



PRELIMINARY UNAUDITED
ANNUAL REPORT
2012

Magontec Limited

EXECUTIVE CHAIRMAN'S MESSAGE

Following the acquisition of Varomet Holdings Limited (VHL) in July 2011, Magontec Limited (MGL or the Company) announced its intention to become a leading company in its sector. Our stated objective was to build a magnesium products manufacturing and distribution base for the profitable exploitation of our existing technology portfolio and to build on the past success of the businesses we had acquired.

While MGL has made much progress in building a strong and competitive business base, a combination of significant restructuring costs and other one-off impacts has frustrated our ability to achieve an acceptable comprehensive profit outcome in the financial year to 30 June 2012.

Before reviewing the MGL 2012 result and current market conditions in more detail, I would like to highlight some of the progress made over the last 12 months, our current expectations for the period ahead and provide some background to our activities.

MGL manufactures its basic product, magnesium alloy, in China. Its other operations either process that material into anodes or recycle magnesium alloy scrap for sale back to the magnesium die cast industry. A critical issue for our industry over the last 10 years has been price and supply volatility, the result of both geographical concentration and the underlying economics of pure magnesium production.

Changes currently underway in the magnesium industry are likely to be far reaching. Supply issues and pricing irregularities are being actively addressed by both regional and central government agencies in China. The country is keen to increase regulatory oversight, address significant environmental issues and secure its position as the World's leading magnesium manufacturing economy.

Qinghai Salt Lake Project

In June this year MGL signed a Co-operation Agreement with the Qinghai Salt Lake Magnesium Company Limited (QSLM). As a result the Company has positioned itself as a key alliance partner of the emerging giant in the global pure magnesium manufacturing industry.

This alliance will provide MGL with direct and privileged access to production from the world's largest and cleanest (lowest CO2 footprint) pure magnesium manufacturing facility. We believe that this will be a significant competitive advantage for Magontec when production from QSLM comes on stream.

QSLM will produce 100,000 metric tonnes (mt) of pure magnesium from its first electrolytic plant and expects to grow production to 450,000 mt according to current and future construction programs. Under the Co-operation Agreement between the parties, MGL will own and operate alloying and casting equipment adjacent to the QSLM smelter and receive an initial annual supply of 56,000 mt of raw material, in hot metal form, directly to its own refining furnaces. This production method is expected to result in significant cost advantages for Magontec.

In the months since our Co-operation Agreement announcement, we have consulted extensively with major customers in the automotive, power tool and electronics industry. We believe that the volume and quality of our product will be warmly welcomed by our customers and that Magontec will be able to build its global market share

from current levels of around 20% to over 30%.

Restructuring

To prepare Magontec for this event the company has had to undertake a wide-ranging review of its operations, assets and strategy. We are currently in the process of scaling back operations in Xian. We have previously signalled to shareholders our intention to exit from the HNKWE joint venture in Henan Province. The sale of this asset will be the subject of a shareholder resolution at the 2012 AGM. We have constructed a new magnesium alloy recycling and anode manufacturing operation in Romania and have addressed process efficiency issues at the Bottrop recycling plant in Germany. All of these activities have generated one-off costs in 2012 that have impacted profitability and there will be further one-off costs associated with some of these activities through the period to 31 December 2012.

The current Magontec business plan anticipates modest profitability in 2013 with further improvements in 2014 and 2015, dependant on the completion date of the QSLM facility in China.

Business environment

MGL's business plan estimates for calendar year 2013 are based on current Chinese export pricing. A combination of raw materials and power shortages and complex tax minimisation activities has reduced the profitability of magnesium alloy exports from China in the reporting period. Any improvement in these conditions will see a positive impact on profitability and our projections for 2013 and beyond. As a result of the current pricing environment Magontec has been less active in generic alloy sales to its traditional European customers than in previous years, although specialist alloy export sales have continued through this period as have generic alloy sales to Chinese and other Asian markets. The move to Qinghai with its lower cost and higher quality product is expected to significantly improve our ability to compete in both generic and specialist alloy exports.

