

Appendix 4D

Advanced Magnesium Limited ASX Half-Year Report - 31 December 2010

Advanced Magnesium Limited (“AML”) ABN 51 010 441 666

This Half Year Report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.2A.

This information should be read in conjunction with the Financial Statements of Advanced Magnesium Limited for the year ended 30 June 2010.

Compilation of Statements

Reporting Period 31 December 2010: Half-Year from 1 July 2010 to 31 December 2010

Comparative Reporting Period Income & Cash Flow Statements - Half-Year from 1 July 2009 to 31 December 2009
Balance Sheet – 30 June 2010

Other requirements for Appendix 4D are satisfied in the following pages.

**RESULTS FOR ANNOUNCEMENT TO THE MARKET
for the Half-Year Ended 31 December 2010**

Revenue and Net Loss		Percentage Change (against previous corresponding period)	Amount \$
Revenue	Up	3931.54%	10,458,939
Loss from ordinary activities after tax	Down	54.14%	(1,129,652)
Net Loss attributable to members	Down	44.31%	(1,006,244)

Dividends	Amount per share	Franked amount per share
Interim dividend - per share	0.0¢	0.0¢
Previous corresponding half yearly report	0.0¢	0.0¢

Brief Explanation of Revenue, Net Loss and Dividends

Revenue and Net Loss

Gross revenue of \$10,424,268 was derived from the sale of generic magnesium alloys by AML and AML's 53% China subsidiary Henan Keweier Alloy Materials Co.Ltd (HNKWE). Remaining revenue was from sale of AML's suite of proprietary technologies.

Foreign Entity

Audited financial statements were prepared for HNKWE for the period ended 31 December 2010. These have been prepared in accordance with the International Financial Reporting Standards (IFRS).

CONDENSED FINANCIAL REPORT
for the Half-Year Ended 31 December 2010

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DIRECTORS' REPORT

The Directors of **Advanced Magnesium Limited** ("the Company") submit herewith the financial report for the half-year ended **31 December 2010**. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

The names of the Directors of the Company during or since the end of the half-year are:

Mr N Andrews (Executive Chairman)
 Mr M Brown (Non-Executive Director)
 Mr Li Zhong Jun (Non-Executive Director)

Review of Operations

The consolidated loss after tax for the six months was \$1,129,652 (six months to 31 Dec 2009: loss of \$2,463,514).

Corporate

The twenty-eighth annual general meeting of AML was held on 30 November 2010.

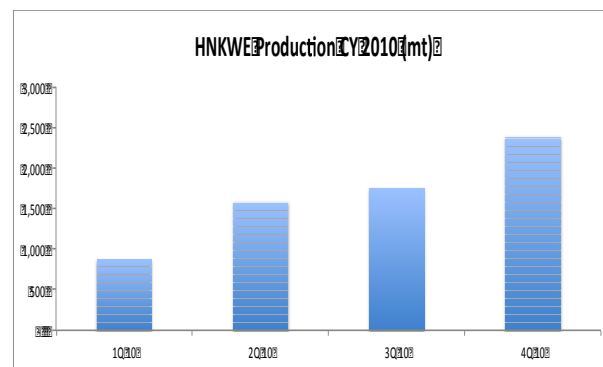
Operational Overview

AML reports a considerably reduced headline loss in the first half Financial Year 2011 (1HFY11) of –A\$1,129,652, up from –A\$2,463,514. Adjusting for one off items the net loss for the company's joint venture manufacturing operations declined marginally as production tonnage and sales rose significantly.

The company again addressed corporate and operational costs in Australia and China. The majority of these reductions were in the parent company, AML, where costs fell from A\$1.352m in 1HFY10 to A\$0.899m in 1HFY11 while at the Chinese joint venture increased marketing and production saw overall costs rise marginally (refer Table 2 page 18).

HNKWE, the company's Chinese magnesium alloy manufacturing joint venture, has continued to grow output and sales through its first year of operation. In the fourth quarter of 2010 annualised production was running at 9,500 mt following the commissioning of the second furnace through the period. Total production capacity is currently 13,000 metric tonnes

per annum (mtpa), up from 6,500 mtpa in the first half.



