China Magnesium Corporation Ltd.

Appendix 4D

Name of Entity:	China Magnesium Corporation Limited
ABN:	14 125 236 731
Current Financial Period Ended:	Half-Year ended 31 December 2016
Previous Corresponding Reporting Period	Half-Year ended 31 December 2015

Results for Announcement to the Market

	Percentage change Up or Down	%		$'000
Revenue from ordinary activities	Up	100%	to	247
Profit/(loss) from ordinary activities after tax attributable to members	Down	55%	to	(1,100)
Profit/(loss) for the period attributable to members	Down	55%	to	(1,100)

Dividends	**Amount per Security**	**Franked amount per security**
Interim Dividend – Current reporting period	Nil	Nil
Record date for determining entitlements to dividends (if any)	Not applicable	
Date Dividend is payable	Not applicable	
Details of any dividend reinvestment plan in operation	Not applicable	
The last date for receipt of an election notice for participation in any dividend reinvestment plan	Not applicable	

Net Tangible Assets (NTA)	**December 2016**	**December 2015**
Net Tangible Assets per security	$0.04	$0.05

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

During the half-year the Company:-

- completed a successful rights issue for 84.6M shares raising $2,116,827 before costs
- did not conduct production at the magnesium and magnesium alloy plant, but anticipates doing so in the half year to 30 June 2017
- recommenced trading desk operations.
- completed all framework agreement milestone steps for the Greenbushes lithium project
- entered into a co-operation agreement for priority offtake rights to battery grade lithium carbonate
- corrected an error where interest had been calculated on the wrong principal balance. The overstatement correction has been brought into account in the relevant period affected. The current half year’s results include $127,286 and accumulated losses had been adjusted by $448,764.

Compliance Statement

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

Tom Blackhurst
Managing Director
Southport QLD
28 February 2017

China Magnesium Corporation Ltd.

ABN 14 125 236 731

Interim financial report for the half-year ended 31 December 2016

Contents

Directors' report

Your directors present their report on the consolidated entity consisting of China Magnesium Corporation Limited (the Company) and the entities it controlled at the end of, or during, the half-year ended 31 December 2016.

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

W Bass	T Blackhurst	P Robertson	X Liang

Review of operations
During the half-year the Company:-

- completed successful rights issue for 84.6M shares raising $2,116,827 before costs
- did not conduct production at the magnesium and magnesium alloy plant, but anticipates doing so in the half year to 30 June 2017
- recommenced trading desk operations.
- completed all framework agreement milestone steps for the Greenbushes lithium project
- entered into a co-operation agreement for priority offtake rights to battery grade lithium carbonate
- corrected an error where interest had been calculated on the wrong principal balance. The overstatement correction has been brought into account in the relevant period affected. The current half year's results include $127,286 and accumulated losses had been adjusted by $448,764.

Results
For the half-year ended 31 December 2016 the consolidated entity recorded a loss after tax from continuing operations of $1,136,612 (2015: loss of $2,473,531) and total comprehensive loss of $1,229,172 (2015: comprehensive loss: $2,295,546).

Dividends
No dividends were paid during the period and no recommendation is made as to the payment of dividends.

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

This report is made in accordance with a resolution of directors.

Tom Blackhurst
Managing Director
Southport
28 February 2017

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Auditor's Independence Declaration under Section 307C of the Corporations Act 2001 to the directors of China Magnesium Limited

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2016 there have been:

(i) No contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review, and

(ii) No contraventions of any applicable code of professional conduct in relation to the review.

