

Appendix 4D

**Magontec Limited**



**ASX Half-Year Report - 31 December 2011**

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Magontec Limited ("MGL") 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 2011.

**Compilation of Statements**

Reporting Period 31 December 2011: Half-Year from 1 July 2011 to 31 December 2011

Comparative Reporting Period      Comprehensive Income & Cash Flow  
Statements - Half-Year from 1 July 2010 to 31  
December 2010  
Balance Sheet – 30 June 2011

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

**RESULTS FOR ANNOUNCEMENT TO THE MARKET  
for the Half-Year Ended 31 December 2011**

Revenue and Net Loss		Percentage Change (against previous corresponding period)	Amount \$
Revenue	Up	501%	62,845,119
Profit/(Loss) from continuing operations after tax	Up	Not applicable – Change from loss to profit	2,765,404
Profit/(Loss) attributable to members of the Parent after tax	Up	Not applicable – Change from loss to profit	2,849,456

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**

On 4 July 2011 the Company acquired all of the ordinary shares of Varomet Holdings Limited (VHL) the holding company that owns the Magontec Group of companies. The ordinary shares of VHL were acquired from Straits Mine Management Pty Limited (SMM) a wholly owned subsidiary of Straits Resources Limited. The significant differences in the balance sheet and profit and loss statements are attributable to the affects of that acquisition. The details of the acquisition are described in Note 14.

**CONDENSED FINANCIAL REPORT**  
**for the Half-Year Ended 31 December 2011**

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## DIRECTORS' REPORT

The Directors of **Magontec Limited** ('the Company or MGL') submit herewith the financial report for the half-year ended **31 December 2011**. 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 G Franke (Executive Director)  
 Mr R Shaw (Non-Executive Director)  
 Mr Li Zhong Jun (Non-Executive Director)  
 Mr M Brown (Non-Executive Director) Resigned 5 October 2011

### Review of Operations

For the six months ended 31 December 2011 the consolidated profit after tax from continuing operations was \$2,765,404 (six months to 31 Dec 2010: loss of \$1,129,652).

### Corporate

The twenty-eighth annual general meeting of the Company was held on 22 November 2011. One of the shareholder resolutions passed at that meeting was a change in the name of the company from Advanced Magnesium Limited to Magontec Limited. The ASX code for Magontec Limited is "MGL". It will be this code that is used in our correspondence with shareholders to refer to the Company by way of abbreviation.

### Operational Overview

MGL reports a considerably improved statutory profit result for the first half Financial Year 2012 with a net after tax profit attributable to members of the parent entity of \$2,849,456 (compared with a net after tax loss in the half year to 31 December 2010 of \$1,006,244)

The transformation of the former Advanced Magnesium Limited has been a process underway since June 2009 when MGL entered into the alloy manufacturing joint venture in China with HNKWE. That process continued in the current reporting period with the acquisition of the Magontec group of companies. Ownership of that group was achieved by MGL acquiring all of the issued share capital of Varomet Holdings Limited (VHL) the holding company of the Magontec group of companies. The shares of VHL were purchased from Straits Mine Management Pty Limited a wholly owned subsidiary of the listed Australian company Straits Resources Limited. Details of the acquisition are disclosed in Note 14 in this report.

### Executive Chairman's Report

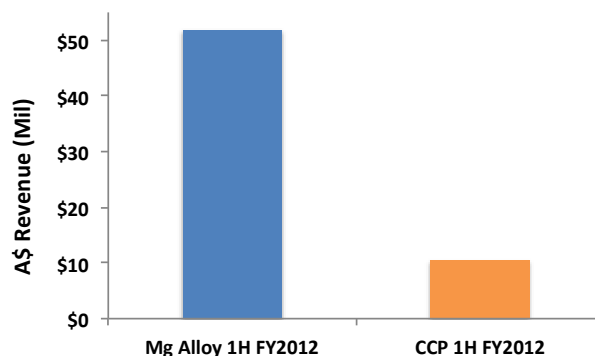
In the 6-month period to 31 December 2011 MGL has continued the process of transforming its business into a leading magnesium alloy and anode manufacturing company. Today the company has five manufacturing operations in Germany, Romania and China and a global marketing and distribution platform.

MGL now produces both generic and high technology magnesium alloys for the automobile, power tool and consumer electronics industries as well as magnesium and titanium cathodic corrosion protection (CCP) products for the global water heater industry.

The Interim Result records revenue of \$62.8m, up from \$10.5m in 2011, reflecting the much larger business that MGL has become since the acquisition of the Magontec Group of companies via ownership of all of the issued ordinary shares of Varomet Holdings Limited (VHL). This result also reflects a number of significant items including -

- the bringing to account of the discount on the acquisition of VHL; and
- the recognition in the consolidated accounts of the value of MGL's expanded portfolio of alloy and anode patents.

**Table 1: Revenue split between Magnesium alloy and CCP products**



The newly acquired assets of MGL (the VHL assets) generated a gross profit of \$4.4m on revenues of \$54.3m. This gross profit number was lower than expected as a result of costs associated with developing new production facilities at Arad in Romania, lower recycling throughput volumes at Bottrop in Germany, an interest rate hedge that has been marked to market at a cost to MGL and growing price competition in China and in export markets. Management is actively addressing these issues and anticipates improved overall profitability through the second half.