Until the commencement of production at Qinghai the entire Chinese magnesium industry (more than 80% of the global production base) will continue to rely on Pidgeon Process technology. Many older Chinese producers using this technology emit high levels of pollution. Under emerging Chinese regulations we expect this group of producers to find it increasingly difficult to achieve the required environmental and occupational health and safety standards. The more modern and environmentally advanced Pidgeon producers tend to source energy in the form of off-gas, a by-product from associated coke manufacturing operations. While these businesses have a cost advantage in the current industry structure, they are vulnerable to changes in demand for steel, as coke production is directly related to steel production. The supply matrix for ferrosilicon (a high priced raw material) further impacts Pidgeon Plant production economics and price volatility.

The MGL business plan and the investment in the Qinghai cast house, seeks to remove the company from this complex and vulnerable equation. At Qinghai the raw material is a large salt lake containing a magnesium chloride solution sufficient to supply current global demand for many decades. The electrolytic process, once widely used outside China, does not require ferrosilicon, coal or dolomite and is not reliant on coke off-gas or associated steel industry economics. The power for Qinghai will be

75% sourced from hydroelectric, further enhancing the environmental qualities of the end product.

Estimates from independent sources suggest that the CO2 emissions generated in the manufacture of a tonne of magnesium at Qinghai will be equivalent to or less than the CO2 generated to manufacture a tonne of aluminium and 2 to 3 times less than that generated in the manufacture of a tonne of magnesium using the Pidgeon Process.

The combination of a low CO2 footprint, significant supply depth, an established alloy technology development program and the ability to enter into longer term contracts will be the unique characteristics of Magontec from calendar year 2014. Furthermore, our Chinese partner has committed to becoming a 30% shareholder in Magontec to fund the capital investment required in Qinghai. QSLM is already a 13% shareholder in Magontec as a result of a Private Placement raising \$2.0m towards the cost of MGLs' plant and equipment needs for the alloy production plant at Golmud (the city at which the new facility will be operated). QSLM is a 89.4% owned subsidiary of Qinghai Salt Lake Industries Company Limited, which is listed on the Shenzhen Stock exchange (SSX Code: 000792.SZ) and enjoys the support of the Qinghai Provincial Government as well as other prominent Chinese state and private organisations among its shareholders.

Financial Review

The Company recorded a loss, applicable to members of MGL, from all operations after tax of \$1,234,426. This loss forms part of the Group Loss of \$2,535,772. The financial result that the Company has recorded is below our expectations. While it reflects the scope of the restructuring undertaken, Chinese export market pricing volatility and heavy doubtful debt provisioning in HNKWE, it also underlines the need for improved cost control and improved efficiencies across the Company.

The wholly owned operating assets of the company were acquired on 4 July 2011 and the performance expectations were framed around the business plans of the company at that time. In June 2012 the Company secured a reduction in debt of \$7.1 million in return for a \$2.0 million convertible loan note and a change to the terms of a previous loan note issued at the time of acquisition. Furthermore the Company has also secured a commitment from the vendor that the residual outstanding loan of \$6.0 million will be interest free. All of these terms are conditional on Magontec raising funds in the period to 31 December 2012 and reducing its debt obligation to Straits Mine Management to zero.

Included in the loss for 2012 are a large number of items that are "one-off" in nature and will not be repeated in the current financial reporting period. After allowing for these one off effects, the performance of the ongoing operating divisions showed a loss of \$791,234 as follows.

Reconciliation of Net profit	
Group Position	(\$2,535,772)
Patent sale by Advanced Magnesium Technologies Pty Ltd	(\$44,867)
Discount on Acquisition of Varomet Holdings Limited	(\$4,282,091)
HNKWE loss	\$2,769,906
Profit on sale of HNKWE	(\$6,356)
Non recurring executive costs	\$1,055,361
Impairment of HNKWE loan	\$97,937
Magontec Romania commissioning costs	\$900,755
"Catch up" 2011 energy costs levied by Authorities	\$147,225
Interest payments to SMM	\$889,734
Other	\$216,933
Underlying Group operating position	(\$791,234)

The Underlying Group operating position does not account for the earnings power of the assets under development and initiatives undertaken in 2012.

