving a true and fair view of the Company's financial position as at 30 June 2009 and of its performance for the financial year ended on that date.
- (b) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the Managing Director and Chief Financial Officer required by section 295A of the Corporations Act 2001.

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



Tom Blackhurst

**Chief Executive Officer**

Declared at Ashmore, Queensland

This the 26<sup>th</sup> day of October 2009.



BDO Kendalls

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27 October 2009

The Directors  
China Magnesium Corporation Limited  
Ashmore Commercial Centre  
Unit 21, 207 Currumburra Road  
ASHMORE QLD 4214

Dear Sirs

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

As lead auditor of China Magnesium Corporation Limited for the year ended 30 June 2009, 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.

**Chris Burton**  
Director

*BDO Kendalls*

**BDO Kendalls Audit & Assurance (WA) Pty Ltd**  
Perth, Western Australia.

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China Magnesium Corporation Limited  
Income Statement

Year ended 30 June 2009

	Note	2009 \$	2008 \$
Revenue	2	12,325	-
Other expenses		(290,757)	(77,535)
<b>Loss before income tax</b>		<b>(278,432)</b>	<b>(77,535)</b>
Income tax	3	-	-
<b>Loss for the year</b>		<b>(278,432)</b>	<b>(77,535)</b>

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

China Magnesium Corporation Limited

Balance Sheet

As at 30 June 2009

Note

		2009	2008
		\$	\$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	4	155,923	377,636
Trade and other receivables	5	3,587	250,000
Investment in Joint Venture	6	359,350	231,679
<b>TOTAL CURRENT ASSETS</b>		<u>518,860</u>	<u>859,315</u>
<b>TOTAL ASSETS</b>		<u><b>518,860</b></u>	<u><b>859,315</b></u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	7	15,477	77,500
<b>TOTAL CURRENT LIABILITIES</b>		<u>15,477</u>	<u>77,500</u>
<b>TOTAL LIABILITIES</b>		<u><b>15,477</b></u>	<u><b>77,500</b></u>
<b>NET ASSETS</b>		<u><b>503,383</b></u>	<u><b>781,815</b></u>
<b>EQUITY</b>			
Contributed equity	8	859,350	859,350
Accumulated losses		(355,967)	(77,535)
		<u><b>503,383</b></u>	<u><b>781,815</b></u>

The above balance sheet should be read in conjunction with the accompanying notes.

**China Magnesium Corporation Limited**  
**Cash Flow Statement**

Year Ended 30 June 2009

	2009 \$	2008 \$
<b>Cash flows from operating activities</b>		
Cash paid to suppliers and employees	(355,417)	-
Cash generated from operations	(355,417)	-
Interest received/(paid)	12,325	(35)
Income taxes paid	(950)	-
<b>Net cash (outflow) from operating activities</b>	<u>(344,042)</u>	<u>(35)</u>
<b>Cash flows from investing activities</b>		
Capital contribution to Shanxi Luyuan Magnesium Company Limited	(127,671)	(231,679)
<b>Net cash (outflow) from investing activities</b>	<u>(127,671)</u>	<u>(231,679)</u>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares	250,000	609,350
<b>Net cash inflow from financing activities</b>	<u>250,000</u>	<u>609,350</u>
Net increase/(decrease) in cash and cash equivalents	(221,713)	377,636
<b>Cash and cash equivalents at beginning of year</b>	<u>377,636</u>	-
<b>Cash and cash equivalents at end of period</b>	<u>155,923</u>	<u>377,636</u>

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

**China Magnesium Corporation Limited**  
**Statement of Changes in Equity**

**Year Ended 30 June 2009**

	Issued capital	Retained earnings	Total equity
	\$	\$	\$
<b>At 1 July 2007</b>	-	-	-
Shares issued during year	859,350	-	859,350
Loss for the year	-	(77,535)	(77,535)
<b>As at 30 June 2008</b>	<u>859,350</u>	<u>(77,535)</u>	<u>781,815</u>
Loss for the year	-	(278,432)	(278,432)
<b>As at 30 June 2009</b>	<u>859,350</u>	<u>(355,967)</u>	<u>503,383</u>