From the perspective of the magnesium alloy operations, which have generated the greatest drag on group operational profitability in the period under review, access to lower cost production capacity in China and Romania is expect to positively impact overall profitability as new efficiencies are realised across the organisation.

### Highlights

- On 22 November 2011 the company changed its name to Magontec Limited (MGL) from Advanced Magnesium Limited and its ASX stock exchange code was changed to "MGL" from "ANM".
- Since the acquisition of Varomet Holdings (Magontec) the group has focused on integrating the businesses and rationalising duplicate activities.
- Cost savings and new efficiencies have included
  - Closure of duplicate offices and activities
  - Development of lower operating cost assets in China and Romania
  - Leveraging global logistics, sales and distribution assets across all group activities
- The new magnesium alloy recycling and CCP products production facility at Arad in Romania (MAR) is now completed and will become fully operational in the March quarter.

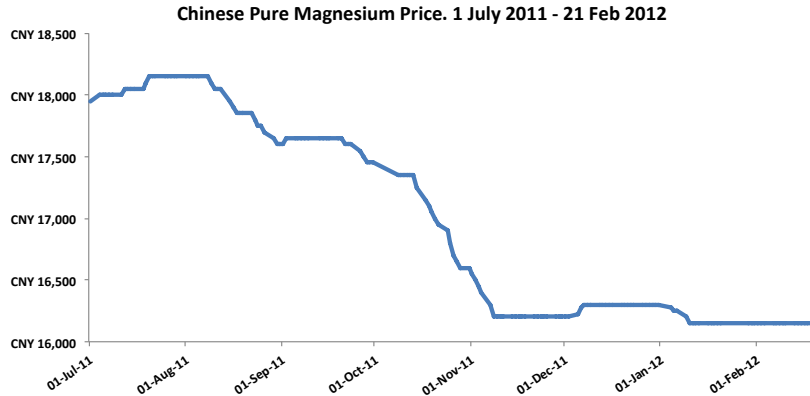
- MAR has entered into magnesium alloy recycling contracts with the growing number of die casters in the region. The establishment of the Romanian facility will also allow the group to seek an increased CCP product market share in the low-end water heater market in the Middle East and Europe.
- Magnesium alloy manufacturing capacity at MGL's Henan Province joint venture in Chang Ge (HNKWE) has increased to 30,000 metric tonnes per annum. The HNKWE joint venture is currently MGL's lowest cost operating business in China. The plant is undergoing qualification by MGL's European and Asian die cast customers and output is expected to rise through 2012 and 2013 delivering further unit cost efficiencies
- MGL marketing efforts since the acquisition have gained new magnesium alloy orders from European and Chinese die cast manufacturers reflecting competitive unit cost offerings from HNKWE and generating greater output volumes in China and a modest rise in recycling volumes in Europe through the first half.
- Operating efficiency at MGL's Chinese recycling plant in Suzhou (MAS) increased significantly through the period. MAS has now become a competitive operating unit providing die cast customers in the east of China with an efficient supply and recycling solution. MAS is a model for further recycling activities in China in the years ahead
- MGL's magnesium alloy production facility at Xi'an (MAX) continues to provide high quality and high technology alloys for customers in Europe and Japan. MGL continues to manufacture Rare Earth-rich magnesium alloys for high temperature power train automotive applications at MAX as well as other high specification alloys
- Profitability in the second quarter showed an improving trend as a result of these measures and this has continued.
- The reported half year after tax profit of (approximately) \$2.8m was impacted by a number of one-off events including

Discount on the acquisition price of Varomet Holdings Limited	\$4.3m
Development costs associated with establishing the Arad plant in Romania	(\$0.5m)
Other costs associated with business closure and asset impairment	(\$0.07m)
An interest rate hedged contract that has been marked-to-market at a cost to MGL's after tax profit	(\$0.4m)
An actuarial adjustment to the group's German pension liability	(\$0.1m)
Total	<u>\$3.23m</u>

#### Magnesium market overview

- Recorded pure magnesium prices have declined 11% through the period reflecting increased price competition among Chinese exporters and traders.

**Table 2 Pure Magnesium prices in China**



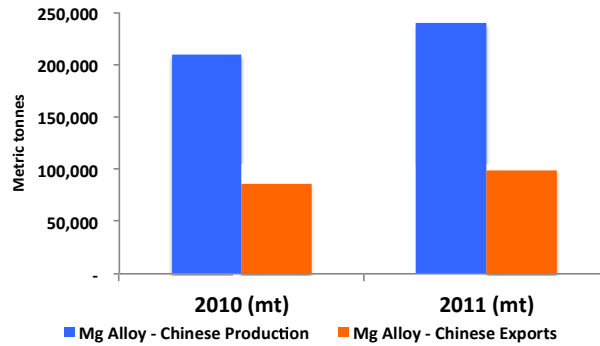
- A growing focus on environmental issues is driving automotive customers to high temperature magnesium alloys. MGL's AE44 high temperature alloy is developing a growing market in Europe as auto manufacturers seek weight saving applications.
- In recent weeks there has been much speculation over China's ability to maintain a 10% export tax on magnesium alloy in the face of criticism from the WTO. While the Chinese Government has made no comment the removal of this tax would likely have a beneficial impact on global volumes.
- Magnesium alloy prices broadly reflect the price of the key raw material, pure magnesium. The major consumer of pure magnesium is the aluminium alloying industry. As Table 3 below shows, the Chinese benchmark aluminium alloy price has also declined through the last six months of 2011 as consumer product demand abated.