The most significant issue for the company remains access to working capital. Management has focussed on this task through the last six months and has recently reported RMB20,000,000 of new working capital lines from two Chinese banking groups. We expect to secure further working capital lines in the coming weeks, sufficient to fully finance current production capacity.

Over the next 12 months HNKWE will also seek additional finance lines to justify the construction of further new capacity. To date the company has been able to sell all product it has been able to produce while marketing activities in China, Asia and Europe continue to present AML and HNKWE with new sales opportunities. Improvements in HNKWE's production efficiency and the greater flexibility afforded by easier access to working capital should enable HNKWE to offer competitively and profitable product into these markets.

Executive Chairman's Report

Introduction

Advanced Magnesium Limited (AML) is a magnesium technology and alloy manufacturing company. AML has a 53% joint venture project in Henan Province China, which commenced operations in October 2009. This subsidiary manufactures magnesium alloys that go into the automotive and electronics industries.

AML also has a portfolio of high technology magnesium alloys, developed in association with CAST CRC. These technologies are designed to replace existing aluminium and iron applications in the modern automobile and offer new lightweight alternatives in the electronics and other industries.

AML also supplies proprietary technology chemicals from its factory in China to electroplating customers. These technologies also target magnesium applications in the electronics and automotive industries.

Operational Review

HNKWE

AML continues to make steady progress towards its short-term goal of profitable trading at its 53% owned Chinese magnesium alloy manufacturing operation, HNKWE. AML's working capital requirement as at 31 December 2010 was \$2.7m (as given by the difference between Current Assets and Current Liabilities). This is basically the working capital requirement of HNKWE. For HNKWE to be consistently profitable it must develop new customers for its magnesium alloy output and continue to raise new working capital. Earlier this month HNKWE announced that it had secured RMB20,000,000 of working capital from local Chinese banks and expects this number to more than double over the next 2 months.

AML's experience over the last 12 months provides the Board and management with considerable comfort that its objectives will be met. HNKWE has been able to manufacture very high quality magnesium alloys. Trials by major Chinese and European customers have qualified this product to be of a standard in excess of their quality requirements. AML and HNKWE are now in a position to build global magnesium alloy market share and add further production capacity.

Through the first half of the financial year HNKWE completed the construction of a second alloy furnace taking installed capacity to 13,000 metric tonnes per annum. The joint venture also completed the construction of a specialist alloy manufacturing facility. This will be used to manufacture trial and small commercial

quantities of AML's high technology alloys. Marketing activity focussing on our technology products will increase in the coming months.

Electroplating

AML's electroplating chemicals business now supplies three electroplating factories in China. Through the last six months this division has seen a rapid growth in revenue. AML's electroplating customers have used this technology on commercial supply contracts for global consumer electronic brands and have undertaken additional trials for Chinese and European automotive supply companies.

Considerable marketing efforts have been devoted to promoting our electroplating capabilities. The Directors believe this marketing, coupled with the good results of trials for prospective global customers is likely to lead to further profitable contracts in the calendar year 2011.

Outlook

Through the second half of this financial year (to 30 June 2011) growth in profitability at HNKWE will largely depend on its ability to access new lines of working capital. Much effort has gone into this activity over recent months and our joint venture company is currently accessing working capital facilities provided by two Chinese financial groups.

The construction of the proprietary alloy production unit, completed in November, will allow AML to manufacture and supply its technology product to customers in China and international markets. The development of markets for some of these products is likely to take a further period of time. While some of the technology products address existing markets, others will require further trials. Nonetheless it is a very exciting watershed for AML to be able to manufacture high technology alloys at its own facilities and provides both flexibility and an ability to conduct in-house trials on alloy formulations and manufacturing techniques.

AML's electroplating chemicals business is building on the successes of the last six months and expects to see further growth in revenue over the period to 30 June. This is

a relatively high margin business and the successful outcome of recently submitted bids may have an impact on the full year result.

As an established manufacturer of magnesium alloy with capacity to significantly increase production in line with demand and the availability of working capital, HNKWE is well placed to become a reliable and profitable participant in the global magnesium alloy manufacturing industry.