ShineWing Australia

ShineWing Australia
Chartered Accountants

Nick Michael
Partner

Melbourne, 28 February 2017

Consolidated statement of comprehensive income for the half-year ended 31 December 2016

	Note	Consolidated Half-year ended 31 Dec 2016 $	Restated 31 Dec 2015 $
Revenue from continuing operations		247,385	2,431
Share of losses from contractual arrangement		-	(1,288,607)
Expenses			
Purchases of raw materials and consumables		(242,461)	-
Auditing and accounting		(50,387)	(60,346)
Depreciation and amortisation		(174,204)	(185,803)
Employee benefits		(717,397)	(589,306)
Finance costs	6	(111,120)	(136,184)
Other		(71,382)	(155,031)
Exchange (loss)/gain		13,123	(34,542)
Travel		(30,169)	(26,143)
		(1,383,997)	(1,187,355)
Profit/(loss) before income tax		(1,136,612)	(2,473,531)
Income tax		-	-
Profit/(loss) after tax from continuing operations		(1,136,612)	(2,473,531)
Other comprehensive income			
Items that will be reclassified to profit and loss			
Foreign currency translation differences		(92,560)	177,985
Income tax on items of other comprehensive income		-	-
Other comprehensive income for the period (net of tax)		(92,560)	177,985
Total comprehensive income / (loss) for the period		(1,229,172)	(2,295,546)
Profit/(loss) at end of reporting period is attributable to:			
Owners of the parent		(1,100,034)	(2,428,561)
Non-controlling interests		(36,578)	(44,970)
		(1,136,612)	(2,473,531)
Total comprehensive income / (loss) at end of reporting period is attributable to:			
Owners of the parent		(1,189,059)	(2,263,895)
Non-controlling interests		(40,113)	(31,651)
		(1,229,172)	(2,295,546)
Earnings per share			
Basic and diluted earnings/(loss) per share (cents per share)		(0.5)	(1.2)

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

Consolidated statement of financial position as at 31 December 2016

	Note	Consolidated 31 Dec 2016 $	Consolidated Restated 30 June 2016 $
ASSETS			
Current assets			
Cash and cash equivalents		3,563,442	2,194,662
Trade and other receivables		1,245,985	916,945
Inventories		132,273	248,080
Other assets		199,374	-
Total Current Assets		5,141,074	3,359,687
Non-current assets			
Property, plant and equipment		17,141,863	16,340,275
Other		2,227,516	2,240,816
Tenements		10,000	-
Total Non-Current Assets		19,379,379	18,591,091
Total assets		**24,520,453**	**21,950,778**
LIABILITIES			
Current liabilities			
Trade and other payables		3,130,617	2,420,816
Provisions		16,437	17,318
Other Liabilities		199,374	-
Total Current Liabilities		3,346,428	2,438,134
Non-current liabilities			
Trade and other payables		1,922,688	1,500,923
Related party borrowings		6,546,557	6,157,295
Total non-current liabilities		8,469,245	7,658,218
Total liabilities		**11,816,673**	**10,096,352**
Net assets		**12,704,780**	**11,854,426**
EQUITY			
Contributed equity	3	23,191,051	21,111,526
Reserves		3,866,610	3,955,635
Accumulated losses		(14,574,066)	(13,423,628)
Total equity attributable to owners of the parent		12,483,595	11,643,533
Non-controlling interest		221,185	210,893
Total equity		**12,704,780**	**11,854,426**

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

Consolidated statement of changes in equity for the half-year ended 31 December 2016