This analysis represents a snap-shot of the business prior to the impact of significant new business initiatives put in train in the last 12 months. As the Company's strategic plans continue to roll out we anticipate further restructuring costs and associated cost savings and new earnings streams to reflect in the period to 31 December 2013.

The new magnesium alloy recycling business at Santana in Romania is currently in ramp-up mode and will be operating at full capacity for its current contract by October this year. Our expectations are that the Company will win other recycling contracts in Romania and expect that plant to be operating at maximum capacity in the near future. Indeed, as the operating costs of die casting in western Europe continue to climb we are witnessing an increase in eastern European activity that is expected to promote further growth for our Romanian operation in the coming years.

The wind-down of our magnesium alloy manufacturing activities in Xian is a lengthy process. Customers who have qualified that facility will need to be satisfied that our new joint venture facility in Shanxi Province (Magontec Shanxi Co Limited) can produce suitable metal. In the changeover period the company continues to sustain the Xian plant incurring abnormally high operating costs. As we move into 2013 we expect those costs to decline.

On 30 June 2012 the Company had Net Tangible Assets per share of 1.699 cents. Included in this calculation is \$13.1 million of outstanding debt to Straits Mine Management Pty Limited (SMM). Under an agreement between SMM and MGL, announced to shareholders in May 2012, SMM has agreed to reduce this debt to \$6m and to forgive an amount of \$7.1m in consideration for a new Convertible Loan Note with a face value of \$2m and repayment of the residual debt of \$6m. This agreement is subject to shareholder approval and to MGL making a repayment to SMM of \$6m by 31 December 2012. In the event that shareholder approval is forthcoming and that MGL can satisfy SMM debt repayment requirements, the Net Tangible Assets of the company will rise by \$5.1m to \$14.1m.

Cathodic Corrosion Products (CCP)

An important part of Magontec is the CCP division. The company manufactures magnesium and titanium anodes in Europe and China for the global water heater market. The titanium anode business has performed in line with budget but the magnesium anode markets have operated in a more challenging environment, particularly in Europe. We are currently putting in place a number of strategies to address these issues. In China our anode manufacturing business has had new equipment and systems installed to improve quality control in both the factory and supply chain. Overall the CCP business has been profitable through 2012 but at a lower level than projected in the business plan.

Magontec has devoted considerable technology resources to its CCP business. Almost uniquely in this market Magontec engages a technology group to address customer issues and develop new products. The CCP strategy over the coming year is for Magontec to continue to upgrade its product range and develop higher margin products. At the same time we have commenced manufacturing CCP products at our new facility in Romania, to maintain competitiveness in lower cost products, and commenced the introduction of more sophisticated products to the Chinese and other emerging markets.

Technology

In both CCP and alloys, our commitment to R&D and our technology portfolio are important Magontec attributes. The magnesium industry has struggled to devote resources to developing the magnesium products of the future. Magontec is alone among the major magnesium manufacturing companies devoting capital and resources to research and development. While returns on this investment have been modest in the past we have enjoyed some encouraging developments in recent months.

The relocation of our Australian magnesium alloy research and development officer to Germany has allowed us to introduce both the former AML technology alloys and variants of the existing AE44 high temperature alloy to the European automotive industry. Following significant work by MGL's research partner CAST in Melbourne, we have presented a new and highly competitive variant of AE44 to a major German automotive manufacturer. Under the current production program MGL will supply this specialist metal in increasing quantities through 2015 and 2016 for volume production of powertrain components. This is a significant event for the magnesium industry and the opportunity to extend this alloy to other high temperature applications and other manufacturers is a particularly exciting prospect for our company.

Summary

The magnesium industry is on the cusp of exciting and far-reaching changes. The entry of Qinghai Salt Lake Industries Co Ltd (QSLI) represents the first major investment in pure magnesium manufacturing since China came to dominate the industry in 2004. QSLI will be investing over ¥60 billion in a variety of projects based on their massive salt lake resource. The electrolytic magnesium plant will be central to the project and MGL's role as a major consumer and marketer of product from this unique resource offers our company a great opportunity for advancement.

On behalf of the Board I would like to thank the employees of Magontec in Germany, Romania, China and Australia for

their hard work and dedication over the last 12 months. I would also like to thank my co-Directors for their advice and assistance. Much progress has been made towards our corporate goal of being the leading company in the magnesium alloy and CCP industry sectors and generating a return for shareholders who have supported us through this period.