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



**China Magnesium Corporation Limited**  
**Notes to the financial statements 30 June 2009**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies expected to be adopted by China Magnesium Corporation Limited ("The Company") 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 following Australian Accounting Standards

- AASB 101 Presentation of Financial Statements
- AASB 107 Cash Flow Statements
- AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors
- AASB 111 Events after the Balance Sheet Date
- AASB 1031 Materiality

This report has been prepared on a going concern basis. The company expects to undertake a capital raising so that it can re-capitalise its subsidiary, Shanxi Luyuan Magnesium Corporation Limited, in order for its primary asset to go back into production. The directors will continue to finance the entity until this point, in order for the company to remain a going concern.

**(b) Functional and presentation currency**

Items included in the financial report of The Company 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 Company's functional and presentation currency.

**(c) Revenue Recognition**

Interest income on cash balances is recognised when it becomes payable.

**(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.

**China Magnesium Corporation Limited**  
**Notes to the financial statements 30 June 2009**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(e) Income Tax (continued)**

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 in Joint Venture**

The parent entity's interests in joint venture entities are brought to account using the cost method. An assessment of recoverability is made at the end of each reporting period, with any identified impairment reflected through the profit and loss statement.

**(i) Payables**

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

**(j) Contributed Equity**

Ordinary shares are classified as equity.

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.

**China Magnesium Corporation Limited**  
**Notes to the financial statements 30 June 2009**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(k) 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.

**(l) Accounting Estimates and Judgements**

*Impairment of assets*

The Company assesses impairment at each reporting date by evaluating conditions specific to the company that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

No impairment loss has been recorded during the year.

**(m) New accounting standards and interpretations**

Certain new accounting standards have been published that are not mandatory for 30 June 2009 reporting periods. The Company has not applied any of the following in preparing this financial report:

<b>Affected Standard</b>	<b>Nature and Impact of Change to Accounting Policy</b>	<b>Application</b>
AASB 8: Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8	No impact on accounting policy or amounts recognised in the financial statements, but will require change to disclosures in relation to 'management approach' of segment reporting	1 January 2009
AASB 123 : Borrowing Costs	No impact on financial statements as no borrowing costs incurred by the Company to date	1 January 2009
AASB 101: Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101	Introduces a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements.	1 January 2009

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China Magnesium Corporation Limited  
Notes to the financial statements 30 June 2009

**NOTE 2 REVENUE**

	2009 \$	2008 \$
Interest received	<u>12,325</u>	<u>-</u>

**NOTE 3 INCOME TAX EXPENSE**

**Current tax expense**

Current tax expense	-	-
Deferred tax expense	<u>-</u>	<u>-</u>
Total income tax expense in income statement	<u>-</u>	<u>-</u>

Attributable to:

Continuing operations	-	-
Discontinuing operations	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>

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.

(Loss) from continuing operations before income tax expense	(278,432)	(77,674)
Tax at the Australian tax rate of 30%	(83,530)	(23,302)
Tax assets not yet recognised	<u>83,530</u>	<u>23,302</u>
Income tax expense at effective tax rate of 30%	<u>-</u>	<u>-</u>

**NOTE 4 CASH AND CASH EQUIVALENTS**

Cash at bank	<u>155,923</u>	<u>377,636</u>
	<u>155,923</u>	<u>377,636</u>

**NOTE 5 TRADE AND OTHER RECEIVABLES**

Other receivables	<u>3,587</u>	<u>250,000</u>
	<u>3,587</u>	<u>250,000</u>

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China Magnesium Corporation Limited  
Notes to the financial statements 30 June 2009

NOTE 6 INVESTMENT IN JOINT VENTURE

	2009	2008
	\$	\$
Investment in Joint Venture at cost	359,350	359,350

China Magnesium Corporation Limited owns 31% of the ordinary shares in Shanxi Luyuan Magnesium Company Limited ("SLMC"). Pingyao Luyuan Industry Corporation Limited owns the remaining 69% of the 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.