**Table 3: Chinese aluminium alloy prices**



- Demand for magnesium alloy also reflects underlying consumer demand, particularly in the automotive, electronics and power tools markets.
- Continued growth in developing world automotive output has helped to maintain and grow magnesium alloy demand. Production data and export statistics in Table 4 show that magnesium alloy production and exports continued to grow through 2011 at 16% and 14% respectively.

**Table 4: Chinese magnesium alloy production and exports**



- In the high-end automotive market there is growing demand for magnesium alloys in high temperature applications seeking lower weight applications. The automotive industry consumes over 70% of all magnesium alloy production and is facing on-going pressure from environmental legislation that demands lower CO<sub>2</sub> output levels.
- Over the next few years we anticipate an increase in the use of generic magnesium alloys by developed and developing world automotive manufacturers and a rise in demand for higher technology magnesium alloys for luxury brands.
- Uptake of high temperature alloys are also impacted by the price of Rare Earths (RE), which comprise a small but essential element of MGLs high technology magnesium alloys. RE prices have been volatile in recent months however new sources of supply are expected to see these markets return to more acceptable levels.
- The outlook for global CCP markets continues to be driven by urbanisation trends in major developing economies. In the six months to December 2011 Chinese electric water-heater demand grew 11% on the same period last year. Similar levels of growth are forecast for the period ahead.
- The US market represents about 50% of global CCP product sales. MGL plans to increase its sales efforts directed at CCP products in North America and will be seeking to develop demand for Chinese manufactured product in that market.
- The high-end commercial water-heater markets are relatively stable and demand for ICAS products, MGLs most profitable business unit, remains positive.

In conclusion, much progress has been made in the first six months of the new business, and many tasks lie ahead. I would like to take this opportunity to thank employees and Directors for their focus and efforts since the merger.

Nicholas Andrews  
 Executive Chairman  
 Sydney, 29 February 2012


## AUDITOR'S INDEPENDENCE DECLARATION

We hereby declare, that to the best of our knowledge and belief, during the half-year ended 31 December 2011 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** 29th day of February 2012



CHARTERED ACCOUNTANTS

**REVIEW REPORT TO THE MEMBERS OF  
MAGONTEC LIMITED**

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

**Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Magontec Limited and Controlled Entities, which comprises the consolidated balance sheet as at 31 December 2011, consolidated comprehensive income statement, statement of changes in equity 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 Magontec 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 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Magontec 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 Magontec Limited would be in the same terms if provided to the directors as at the date of this auditor's review report.

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**CAMPHIN BOSTON**

CHARTERED ACCOUNTANTS

**REVIEW REPORT TO THE MEMBERS OF  
MAGONTEC LIMITED (cont)**

*Conclusion*

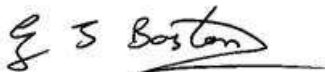
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Magontec Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 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 point (a) of the "Directors' Declaration" on page 12 in the financial report. The Directors have expressed an opinion that (based on certain factors) the Company will be able to continue operations beyond 12 months from the date of this report. The factors that form the basis for this opinion indicate the existence of 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: 29 February 2012



## DIRECTORS' DECLARATION

The Directors declare that:

- a) in the Director's opinion, there are reasonable grounds - on the basis of plans and project opportunities currently in an advanced state of development - to believe that there is no intention or necessity to close the current operations or cease trading within twelve months from the date of this report;
- b) 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
- c) 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



Nicholas Andrews  
Executive Chairman

Sydney, 28 February 2012

**CONDENSED CONSOLIDATED COMPREHENSIVE INCOME STATEMENT  
for the Half-Year Ended 31 December 2011**

	Note	Half-Year Ended 31 Dec 2011 \$	Half-Year Ended 31 Dec 2010 \$
Sale of goods	4	62,845,119	10,458,939
Cost of sales	4	(58,102,984)	(10,449,424)
<b>Gross profit</b>		<b>4,742,135</b>	<b>9,515</b>
Other income	10	1,590,563	13,592
Discount upon acquisition of Varomet Holdings Limited	14	4,282,091	-
Adjustment to provision in write down of inventory		-	69,380
Net Profit/(Loss) on sale of assets		-	(478)
Interest expense		(1,679,313)	-
Marketing, Research, development, licensing and patent		(1,132,156)	(222,234)
Operating costs		(3,592,242)	(729,279)
Corporate, administration and other expenses		(1,504,816)	(270,149)
<b>Profit/(Loss) before income tax expense</b>		<b>2,706,262</b>	<b>(1,129,652)</b>
Income tax (expense)/reimbursement		59,143	-
<b>Profit/(Loss) from continuing operations after tax</b>		<b>2,765,404</b>	<b>(1,129,652)</b>
Profit/(Loss) after income tax expense from discontinued operations		2,696	-
<b>Profit/(Loss) after income tax expense for the year</b>		<b>2,768,100</b>	<b>(1,129,652)</b>
<b>Other Comprehensive Income</b>			
Exchange differences taken to reserves in equity – translation of overseas entities		156,362	(469,404)
Loss on interest rate hedge taken to equity		(358,485)	-
<b>Total Comprehensive Income</b>		<b>2,565,977</b>	<b>(1,599,056)</b>
Profit/(Loss) attributable to minority interests		(81,356)	(123,408)
Profit/(Loss) attributable to members of the parent entity		2,849,456	(1,006,244)
<b>Profit/(Loss) from continuing operations after income tax</b>		<b>2,768,100</b>	<b>(1,129,652)</b>
<b>Comprehensive Income for the year attributable to</b>			
Minority interests		(24,197)	(345,109)
Members of the parent entity		2,590,174	(1,253,947)
<b>Total Comprehensive Income for the year</b>		<b>2,565,977</b>	<b>(1,599,056)</b>
<b>Earnings/(Loss) per share from continued and discontinued operations:</b>			
Basic (cents per share)		0.859	(0.378)
Diluted (cents per share)		0.859	(0.378)
<b>Earnings/(Loss) per share from continuing operations</b>			
Basic (cents per share)	9	0.858	(0.378)
Diluted (cents per share)	9	0.858	(0.378)