The combination of productive capacity and high technology products is an essential portfolio mix in the magnesium alloy manufacturing industry. While manufacturers of generic magnesium alloys and primary magnesium represent the vast bulk of the magnesium industry output, the profitable future for this industry lies in new magnesium technologies. AML has the rights to all the past and future magnesium technologies emanating from the CAST CRC, one of the World's leading light metals research institutes, based in Melbourne.

Magnesium industry commentary

The price of magnesium alloy experienced an increased level of volatility through the last quarter of 2010. The key raw material for primary magnesium is ferro silicon (FeSi). A sharp increase in FeSi prices impacted prices down the chain to magnesium alloy. Generally magnesium has not seen the longer-term price rises that have impacted the major commodity metals since the end of the GFC. Indeed the competitiveness of magnesium relative to aluminium and zinc has improved considerably over recent years, further promoting the substitution of these traditional materials with magnesium.

In the last few weeks the US Government announced that it would maintain its anti-dumping order on all magnesium manufactured in China although it has removed the same order on Russian manufactured magnesium. While this is disappointing the closure of much of die casting capacity over the last five years has made the US a considerably smaller market in 2011 than it was when the anti-dumping order was first introduced in 2006.

Auditor's Independence Declaration

The auditor's independence declaration is included on page 6.

Signed on 28 February 2011 in accordance with a resolution of Directors made pursuant to section 306 (3) of the Corporations Act 2001.

On behalf of the Directors



Nicholas Andrews
Executive Chairman

CAMPHIN BOSTON

CHARTERED ACCOUNTANTS

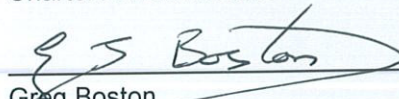
AUDITOR'S INDEPENDENCE DECLARATION

We hereby declare, that to the best of our knowledge and belief, during the half-year ended 31 December 2010 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.

Name of Firm: Camphin Boston
Chartered Accountants

Name of Partner:


Greg Boston

Address: Sydney

Dated this 28th **day of February 2011**



**REVIEW REPORT TO THE MEMBERS OF
ADVANCED MAGNESIUM LIMITED**

**INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF
ADVANCED MAGNESIUM LIMITED**

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Advanced Magnesium Limited which comprises the balance sheet as at 31 December 2010, and the income statement, statement of recognised income and expense and cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of Advanced Magnesium Limited are responsible for the preparation and fair presentation of the half-year 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 control relevant to the preparation and fair presentation of the half-year 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 a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim 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 financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year on that date; and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Advanced 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*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Advanced Magnesium Limited would be in the same terms if provided to the directors as at the date of this auditor's review report.

CAMPHIN BOSTON

CHARTERED ACCOUNTANTS

**REVIEW REPORT TO THE MEMBERS OF
ADVANCED MAGNESIUM LIMITED (cont)***Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Advanced Magnesium Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 1, "Going Concern" in the financial report which indicates the need to raise working capital and achieve higher gross profit margins in the next 12 months in order to continue operations after that time. These factors along with the short term nature of working capital funding received subsequent to the financial year indicate the existence of a material uncertainty which may cast significant doubt about the company's and consolidated entity's ability to continue as going concerns and, therefore, whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

Camphin Boston
Chartered Accountants



Greg Boston
Partner

Level 9, 5 Elizabeth Street, Sydney NSW 2000

Dated: 28 February 2011

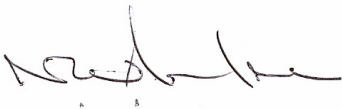
DIRECTORS' DECLARATION

The Directors declare that:

- a) 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; and
- b) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the Directors pursuant to s. 303(5) of the Corporations Act 2001.

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'Nicholas Andrews', written over a horizontal line.

Nicholas Andrews
Executive Chairman

Sydney, 28 February 2011

CONDENSED CONSOLIDATED COMPREHENSIVE INCOME STATEMENT
for the Half-Year Ended 31 December 2010

