

10 May 2012

Company Announcements Office
Australian Stock Exchange Limited
20 Bridge Street
Sydney, NSW, 2000

Dear Sirs,

**Magontec Limited (MGL) Sells Share Interest in Joint Venture Entity
Henan Keweier Alloy Materials Co., Limited (HNKWE)**

In its release to the market dated Monday 7 May 2012, MGL foreshadowed a series of new relationships and joint-ventures in a new strategic initiative to be implemented over the coming weeks. As a prelude to these initiatives, MGL has sold its share of the registered capital of HNKWE to interests associated with the existing joint venture partners in HNKWE.

The key features of a Heads of Agreement relating to the sale signed on 9 May 2012 are as follows.

- i. Under a Share Purchase Agreement to be executed, the buyer has agreed to acquire MGL's interest for an amount equal to the lesser of \$2,100,000 and the AUD equivalent of 45% of the net assets of HNKWE as at 31 December 2013; and
- ii. the purchase price is due to be paid on or before 31 December 2013.

In other documents associated with the sale, HNKWE will repay the loan outstanding to MGL in respect of working capital provided to HNKWE. Repayment of that loan will be as follows.

- Approximately \$1,600,000 of the \$1,810,568 loan outstanding to MGL will be repaid by end August 2012.
- The balance of \$210,568 is incorporated in the amount due under the Share Purchase Agreement.

The effect of the sale of MGL's equity and the repayment of the loan by HNKWE is expected to have a neutral effect on profit and loss in the year ended 30 June 2012.

Completion of the legal aspects of the sale is subject to

- execution of a detailed Share Purchase Agreement based on the Heads of Agreement executed on 9 May 2012; and
- acceptance and processing by the various Chinese corporate regulation agencies of the sale documentation.

Over the next two months MGL expects to announce a series of initiatives designed to address global sourcing and manufacturing requirements. In the meantime HNKWE will continue to be engaged by MGL on a contract basis to supply alloy.

Yours Sincerely

A handwritten signature in black ink, appearing to read 'Nicholas Andrews', with a small 'A' and 'S' below the signature.

Nicholas Andrews
Executive Chairman