Notes to the financial statements are included on pages 17 to 26.

**CONDENSED CONSOLIDATED BALANCE SHEET**  
as at 31 December 2011

	Note	31-Dec-11 \$	30-Jun-11 \$
<b>Current Assets</b>			
Cash and cash equivalents	7	7,236,963	3,525,668
Trade and other receivables		24,337,157	7,175,988
Future Income Tax Benefit		594,262	-
Inventories		25,902,616	2,019,827
Other		700,258	613,607
<b>Total Current Assets</b>		<b>58,771,256</b>	<b>13,335,090</b>
<b>Non-Current Assets</b>			
Property, plant and equipment		18,025,453	3,441,695
Receivables	11	2,170,596	1,805,038
Future Income Tax Benefit		-	11,717
Intangibles <sup>(1)</sup>		2,809,606	3,753
<b>Total Non-Current Assets</b>		<b>23,005,655</b>	<b>5,262,204</b>
<b>Total Assets</b>		<b>81,776,911</b>	<b>18,597,293</b>
<b>Current Liabilities</b>			
Trade and other payables		29,353,280	7,688,484
Borrowings	15	18,097,786	3,650,837
Provisions		1,598,775	50,853
<b>Total Current Liabilities</b>		<b>49,049,840</b>	<b>11,390,173</b>
<b>Non-Current Liabilities</b>			
Trade and other payables <sup>(2)</sup>		-	-
Borrowings from/payables to related parties		2,001,203	2,089,621
Provisions		5,218,005	64,492
Owing to Straits Mine Management Pty Ltd	15	12,673,645	-
<b>Total Non-Current Liabilities</b>		<b>19,892,853</b>	<b>2,154,113</b>
<b>Total Liabilities</b>		<b>68,942,694</b>	<b>13,544,286</b>
<b>Net Assets</b>		<b>12,834,218</b>	<b>5,053,007</b>
<b>Equity attributable to members of MGL</b>			
Issued capital	6	31,818,326	26,603,008
Reserves	12	3,754,808	4,014,175
Accumulated Losses		(24,413,505)	(27,262,962)
<b>Equity attributable to minority interests</b>			
Issued capital	6	2,736,526	2,736,526
Reserves	12	(333,768)	(390,926)
Accumulated Losses		(728,169)	(646,813)
<b>Total Equity</b>		<b>12,834,218</b>	<b>5,053,007</b>

(1) Includes patents in relation to "Correx" and AE44 – Refer Note 14

(2) An amount of \$1,204,000 classified in the heading as at 30 June 2011 has been re-classified as "Borrowings from/payables to related parties"

Notes to the financial statements are included on pages 17 to 26.