**NICHOLAS ANDREWS
EXECUTIVE CHAIRMAN**

CORPORATE GOVERNANCE STATEMENT

A summary of the Company's main corporate governance practices, as well as any disclosures required by the Australian Securities Exchange's second edition "Corporate Governance Principles" (as amended on 30 June 2010) is set out below.

Composition of the board

The Board reviews the mix of experience, expertise and other qualities of the Directors. In addition to its current skills base the Board might seek new Directors with understanding of industrial marketing and manufacturing processes. If a vacancy occurs on the Board, or if the size of the Board is to be increased, the Board will identify the experience, expertise and other qualities sought and identify appropriate candidates. The Remuneration and Appointments (REM) Committee considers these matters in concert with the Board.

There is no requirement in the Company's constitution or the Corporations Act that compels a director to retire upon reaching the age of seventy.

Board responsibilities

The Directors are responsible for protecting the rights and interests of the Shareholders through the development of sound strategies, ensuring their implementation, and by the development of an integrated framework of controls over the Company's resources, functions and assets.

The Board's responsibilities include:

- Steering strategic directions and establishing goals for management;
- Monitoring performance against these goals and objectives;
- Ensuring there are strong business controls and ethical standards of behaviour;
- Appointing the Chief Executive Officer or equivalent, evaluating performance and determining the remuneration of the Chief Executive Officer and senior executives;
- Ensuring the significant risks facing the business have been identified and appropriate and adequate control monitoring and reporting mechanisms are in place; and
- Ensuring there are policies and procedures for recruitment, training, remuneration and succession planning.
- The Board has delegated responsibilities for day to day operation and administration of the Company to the Executive Chairman and key management personnel.
- Consideration of reports from the Executive Chairman regarding management of material business risks.

The Board has received assurance from the Executive Chairman and Chief Financial Officer that the declaration provided in accordance with s295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Gender Composition

Gender composition of direct employees of MGL and its wholly owned subsidiaries, consultants and Board is as follows.

Function		Male	Female
Board		3	
Sydney Head Office		2	1
Bottrop	Employees	74	13
	Contractors	3	1
Santana	Employees	19	2
	Contractors		1
Xian/ Suzhou	Employees	114	21
	Contractors	44	
TOTAL		259	39

Committees of the board

The Board of MGL has established and continues to operate the following committees:

- Finance, Audit and Compliance Committee (FAC) chaired by Mr Shaw with Messrs Andrews and Li as members; and
- Remuneration and Appointments Committee (REM) chaired by Mr Shaw with Messrs Andrews and Li as members.

The committee terms of reference outline committee responsibilities and are available on request.

Membership and attendance at Board Committees is detailed in the Directors' Report.

Independence of directors

It is important to have a Board of an effective composition, size and commitment to adequately discharge its responsibilities and duties. At the date of this report the Board comprises the Executive Chairman, and three Non-Executive Directors.

The Directors met whenever necessary.

Internal controls framework and risk management

The Board is responsible for the overall business control framework, but recognises that cost-effective control systems will not necessarily preclude all errors and irregularities. To assist in discharging this responsibility, the Board has instigated a Business Control Framework designed to safeguard the Group's assets and interests and to ensure the integrity of reporting. In addition, the Board constantly monitors the operational and financial aspects of the Company's activities. Through the Finance and Audit Committee, the Board considers the recommendations and advice of external auditors and other external advisors on the operational and financial risks that face the Company.

The Business Control Framework identifies risk management as a key area which is subject to regular reporting to the Board. In addition, the Board investigates ways of enhancing existing risk management strategies, including appropriate segregation of duties, and the employment and training of suitably qualified and experienced personnel.

CORPORATE GOVERNANCE STATEMENT

ASX Second Edition "Corporate Governance Principles and Recommendations" (as amended on 30 June 2010)

The following recommendations are made under the above guidelines.

Recommendation 2.2

The chair should be an independent director

Recommendation 2.3:

The roles of chair and chief executive officer should not be exercised by the same individual.