	Half-Year Ended 31 Dec 2010	Half-Year Ended 31 Dec 2009
Note	\$	\$
Sale of goods	10,458,939	259,428
Cost of sales	<u>(10,449,424)</u>	<u>(263,256)</u>
Gross profit	9,515	(3,828)
Other income	13,592	10,231
Discount on acquisition of HNKWE	-	250,930
Adjustment to provision in write down of inventory	69,380	-
Net (Loss)/Profit on sale of assets	(478)	-
Marketing	(88,153)	(22,640)
Research, development, licensing and patent costs ⁽¹⁾	(134,081)	(1,219,237)
Operating costs	(729,279)	(1,202,392)
Corporate, administration and other expenses	<u>(270,149)</u>	<u>(276,578)</u>
Loss before income tax expense	(1,129,652)	(2,463,514)
Loss from continuing operations after income tax	(1,129,652)	(2,463,514)
Other Comprehensive Income		
Exchange differences taken to reserves in equity – translation of overseas entities	<u>(414,762)</u>	<u>(537,741)</u>
Total Comprehensive Income	(1,544,414)	(3,001,255)
Loss attributable to minority interests	(123,408)	(656,788)
Loss attributable to members of the parent entity	<u>(1,006,244)</u>	<u>(1,806,726)</u>
Loss from continuing operations after income tax	(1,129,652)	(2,463,514)
Loss per share:		
Basic (cents per share)	(0.38)	(1.06)
Diluted (cents per share) ⁽²⁾	(0.38)	(1.06)
Loss per share from continuing operations		
Basic (cents per share)	(0.38)	(1.06)
Diluted (cents per share) ⁽²⁾	(0.38)	(1.06)

1. 31 Dec 2009 includes \$1,146,338 deferred development fee due to Chinese joint venture partners.

2. Refer Note 9

Notes to the financial statements are included on pages 15 to 20.

**CONDENSED CONSOLIDATED BALANCE SHEET
as at 31 December 2010**

	Note	31-Dec-10 \$	30-Jun-10 \$
Current Assets			
Cash and cash equivalents	7	269,728	1,202,444
Trade and other receivables		9,066,358	3,659,747
Inventories		583,691	590,339
Other		38,526	712,273
Total Current Assets		9,958,302	6,164,802
Non-Current Assets			
Property, plant and equipment		3,373,424	3,597,129
Trade and other receivables		134,851	383,617
Total Non-Current Assets		3,508,275	3,980,746
Total Assets		13,466,577	10,145,548
Current Liabilities			
Trade and other payables		7,256,655	2,920,952
Provisions		34,770	25,614
Total Current Liabilities		7,291,425	2,946,566
Non-Current Liabilities			
Trade and other payables		1,045,091	1,204,419
Provisions		64,492	64,073
Total Non-Current Liabilities		1,109,583	1,268,492
Total Liabilities		8,401,008	4,215,058
Net Assets		5,065,569	5,930,491
Equity attributable to members of AML			
Issued capital	2, 6	26,163,008	25,507,759
Reserves	2	4,039,970	4,208,787
Accumulated Losses		(26,452,094)	(25,445,850)
Equity attributable to minority interests			
Issued capital	2, 6	2,736,526	2,736,526
Reserves	2	(362,079)	(140,378)
Accumulated Losses		(1,059,761)	(936,353)
Total Equity		5,065,569	5,930,491

Notes to the financial statements are included on pages 15 to 20.

**STATEMENT OF CHANGES IN EQUITY
for the Half-Year Ended 31 December 2010**

Consolidated Entity	Share Capital		Retained Earnings	Foreign Currency Translation Reserve	Capital Reserve	Expired Options Reserve	Minority Interests	Total Equity
	Ordinary	Options Valuation						
	\$	\$						
Balance at 1-Jul-09	19,044,381	18,574	(22,255,369)	(1,783)	2,749,980	1,563,511		1,119,292
Loss attributable to members of parent entity			(1,806,728)					(1,806,728)
Capital Reserve					6,207		5,505	11,712
Loss attributable to minority interests							(656,788)	(656,788)
Loss prior to acquisition of HNKWE attributable to minority interests							(74,323)	(74,323)
Total other comprehensive income for the year				(271,084)			(266,657)	(537,741)
Expired Options						23,026		23,026
Proceeds from share issue	4,291,225						2,736,526	7,027,750
Balance at 31-Dec-09	23,335,605	18,574	(24,062,097)	(272,867)	2,756,187	1,586,537	1,744,262	5,106,200
Balance at 01-Jul-10	25,489,186	18,574	(25,445,848)	(133,937)	2,756,187	1,586,537	1,659,795	5,930,494
Loss attributable to members of parent entity			(1,006,244)					(1,006,244)
Capital Reserve								
Loss attributable to minority interests							(123,408)	(123,408)
Loss prior to acquisition of HNKWE attributable to minority interests								
Total other comprehensive income for the year				(193,061)			(221,701)	(414,762)
Expired Options						24,241		24,241
Option Valuations – ESOP		7,508						7,508
Share capital attributable to minority interest								
Proceeds from share issue (net of costs) ⁽¹⁾	647,741							647,741
Balance at 31-Dec-10	26,136,926	26,082	(26,452,092)	(326,998)	2,756,187	1,610,777	1,314,686	5,065,569