The joint venture is measured at cost in the financial statements, being the cash and cash equivalents contributed towards the joint venture operation.

The ultimate recoupment of these costs is dependent on commercial exploitation, or alternatively, the sale of the investments' asset.

NOTE 7 TRADE AND OTHER PAYABLES

Other payables	15,477	77,369
	<u>15,477</u>	<u>77,369</u>

NOTE 8 CONTRIBUTED EQUITY

	Number	\$
Share Capital		
<i>Ordinary shares – no par value</i>		
Fully paid	15,000,000	359,350
Called to 12.5 cents - 25 June 2008	2,000,000	250,000
Called to 12.5 cents – 15 August 2008	-	250,000
	<u>17,000,000</u>	<u>859,350</u>

On 20 June 2008 the Company undertook a placement of 2,000,000 ordinary shares in the Company at 25 cents per share to raise capital of \$500,000. The placement was completed in 2 stages – the initial call of 12.5 cents per share was allotted on 25 June 2008, and the second and final call of 12.5 cents per share was allotted on 15 August 2009.

**China Magnesium Corporation Limited**  
**Notes to the financial statements 30 June 2009**

**NOTE 9: AUDITORS' REMUNERATION**

	2009	2008
	\$	
Remuneration of the auditor of the parent entity for:		
auditing or reviewing the financial report	5,000	-
taxation services provided by related practice of auditor	3,000	-

**NOTE 10 SUBSEQUENT EVENTS**

Mr. David Macoboy resigned as a Director – 30<sup>th</sup> September 2009.

There have been no other events since the end of the financial year that impact upon the financial report as at 30 June 2009.

**NOTE 11 CONTINGENT ASSETS AND LIABILITIES**

There are no contingent assets or liabilities at the date of the Report.



BDO Kendalls

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**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF CHINA MAGNESIUM CORPORATION LIMITED**

Report on the Financial Report

We have audited the accompanying financial report, being a special purpose financial report, of China Magnesium Corporation Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

*Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report and have determined that the accounting policies described in Note 1 to the financial statements, which form part of the financial report, are appropriate to meet the requirements of the *Corporations Act 2001* and are appropriate to meet the needs of the members. The directors' responsibility also 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.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. No opinion is expressed as to whether the accounting policies used, as described in Note 1, are appropriate to meet the needs of the members. 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 reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

The financial report has been prepared for distribution to the members for the purpose of fulfilling the directors' financial reporting requirements under the *Corporations Act 2001*. We disclaim any assumption of responsibility for any reliance on this report or on the financial report to which it relates to any person other than the members, or for any purpose other than that for which it was prepared.

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

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

*Auditor's Opinion*

In our opinion the financial report of China Magnesium Corporation Limited is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's financial position as at 30 June 2009 and of its performance for the year ended on that date in accordance with the accounting policies described in Note 1; and
- (b) complying with Australian Accounting Standards to the extent described in Note 1 and complying with the *Corporations Regulations 2001*.

**Material Uncertainty Regarding Continuation as a Going Concern**

Without qualifying our opinion, we draw attention to Note 1(a) in the financial report which indicates that the Company incurred a net loss of \$278,432 during the year ended 30 June 2009 (2008: \$77,535). This condition along with the matters set forth in Note 1(a), indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

**Material Uncertainty Regarding Recoverability of Investments**

Without qualification to the audit opinion expressed above, attention is drawn to the matter detailed in Note 6. There is uncertainty over the recoverability of the investment in joint ventures. As it is dependant on the successful reinstatement of operations of the joint venture entity, or sale of the underlying interest. This uncertainty may cast significant doubt about the company's ability to realise the investment at the value recorded in the balance sheet.

**BDO Kendalls Audit & Assurance (WA) Pty Ltd**

BDO Kendalls

Chris Burton  
Director

Dated this 27<sup>th</sup> day of October 2009  
Perth, Western Australia

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