**STATEMENT OF CHANGES IN EQUITY  
for the Half-Year Ended 31 December 2011**

Consolidated Entity	Share Capital		Retained Earnings	Foreign Currency Translation Reserve	Capital Reserve	Hedge Reserve	Expired Options Reserve	Minority Interests	Total Equity
	Ordinary \$	Options Valuation \$							
<b>Balance at 1 July 2010</b>	<b>25,489,186</b>	<b>18,574</b>	<b>(25,445,848)</b>	<b>(133,937)</b>	<b>2,756,187</b>	-	<b>1,586,537</b>	<b>1,659,795</b>	<b>5,930,494</b>
Loss attributable to members of parent entity	-	-	(1,817,111)	-	-	-	-	-	(1,817,111)
Profit attributable to minority interests	-	-	-	-	-	-	-	289,539	289,539
Total other comprehensive income for the year	-	-	-	(218,856)	-	-	-	(250,548)	(469,404)
Expired Options	-	(24,244)	-	-	-	-	24,244	-	0
Issue of new options to staff expiring 16 August 2013	-	31,752	-	-	-	-	-	-	31,752
Planned allocation of shares to key management personnel pending shareholder approval	440,000	-	-	-	-	-	-	-	440,000
Ordinary shares issued under July 2010 private placement	608,319	-	-	-	-	-	-	-	608,319
Additional Ordinary shares issued under June 2010 Securities Purchase Plan	39,422	-	-	-	-	-	-	-	39,422
<b>Balance at 30 June 2011</b>	<b>26,576,926</b>	<b>26,082</b>	<b>(27,262,960)</b>	<b>(352,792)</b>	<b>2,756,187</b>	-	<b>1,610,780</b>	<b>1,698,786</b>	<b>5,053,010</b>
Profit/(Loss) attributable to members of parent entity	-	-	2,849,456	-	-	-	-	-	2,849,456
Loss on interest rate hedge taken to equity	-	-	-	-	-	(358,485)	-	-	(358,485)
Profit/(Loss) attributable to minority interests	-	-	-	-	-	-	-	(81,356)	(81,356)
Total other comprehensive income for the year	-	-	-	99,204	-	-	-	57,159	156,362
<b>New Share Issues In Period</b>									
- to Straits Mine Management Pty Ltd (net of costs) as part consideration for acquisition of Varomet Holdings Ltd	2,219,235	-	-	-	-	-	-	-	2,219,235
- July 2011 Securities Purchase Plan (net of costs)	1,572,636	-	-	-	-	-	-	-	1,572,636
- to Underwriters of July 2011 Securities Purchase Plan (net of costs)	1,338,379	-	-	-	-	-	-	-	1,338,379
- to Executives of the company as per Resolutions 8(b) and 9 of 2011 AGM (net of costs)	85,069	-	-	-	-	-	-	-	85,069
<b>Balance at 31 December 2011</b>	<b>31,792,244</b>	<b>26,082</b>	<b>(24,413,503)</b>	<b>(253,589)</b>	<b>2,756,187</b>	<b>(358,485)</b>	<b>1,610,780</b>	<b>1,674,589</b>	<b>12,834,305</b>

Notes to the financial statements are included on pages 17 to 26.

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**  
for the Half-Year Ended 31 December 2011

	Note	Half-Year Ended 31 December 2011  Inflows/ (Outflows) \$	Half-Year Ended 31 December 2010  Inflows/ (Outflows) \$
<b>Cash Flows from Operating Activities</b>			
Receipts from customers		63,949,598	3,906,364
Payments to suppliers and employees		(58,486,166)	(4,730,092)
Interest and other items of a similar nature received/(paid)		(805,507)	12,416
Other receipts		-	1,176
<b>Net Cash used in Operating Activities</b>	<b>14</b>	<b>4,657,925</b>	<b>(810,136)</b>
<b>Cash Flows From Investing Activities</b>			
Cash acquired with acquisition of Varmet Holdings Limited		2,534,132	-
Loan to related parties		71,315	(1,810,697)
Purchase of plant and equipment		(5,311,086)	(329,077)
Security deposits and prepayments		31,977	-
Proceeds from sale of property, plant and equipment			
<b>Net Cash provided by/(used in) Investing Activities</b>	<b>14</b>	<b>(2,673,661)</b>	<b>(2,139,773)</b>
<b>Cash Flows from Financing Activities</b>			
Loans from related parties		(88,418)	201,746
Owing to Straits Mine Management Pty Ltd		(640,405)	-
Bank Loans		(452,206)	-
Net new capital raised		2,908,059	1,815,447
<b>Net Cash provided by Financing Activities</b>	<b>14</b>	<b>1,727,031</b>	<b>2,017,193</b>
Net Decrease in Cash and cash equivalents		3,711,295	(932,716)
Cash and cash equivalents at the beginning of the half-year		3,525,668	1,202,444
<b>Cash and cash equivalents at the end of the half-year</b>	<b>7</b>	<b>7,236,963</b>	<b>269,728</b>

Notes to the financial statements are included on pages 17 to 26.

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
for the Half-Year Ended 31 December 2011****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 2011.

**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 2011 half-year financial report are consistent with those adopted and disclosed in the Company's 2011 annual financial report for the financial year ended 30 June 2011.

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

**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 Employee Options under Employee Share Option Plan**

The options on issue as at the reporting date are 1,380,000. These options were issued on 16 August 2010. They vest on 16 February 2012 and expire on 16 August 2013.

**2.2 Income Tax Expense/Benefit**

Tax losses previously disclosed in the 30 June 2011 Annual Report encompass Magontec 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.

**3. Dividends**

No dividend was declared or recommended during the 6 months ended 31 December 2011 (6 months ended 31 December 2010: no dividend declared or recommended). The balance of the franking account at 31 December 2011 is \$nil (31 December 2010: \$nil).

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont)**  
for the Half-Year Ended 31 December 2011

**4. Segment Information**

The consolidated entity's activities are focused on operating activities in the Company's partially owned subsidiary (HNKWE) and its wholly owned subsidiaries.