Note 1 Private placement and residual collections of securities purchase plan

Notes to the financial statements are included on pages 15 to 20.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
for the Half-Year Ended 31 December 2010

	Note	Half-Year Ended 31 December 2010 Inflows/ (Outflows) \$	Half-Year Ended 31 December 2009 Inflows/ (Outflows) \$
Cash Flows from Operating Activities			
Receipts from customers		3,906,364	178,607
Payments to suppliers and employees		(4,730,092)	(2,730,567)
Redundancy payments			0
Interest and other items of a similar nature received		12,416	10,100
Other receipts		1,176	131
Net Cash used in Operating Activities		(810,136)	(2,541,729)
Cash Flows From Investing Activities			
Investment in HNKWE net of cash acquired			(2,565,479)
Loan to related parties		(1,810,697)	(815,647)
Purchase of plant and equipment		(329,077)	0
Proceeds from sale of property, plant and equipment			0
Net Cash provided by/(used in) Investing Activities		(2,139,773)	(3,381,126)
Cash Flows from Financing Activities			
Loans from related parties		201,746	1,324,517
Net new capital raised		1,815,447	4,131,227
Net Cash provided by Financing Activities		2,017,193	5,455,744
Net Decrease in Cash and cash equivalents		(932,716)	(467,111)
Cash and cash equivalents at the beginning of the half-year		1,202,444	1,029,471
Cash and cash equivalents at the end of the half-year	7	269,728	562,360

Notes to the financial statements are included on pages 15 to 20

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
for the Half-Year Ended 31 December 2010**1. Summary of 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 financial report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the financial report for the year ended 30 June 2010.

Basis of preparation

This report has been prepared on the basis of historical cost and, except where stated, does not take into account changing money values or current valuations of non-current assets. Costs are based on the fair values of consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the 31 December 2010 half-year financial report are consistent with those adopted and disclosed in the Company's 2010 annual financial report for the financial year ended 30 June 2010.

There are no material changes to the Group's accounting policies.

Going Concern

The financial report has been prepared on a going concern basis as the Directors do not believe there is any intention or necessity to close the current operations or cease trading within twelve months from the reporting date.

The significant factors considered by the Directors in making this assessment were:

- The availability of cash flow from HNKWE to AML via HNKWE's repayment of the loan of \$2,187,416 to AML;
- A continuing business momentum based around the alloy production business in HNKWE and the electroplating business in AML China;
- Likely short term prospects for stability of profitable trading in HNKWE with appropriate working capital finance;
- Emerging market opportunities for AML's suite of proprietary alloys.

The Directors and management are unable to predict the Company's achievement of these future outcomes with any certainty. Moreover, as with the development of any new facility and commercialisation of new technology in international markets, there are a number of factors outside the Company's control that render a high degree of uncertainty as to the prospects for success.

The financial report does not include any adjustments in relation to the classification of assets or liabilities that might be necessary if the Company does not continue as a going concern. The Directors estimate that costs of \$0.20 million might be incurred in the event of closing down the existing operations of the Company.

2. Significant Transactions and Material Items

The following are the material factors affecting the financial statements of the economic entity for the current and comparative period.

2.1 Expiry of Employee Options under ESOP

On 16 August 2010, a total of 1,680,000 options were issued to various staff and consultants of the AML group under the Company's Employee Share Option Plan (ESOP).

This brought the total of options issued under the ESOP to 1,780,000. Due to the expiry of the exercise date and the resignation of one of the beneficiaries the options on issue as at the reporting date have reduced to 1,380,000.