	Contributed equity	Accumulated losses	Foreign currency translation reserve	Change of interest in subsidiary reserve	Total	Non-controlling interest	Total equity
	$	$	$	$	$	$	$
At 1 July 2015	**21,124,258**	**(11,697,496)**	**3,973,339**	**518,930**	**13,919,031**	**402,221**	**14,321,252**
Net effect of correction of overstated interest	-	247,840	-	-	247,840	23,766	271,606
Restated 1 July 2015	**21,124,258**	**(11,449,656)**	**3,973,339**	**518,930**	**14,166,871**	**425,987**	**14,592,858**
Loss for the half-year	-	(2,568,406)	-	-	(2,568,406)	(47,560)	(2,615,966)
Other comprehensive income:							
Foreign currency translation difference	-	-	164,040	-	164,040	13,945	177,985
Total comprehensive income for the half-year	-	(2,568,406)	164,040	-	(2,404,366)	(33,615)	(2,437,981)
Transactions with owners in their capacity as owners							
Share buyback	(14,264)	-	-	-	(14,264)	-	(14,264)
Cost of share issues	(123)	-	-	-	(123)	-	(123)
Restated at 31 December 2015	**21,109,871**	**(14,018,062)**	**4,137,379**	**518,930**	**11,748,118**	**392,372**	**12,140,490**
At 1 July 2016	**21,111,526**	**(13,833,124)**	**3,436,705**	**518,930**	**11,234,037**	**171,626**	**11,405,662**
Net effect of correction of overstated interest	-	409,497	-	-	409,497	39,267	448,764
Restated 1 July 2016	**21,111,526**	**(13,423,627)**	**3,436,705**	**518,930**	**11,643,534**	**210,893**	**11,854,426**
Loss for the half-year	-	(1,100,034)	-	-	(1,100,034)	(36,578)	(1,136,612)
Other comprehensive income:							
Foreign currency translation difference	-	-	(89,025)	-	(89,025)	(3,535)	(92,560)
Total comprehensive income for the half-year	-	(1,100,034)	(89,025)	-	(1,189,059)	(40,113)	(1,229,172)
Transactions with owners in their capacity as owners							
Issue of shares	2,116,771	-	-	-	2,116,771	-	2,116,771
Cost of share issue	(37,246)				(37,246)		(37,246)
Restated at 31 December 2016	**23,191,051**	**(14,523,661)**	**3,347,680**	**518,930**	**12,534,000**	**170,780**	**12,704,780**

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

Consolidated statement of cash flows
for the half-year ended 31 December 2016

	Consolidated Half-year ended 31 Dec 2016 $	31 Dec 2015 $
Cash flows from operating activities		
Receipts from customers	185,466	-
Payments to suppliers and employees	(1,043,907)	(691,307)
Interest received	1,409	2,431
Interest expense adjustment	575,468	
Interest and other costs of finance paid	(238,191)	(276,605)
Net cash inflow/(outflow) from operating activities	(519,755)	(965,481)
Cash flows from investing activities		
Purchase of plant and equipment	(1,227,431)	(406,693)
Net cash inflow/(outflow) from investing activities	(1,227,431)	(406,693)
Cash flows from financing activities		
Proceeds from issue of shares	2,116,771	-
Share issue costs	(37,246)	-
Share buyback	-	(14,387)
Proceeds from borrowings	800,000	-
Net cash inflow/(outflow) from financing activities	2,879,525	(14,387)
Net increase/(decrease) in cash and cash equivalents	1,132,339	(1,386,561)
Cash and cash equivalents at the beginning of the period	2,194,662	3,314,681
Effects of exchange rate changes on the balances of cash held in foreign currencies	236,441	765,192
Cash and cash equivalents at the end of the period	3,563,442	2,693,312

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Significant accounting policies

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. The half-year report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report and any public announcements made by China Magnesium Corporation Limited (the company) during the half-year in accordance with any continuous disclosure obligations arising under the Corporations Act 2001.

Basis of preparation

The consolidated financial statements have been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted. The fair value of the consolidated entity's financial assets and liabilities approximate their carrying value.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2016 annual financial report. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

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

The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and settlements of liabilities in the ordinary course of business. The Group incurred a net loss of $1,136,612 [2015: $2,473,531] and an operating cash outflow of $ 519,755 [2015: $965,481 for the six month period ended 31 December 2016. At that date the Group had a net current asset position of $ 1,794,646 [2015:- $99,060].

Included in net current assets are prepaid capital expenditure of $2,228,693 and VAT receivable of $789,433 that will only be recovered once the Group generates sufficient income in China.

The Group also has capital commitments of $1,194,736 in relation to its Pingyao magnesium operations.

The Directors note:-

- under the Investment and Co-operation agreement with Shanxi Pingyao Fengyan Coal & Coke Group Company Limited ("Fengyan"), Fengyan have agreed to provide sufficient working capital for CMC's 91.25% owned joint venture company Shanxi Yushun Magnesium Company Limited which delivers substantially all Pingyao operational production;

- the successful 1:2.4378 rights issue for 84,670,827 ordinary shares on 28 October 2016 which raised $2,116,827 before costs. On exercise of the 5 cent options in December 2017 up to $2.1M could be raised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Significant accounting policies (continued)

- under a Fine Chemicals/Fertiliser Agreement with Taiyuan Hailifeng Science & Technology Co. Ltd. ("Hailifeng"), Hailifeng have agreed to provide working capital required for existing and forward production for production of chemicals and fertilisers including G3 & G1.