	31-Dec 2011 \$ CORPORATE/ HEAD OFFICE	31-Dec 2011 \$ HNKWE	31-Dec 2011 \$ OTHER OPERATING UNITS	31-Dec 2011 \$ TOTAL	31-Dec 2010 \$ CORPORATE/ HEAD OFFICE	31-Dec 2010 \$ HNKWE	31-Dec 2010 \$ OTHER OPERATING UNITS	31-Dec 2010 \$ TOTAL
Sale of goods	-	8,503,198	54,341,921	62,845,119	-	10,437,439	21,500	10,458,939
Cost of sales	-	(8,242,007)	(49,860,977)	(58,102,984)	-	(10,437,526)	(11,898)	(10,449,423)
Other income	4,265,616	397,013	1,212,721	5,875,350	12,229	1,340	23	13,592
Operating costs before interest, tax, depreciation and amortisation	(1,046,161)	(284,001)	(4,200,627)	(5,530,788)	(714,902)	(181,468)	(165,201)	(1,083,252)
<b>Earnings before Interest Tax, Depreciation and Amortisation (EBITDA)</b>	<b>3,219,455</b>	<b>374,203</b>	<b>1,493,038</b>	<b>5,086,696</b>	<b>(702,673)</b>	<b>(180,395)</b>	<b>(177,076)</b>	<b>(1,060,144)</b>
Interest	(126)	(303,153)	(\$1,376,034)	(1,679,313)	-	-	-	-
Depreciation and amortisation	(182)	(108,677)	(\$589,567)	(698,426)	(6,715)	(62,319)	(474)	(69,508)
<b>Profit/(Loss) before income tax expense from continuing and discontinued operations</b>	<b>3,219,146</b>	<b>(37,627)</b>	<b>(472,562)</b>	<b>2,708,957</b>	<b>(709,388)</b>	<b>(242,714)</b>	<b>(177,550)</b>	<b>(1,129,652)</b>
Income tax (expense)/reimbursement	-	(133,662)	192,805	59,143	-	-	-	-
<b>(Profit/(Loss) after income tax expense for the year from continuing and discontinued operations</b>	<b>3,219,146</b>	<b>(171,290)</b>	<b>(279,757)</b>	<b>2,768,100</b>	<b>(709,388)</b>	<b>(242,714)</b>	<b>(177,550)</b>	<b>(1,129,652)</b>
<b>Other Comprehensive Income</b>								
Loss on interest rate hedge taken to equity	-	-	(358,485)	(358,485)	-	-	-	-
Exchange differences taken to reserves in equity – translation of overseas entities	(4)	121,614	34,752	156,362	-	(471,704)	56,942	(414,762)
<b>Total Comprehensive Income for the year</b>	<b>3,219,143</b>	<b>(49,676)</b>	<b>(603,490)</b>	<b>2,565,977</b>	<b>(709,388)</b>	<b>(714,418)</b>	<b>(120,608)</b>	<b>(1,544,414)</b>

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(cont)  
for the Half-Year Ended 31 December 2011**

**5. Contingent Asset and Liabilities**

Contingent assets and liabilities remain unchanged from those disclosed in the Annual Report at 30 June 2011.

**6. Share Capital**

	<b>31-Dec 2011</b>	<b>30-Jun 2011</b>
	<b>\$</b>	<b>\$</b>
<b>Opening balance</b>	<b>26,136,926</b>	<b>25,489,186</b>
Raised under private placement (net of costs) July 10	-	608,319
Additional raising (net of costs) received post 30 June 2010 in respect of Securities Purchase Plan	-	39,422
Issue of shares to Straits Mine Management Pty Ltd (net of costs) as part consideration for acquisition of Varomet Holdings Ltd	# 2,219,235	-
Issue of shares under July 2011 Securities Purchase Plan (net of costs)	# 1,572,636	-
Issue of shares to Underwriters of July 2011 Securities Purchase Plan (net of costs)	# 1,338,379	-
Issue of shares to Executives of the company as per Resolutions 8(b) and 9 of 2011 AGM (net of costs)	# 525,069	-
<b>Share capital on issued ordinary shares 369,571,890 (June 2011: 269,994,448)</b>	<b>31,792,244</b>	<b>26,136,926</b>
Planned allocation of shares to key management personnel pending shareholder approval	-	440,000
ESOP options expiring 16 August 2013	* 26,082	26,082
Share capital attributable to members of MGL	31,818,326	26,603,008
Share capital attributable to minority interest	2,736,526	2,736,526
<b>Total share capital</b>	<b>34,554,852</b>	<b>29,339,534</b>

# New shares issued in reporting period.

\* Options issued on 16 August 2010 under the Company's Employee Share Option plan. Options will vest on 16 February 2012.

## 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 2011 \$	30 June 2011 \$
Cash on hand and at bank <sup>(1)</sup>	6,636,963	3,525,668
Deposits at call	-	-
Term deposits	600,000	-
<b>Total cash at end of period</b>	<b>7,236,963</b>	<b>3,525,668</b>

*(1) An amount of \$4,057,536 is committed to banks as security for bill issuance facilities related to purchase of materials.*

## 8. Events subsequent to balance date

There are no 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 Earnings/(Loss) Per Share From Continuing Operations

		Half-Year Ended 31 Dec 2011	Half-Year Ended 31 Dec 2010
<b>Earnings/(Loss) per share:</b>			
Profit/(Loss) attributable to members of the parent entity from continuing operations	1	\$2,849,456	(\$1,006,244)
Average shares on issue for the period	2	331,768,880	266,256,796
Basic/Diluted <sup>(1)</sup> (cents per share)	$1 \div 2 \times 100$	0.858	(0.378)

*(1) Basic and Diluted cents per share are equal as no options currently on issue have vested as at the reporting date.*