2.2 Income Tax Expense/Benefit

Tax losses previously disclosed in the 30 June 2010 Annual Report encompass Advanced Magnesium Limited and its Australian controlled entities. The tax benefit corresponding to these losses is not recognized as an asset in the accounts. Income taxes incurred in foreign jurisdictions are not sheltered by these Australian tax losses and are governed by relevant tax legislation as applicable.

2.3 Issue of new shares during the period

Refer to Note 6.

3. Dividends

No dividend was declared or recommended during the 6 months ended 31 December 2010 (6 months ended 31 December 2009: no dividend declared or recommended). The balance of the franking account at 31 December 2010 is \$nil (31 December 2009: \$nil).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont)
for the Half-Year Ended 31 December 2010

4. Segment Information

The consolidated entity's activities are focused on the Advanced Magnesium Technologies and HNKWE businesses. Management monitors operations primarily on geographic reportable segments as follows:

Table 1
SEGMENT INFORMATION

	Europe		North America		AML China		HNKWE		Asia Pacific		Total	
	31-Dec 2010	31-Dec 2009	31-Dec 2010	31-Dec 2009	31-Dec 2010	31-Dec 2009	31-Dec 2010	31-Dec 2009	31-Dec 2010	31-Dec 2009	31-Dec 2010	31-Dec 2009
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	251,385		1,013		21,500	1,144	10,182,146	233,929	2,895	24,355	10,458,939	259,428
Cost of sales	(243,372)				(11,898)		(10,192,488)	(262,880)	(1,666)	(376)	(10,449,424)	(263,256)
Gross Profit	8,014	0	1,013	0	9,602	1,144	(10,342)	(28,951)	1,229	23,979	9,515	(3,828)
Other income	9,923	12,757	256		194	280	70,719	299	(67,979)	(3,105)	13,115	10,231
Other expenses	(26,760)	(42,458)	(7,172)	(34,988)	(82,045)	(80,502)	(322,949)	(1,368,769)	(713,357)	(943,201)	(1,152,282)	(2,469,917)
Loss before income tax expense	(8,823)	(29,701)	(5,903)	(34,988)	(72,249)	(79,078)	(262,571)	(1,397,421)	(780,107)	(922,327)	(1,129,652)	(2,463,514)
Income tax expense/benefit							0		0	0	0	
Loss from continuing operations	(8,823)	(29,701)	(5,903)	(34,988)	(72,249)	(79,078)	(262,571)	(1,397,421)	(780,107)	(922,327)	(1,129,652)	(2,463,514)
Segment Assets	17,176	28,816	468	11,606	84,359	60,391	10,938,317	6,561,922	2,426,257	1,322,138	13,466,577	7,984,874
Segment Liabilities	1,442	3,343	0	8,666	4,426	5,804	8,141,113	2,850,726	254,027	10,135	8,401,008	2,878,673

SEGMENT INFORMATION (Cont)

Table 2 shows the construct of the “Loss from continuing operations after income tax” between HNKWE and AML.

Table 2

	Half-Year Ended 31 Dec 2010			Half-Year Ended 31 Dec 2009		
	HNKWE	AML	Total	HNKWE	AML	Total
Sale of goods	10,182,146	276,793	10,458,939	233,929	25,499	259,428
Cost of sales	(10,192,488)	(256,936)	(10,449,424)	(262,880)	(376)	(263,256)
Gross profit	(10,342)	19,857	9,515	(28,951)	25,123	(3,828)
Other income	1,340	12,252	13,592	299	9,932	10,231
Discount on acquisition of HNKWE					250,930	250,930
Write down in value of fixed assets and debtors	69,380		69,380			
Net Loss/Profit on sale of assets	(478)		(478)			
Marketing	(28,823)	(59,330)	(88,153)	(16,042)	(6,598)	(22,640)
Research, development, licensing and patent costs ⁽¹⁾		(134,081)	(134,081)	(1,146,338)	(72,899)	(1,219,237)
Operating costs	(242,723)	(486,555)	(729,279)	(201,586)	(1,000,806)	(1,202,392)
Corporate, administration and other expenses	(50,924)	(219,224)	(270,149)	(4,802)	(271,776)	(276,578)
Loss before income tax expense	(262,571)	(867,081)	(1,129,652)	(1,397,421)	(1,066,093)	(2,463,514)
Income tax expense/benefit						
Loss from continuing operations after income tax	(262,571)	(867,081)	(1,129,652)	(1,397,421)	(1,066,093)	(2,463,514)