Having considered all of the above factors, the Directors are of the opinion that the use of the going concern basis of accounting is appropriate as they are satisfied that the Group will be able to generate sufficient cash flows, rely on the financial support as detailed, and rely on the continued financial support of its creditors.

2. Segment reporting

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

Accordingly, management currently identifies the Group as having only one reportable segment, being the processing and sale of magnesium, semi-coke, metallurgical coke, calcium metals and tar oil. There have been no changes in the operating segments during the half-year. All significant operating decisions are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the consolidated entity.

3. Contributed equity

During the half-year the company issued 84,670,827 (2015: nil) ordinary shares at 2.5 cents per share with capital raised $2,116,771, costs $37,276). This was accompanied with 42,335,423 listed options issued at 5 cents, out of which nil have been exercised.

4. Contingencies and Commitments

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

5. Events subsequent to half year

Nil

6. Prior period accounting restatement

In preparing financial statements of the company for the period ended 31 December 2017, the directors became aware that interest had been calculated on the wrong principal balance from October 2014.

The overstatement of interest in the previous periods and years financial statements represents a prior period accounting error which has been accounted for retrospectively in the financial statements. Consequently, the company has adjusted all comparative amounts presented in the current period's financial statements affected by the accounting error.

Pursuant to Australian Accounting Standard 108 the error has been brought to account in the relevant periods affected. The current half year's result includes $127,286 being the correction relevant to the current period error, whilst accumulated losses have been adjusted by $448,764 being the correction relevant to prior period errors.

Consolidated statement of financial position

30 June 2016

	As previously stated $	Restatement $	As restated $
Current assets	3,359,687	-	3,359,687
Non-current assets	18,591,091	-	18,591,091
Total assets	21,950,778	-	21,950,778
Current Liabilities	2,438,134	-	2,438,134
Non-current liabilities	8,106,982	(448,764)	7,658,218
Total Liabilities	10,545,116		10,096,352
Net assets	**11,405,662**	**(448,764)**	**11,854,426**
Contributed equity	21,111,526	-	21,111,526
Reserves	3,955,635	-	3,955,635
Accumulated losses	(13,833,125)	409,497	(13,423,628)
Total equity attributable to owners of the parent	11,234,036		11,643,533
Non-controlling interest	171,626	39,267	210,893
Total equity	**11,405,662**	**448,764**	**11,854,426**

Consolidated statement of Profit or Loss and Other Comprehensive income

31 December 2015

	As previously stated $	Restatement $	As restated $
Finance costs	278,619	(142,435)	136,184
Loss before tax	2,615,966	(142,435)	2,473,531

Directors' declaration

In the opinion of the directors:

(a) The attached financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:

i) Giving a true and fair view of the financial position as at 31 December 2016 and the performance for the half-year ended on that date of the consolidated entity: and
ii) Complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

(b) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

Tom Blackhurst
Managing Director

Southport
28 February 2017

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INDEPENDENT AUDITOR'S REVIEW REPORT

TO THE MEMBERS OF CHINA MAGNESIUM CORPORATION LIMITED

AND CONTROLLED ENTITIES

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of China Magnesium Limited and Controlled entities (the "consolidated entity") which comprises the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and explanatory information and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard ASRE 2410: *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not prepared, in all material aspects, in accordance with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Act 2001*. As the auditor of China Magnesium Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of China Magnesium Limited and Controlled entities is not in accordance with the *Corporations Act 2001* including:

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

(ii) complying with AASB 134: Interim Financial Reporting and the Corporations Regulations 2001.

ShineWing Australia

ShineWing Australia
Chartered Accountants

Nick Michael
Partner

Melbourne, 28 February 2017