## 10. Other income

	Half-Year Ended 31 Dec 2011 \$	Half-Year Ended 31 Dec 2010 \$
Interest revenue	18,847	12,416
Net Foreign exchange gain/(loss)	317,675	-
Government grant to HNKWE	301,900	-
Reversal to income of disputed overpayment	594,051	-
Other	358,090	1,176
<b>Total</b>	<b>1,590,563</b>	<b>13,592</b>

## 11. RECEIVABLES

	31 Dec 2011	30 Jun 2011
	\$	\$
Other Receivables	549,212	112,340
Loan to KWE (HK)	1,621,384	1,692,699
<b>Total</b>	<b>2,170,596</b>	<b>1,805,038</b>

## 12. Reserves

	31 Dec 2011	30 Jun 2011
	\$	\$
<b>Capital reserve</b>		
Balance at beginning of financial year	2,761,692	2,761,692
Movement as a result of closure of balance sheet of AMT Europe GmbH	(85)	-
Balance at end of financial year	<b>2,761,607</b>	<b>2,761,692</b>
<b>Foreign currency translation reserve</b>		
Balance at beginning of financial year	(749,223)	(279,819)
Translation of foreign operations - VHL	39,485	-
Translation of foreign operations - other than VHL	116,877	(469,404)
Balance at end of financial year	<b>(592,861)</b>	<b>(749,223)</b>
<b>Hedge reserve</b>		
Balance at beginning of financial year	-	-
Loss on interest rate hedge taken to equity	(358,485)	-
Balance at end of financial year	<b>(358,485)</b>	-
<b>Expired Options Reserve</b>		
Balance at beginning of financial year	1,610,780	1,586,536
ESOP options expiry	-	24,244
Balance at end of financial year	1,610,780	1,610,780
<b>Total reserves</b>	<b>3,421,040</b>	<b>3,623,249</b>
Reserves attributable to minority interests	(333,768)	(390,926)
Reserves attributable to members of MGL	3,754,808	4,014,175
<b>Total reserves</b>	<b>3,421,040</b>	<b>3,623,249</b>

### 13. Cash Flow Statement – Reconciliation With Quarterly Cash Flow Report (Appendix 4C)

	Year To Date As Per Appendix 4C 31 December 2011	Year To Date As Per This Report	Difference
<b>Opening cash 1 July 2011</b>			
Net Cash used in Operating Activities	(\$1,363,760)	\$4,657,925	\$6,021,685 <sup>(1)</sup>
Net Cash provided by/(used in) Investing	(\$2,693,754)	(\$2,673,661)	\$20,093
Net Cash provided by Financing Activities	\$7,771,023	\$1,727,031	(\$6,043,992) <sup>(1)</sup>
<b>Ending cash 31 December 2011</b>	<b>\$3,713,509</b>	<b>\$3,711,295</b>	<b>(\$2,214)<sup>(2)</sup></b>

(1) Bank accepted bills issued to finance the purchase of certain supplies had incorrectly been classified in Appendix 4C under "Financing Activities" instead of "Operating Activities".

(2) A minor adjustment in the cash balance occurred after the preparation of Appendix 4C.

The quarterly cash flow report (Appendix 4C) for 31 March 2012 will reflect the commencing position as shown in this half-year report.

### 14. Acquisition of the Magontec Group of Companies

On 4 July 2011 the Company acquired all of the ordinary shares of Varomet Holdings Limited (VHL) the holding company that owns the Magontec Group of companies. The ordinary shares of VHL were acquired from Straits Mine Management Pty Limited (SMM) a wholly owned subsidiary of Straits Resources Limited.

The acquisition was made with the objective of gaining access to

- opportunity that comes with owning a significant participant in the magnesium industry;
- a portfolio of project developments and technologies; and
- production and marketing facilities for development of the Group's magnesium technologies.

Consideration of \$5,595,501 paid to SMM was made up as follows.

• Cash	\$0
• 40,499,167 ordinary shares issued at \$0.055 to SMM	\$2,227,454
• Convertible Loan Note (CLN) issued to SMM	\$3,368,047
• Total Consideration	<u>\$5,595,501</u>

Key Conditions of the CLN are as follows

- No interest is payable
- SMM may on, or after 4 July 2012, convert any amount then outstanding under the CLN into shares in Magontec at a price of \$0.055 per share.

Thus, additional shares of 61,237,218 may be issued

#### 14. Acquisition of the Magontec Group of Companies (Cont)

A summary of the consolidated balance sheet of Varomet Holdings Limited on 4 July 2011 appears below

##### ASSETS

###### Current

Cash	\$2,534,132	
Finished goods	\$20,356,118	
Trade debtors	\$18,300,506	
Other	\$1,691,833	\$42,882,590

###### Non Current

Land & Buildings	\$4,679,504	
Plant & Equipment	\$5,247,836	
Other	\$643,413	\$10,570,752

##### LIABILITIES

###### Current

Trade creditors	\$10,050,908	
Other Creditors and Accruals	\$1,623,959	
Bank loan	\$14,899,155	
Other	\$1,474,660	\$28,048,682

###### Non Current

Provision for Employee entitlements	\$5,471,465	
Owing to Straits Mine Management Pty Limited	\$12,855,603	\$18,327,068