1. 31 Dec 2009 includes \$1,146,338 deferred development fee due to Chinese joint venture partners.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(cont)
for the Half-Year Ended 31 December 2010**

SEGMENT INFORMATION (Cont)

Table 3

	GROSS PROFIT BY PRODUCT	
	Half-Year Ended 31 Dec 2010	Half-Year Ended 31 Dec 2009
	Gross Profit	Gross Profit
AZ91D Sales	1,535,289	208,670
AZ91D Cost of Sales	(1,494,309)	(226,124)
AM60B	8,319,963	24,218
AM60B Cost of Sales	(8,380,547)	(36,756)
AM50B	550,633	
AM50B Cost of Sales	(535,247)	
Alloy Refining	18,383	
Alloy Refining Cost of Sales	(25,757)	(7,374)
AM-cast		447
AM-cast Cost of Sales		447
AM-cover	9,263	24,423
AM-cover Cost of sales		9,263
AM-Lite Sales	3,908	629
AM-Lite Cost of Sales	(1,666)	(376)
Scrap metal Sales		1,040
Scrap metal Cost of Sales		1,040
Electroplating Sales	21,500	
Electroplating Cost of Sales	(11,898)	9,602
Total Gross Profit	9,515	(3,828)

5. Contingent Asset and Liabilities

Contingent assets and liabilities remain unchanged from those disclosed in the Annual Report at 30 June 2010.

6. Issuances of equity securities

On 12 July 2010 43,394,166 shares were issued pursuant to a securities purchase plan. The issue was at \$0.052 per share.

On 14 July 2010 11,928,428 shares were issues under a private placement at \$0.052 per share.

The total value of all ordinary shares issued in the period was \$2,876,774.89

There were no other movements in the ordinary share capital or other issued share capital of the company in the half-year reporting period.

On 16 August 2010 1,680,000 options in respect of the company's shares were issued to various staff and consultants of the AML group. The options were issued at an exercise price of \$0.10 and may be exercised at any time to 16 August 2013. Of the options issued 300,000 have been forfeited due to the resignation of one of the beneficiaries.

7. Reconciliation of Cash

Reconciliation of cash at the end of the period (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	31 Dec 2010	30 June 2010
	\$	\$
Cash on hand and at bank	269,728	1,202,444
Deposits at call *		
Term deposits		
Total cash at end of period	269,728	1,202,444

8. Events subsequent to balance date

As reported in letters to shareholders dated 21 January 2011 and 17 February 2011 released to the Australian Securities Exchange on the same dates, HNKWE has raised RMB20,000,000 by way of working capital finance from local banks.

There were no other matters subsequent to the end of the financial half year that has, or may, significantly affect the Group's operations, the results of those operations, or the state of the Group's affairs.

9. Calculation of Loss Per Share

		Half-Year Ended 31 Dec 2010	Half-Year Ended 31 Dec 2009
Loss per share:			
Loss attributable to members of the parent entity	1	(1,006,244)	(1,806,726)
Average shares on issue for the period	2	266,256,796	170,394,451
Basic (cents per share)	$1 \div 2 \times 100$	(0.38)	(1.06)

SUPPLEMENTARY APPENDIX 4D INFORMATION

A. Further Details Relating to Dividends

Dividend		Date dividend Paid /payable	Amount per share ¢	Amount per share of foreign sourced dividend ¢
Interim	FY 2010 Fully paid	Not Applicable	0.00	0.00
Final	FY 2009 Fully paid	Not Applicable	0.00	0.00

B. Net Tangible Assets Per Share

Net Tangible Assets Per Share

	31 Dec 2010 cents	30 Jun 2010 cents
Net tangible assets per share	0.019	0.023

C. Information on Audit or Review

This half-year report is based on accounts which have been subject to review.

Description of likely dispute or qualification if the accounts have not yet been audited or subject to review or are in the process of being audited or subjected to review:

Not applicable.

Description of dispute or qualification if the accounts have been audited or subjected to review:

None.