<b>NET ASSETS as per VHL balance sheet above</b>	\$7,077,592	
Plus value of Intangibles taken into consolidated accounts	\$2,800,000	
Less Consideration Paid	<b>(\$5,595,501)</b>	
Discount on acquisition	\$4,282,091	

Asset Values		
Category	Basis of Valuation	Confirmation
Leasehold land in China	Valued at cost less straight line amortisation for the expired period of the lease.	Valuation
Freehold land	Cost	Government stamp duty valuation Audit verification
Buildings	Cost less cumulative depreciation	
Plant and Equipment	Cost less cumulative depreciation	
Finished goods	Cost of inputs	
Trade debtors	Amount owing less general allowance for bad debts	

##### Intangible Assets

MGL acquired a portfolio of patented products with the acquisition of the Magontec Group of companies. Amongst the patented products are two that provide an immediate commercial contribution and, possibly, a greater future contribution. It is the commercial contribution of these two patents that has been valued as an "Intangible Non-Current Asset"

#### **14. Acquisition of the Magontec Group of Companies (Cont)**

The patents relate to “Correx®” and “AE44”.

Correx® impressed current systems feed a continuous protective electric current for hot water tanks. In particular, the combination of solar energy systems, heat pumps or combined heat and power plants with hot water generation all benefit from an electronically regulated protective current. Additionally Correx® Impressed Current Systems indicates any system failure and reduce maintenance.

The system consists of two central components; the Correx® potentiostat and the Correx® titanium anode with mixed oxide coating. They are connected by cable and powered via mains cable.

AE 44 is a magnesium alloy that is suitable for high temperature applications. It has particularly high creep resistance and high ductility as well as good corrosion protection properties. The product is an alloy of magnesium with aluminium and rare earths.

The following process was adopted in valuing the two patents.

- a. Calculate the aggregate gross profit of Correx® and AE44 (referred to as the “patented products”) over the historical period 1 July 2006 to 30 June 2011 (the “evaluation period”).
- b. Derive the net after tax profit of the patented products in the evaluation period by deducting from the gross profit the following items –
  - i. indirect and direct costs in the evaluation period associated with patent legal aspects (including patent renewal fees);
  - ii. an allocation of the aggregate of overheads, depreciation, amortisation and tax in the evaluation period to the patented products on the basis that the main cost infrastructure in Magontec GmbH (the MGL subsidiary company in which the patents reside) is dedicated to supporting the recycling business; and
  - iii. an allocation of the interest cost in the evaluation period on the basis that the allocation rate equals the historical ratio of sales of the patented product to total sales.

The expectation is that there is a degree of confidence that the patented products will continue to produce at least the same net profit stream over the next 5 years as they have produced over the last 5 years.

Using an appropriate equity rate of return to discount the nominal net profit value (calculated in accordance with the steps above) results in a net present value that supports the adopted valuation of \$2,800,000.

#### **Value of Liabilities**

All liabilities have been appraised at the amounts that will discharge the obligation.

In the case of the “Provision for Employee entitlements” an actuarial assessment of this liability had been conducted for preparation of the 30 June 2011 account of VHL.

#### **Possible Indemnification by Straits Mine Management Pty Ltd**

If a fact, matter or circumstance was not known and was incapable of being known by Magontec Limited at 4 July 2011 and that fact, matter or circumstance leads to a loss greater than \$100,000 then SMM may be liable to make an indemnification payment to Magontec Ltd.

Any indemnification payment from SMM will be effected via a reduction of the loan owing by Varomet Holdings Limited to Straits Mine Management Pty Ltd

#### **14. Acquisition of the Magontec Group of Companies (Cont)**

##### **VHL Consolidated Results 4 July 2011 to 31 December 2011**

Sales in the period 4 July 2011 to 31 December 2011 attributable to the VHL consolidated group were \$54,316,407

The loss derived by the VHL consolidated group for the period 4 July 2011 to 31 December 2011 was \$262,712

## 15. Borrowings

<b>Borrower</b>	<b>Due Date For Repayment/ Repayment Arrangements</b>	<b>Drawn</b>	<b>Facility Amount</b>
Magontec Xian Limited	31-Oct-12	\$2,339,721	\$2,339,721
HNKWE	10-Jan-12	\$1,508,926	\$1,508,926
Magontec GmbH	30-Jun-14	\$14,249,139	\$17,851,050
Varomet Holdings Limited (VHL)	Owing to Straits Mine Management Pty Ltd Repayments (as permitted by dividend flows to VHL from its subsidiaries) to equal 50% of the net profit after tax (plus depreciation and amortisation) in the consolidated accounts of VHL.	\$12,673,645	\$12,673,645
		\$30,771,431	\$34,373,342

## 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	<b>FY 2011</b> Fully paid	Not Applicable	0.00	0.00
Final	<b>FY 2010</b> Fully paid	Not Applicable	0.00	0.00

### B. Net Tangible Assets Per Share

#### Net Tangible Assets Per Share<sup>(1)</sup>

	31 Dec 2011 cents	30 Jun 2011 cents
Net tangible assets per share	3.024	1.897

Note (1) Net assets less intangible asset divided by average number of shares on issue for the relevant period multiplied by 100

### C. Information on Audit or Review

This half-year report is based on accounts that 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.