Recommendation 2.4:

The board should establish a nomination committee.

Recommendation 3.2

Companies should establish a policy concerning (employment) diversity.

Recommendation 3.3

Disclose measurable objectives for achieving gender diversity

Recommendation 4.2

The audit committee should be structured so that it:

- consists only of non-executive directors
- consists of a majority of independent directors
- is chaired by an independent chair, who is not chair of the board
- has at least three members

Recommendation 8.2

The remuneration committee should be structured so that it:

- consists of a majority of independent directors
- is chaired by an independent director
- has at least three members.

The Company has not adopted these recommendations.

The board is highly cognisant of its fiduciary and corporate governance responsibilities to shareholders. MGL is a capital constrained company in the process of re-working its business strategy as it heads to its **goal of building a magnesium products manufacturing and distribution base for the profitable exploitation of our existing technology portfolio.**

There is a small team of core executives whose primary tasks are the successful commercialisation of the Group's proprietary technologies and intense management (including re-working) of the Group's magnesium alloy production facilities within the constraint of limited funding. It is a management challenge quite different to the challenges confronting a large established business. The act of judiciously allocating funding to the prime business tasks and management practices is one that requires careful balance.

The current corporate governance practices have been undertaken only after due consideration of this balance.

Remuneration

The overall role of the REM Committee is to ensure that Company remuneration policies and practices are consistent with the Company's goals and objectives. Written detailed terms of reference have been completed.

The remuneration of individual Directors and key management personnel is presented in the Directors' Report and in Note 4 to the financial statements

Independent professional advice

When Board members require advice, it is sought as advice for the full Board which will normally be arranged by the Chairman at the request of the Board. Each member has unrestricted access to that advice and may suggest issues on which such advice should be sought.

However, if an individual Director requires separate advice concerning the proper performance of his or her duties in relation to the Company's operations or undertakings then, with the prior approval of the Chairman, that Director may seek that advice at the Company's expense. A copy of the advice received by the Director must be made available to all members of the Board.

Performance assessment

The Board reviews Key Performance Indicators (KPIs) for the Executive Chairman and the Management Team set on an annual basis. These annual KPIs are mutually agreed by the employee and his/her supervisor. The KPIs reflect the employee's ability to add value to the entity by ensuring productive gains such as increasing efficiencies, reduction in costs and increased profitability by maximising sales volumes and margins on sale revenues. Variable and long term incentives will only be paid if set objectives are achieved.

Non-Executive Directors do not receive any performance incentive payments.

External auditor

The appointment of the external auditor, the audit fee, and any questions of resignation or dismissal are considered first by the FAC Committee. The FAC Committee then conveys its recommendation to the full Board. Our current external auditor was first appointed in 2008.

CORPORATE GOVERNANCE STATEMENT

It is the policy of our auditor to rotate audit engagement partners on listed companies at least every five years.

Code of Conduct

As well as behaving according to the laws, rules and regulations of various governing bodies, MGL requires all Board members, employees and consultants to behave according to the general principles expressed in the next paragraph. The principles are founded in the core values of honesty, integrity and respect for people.

All directors, managers and staff are expected to act with the utmost integrity and objectivity, in their dealings with each other, competitors, suppliers, customers and the community, striving at all times to enhance the reputation and performance of the business. Every employee has a nominated supervisor to whom they may refer any issues arising from their employment.

The requirement to comply with these ethical standards is taken as a matter of course and is emphasised to all employees.

Continuous disclosure and shareholder communication

The Company has a written continuous disclosure policy.

The Company Secretary is responsible for communications with the Australian Securities Exchange (ASX), including compliance with the ASX continuous disclosure requirements. These responsibilities are specified in the Company Secretary's written position description. The charter of the Finance, Audit and Compliance Committee also specifically includes the review of compliance with ASX and legal requirements.

Through regular shareholder communications such as the Annual Report, Quarterly Reports, and periodic ASX reports, the Board informs shareholders of significant developments affecting the Company. All company announcements are immediately posted on the company website. Shareholders are explicitly encouraged to attend general meetings in notices of meeting.

Dealing in shares

The Company has a formal share dealing policy for all employees, consultants and Directors. This policy reinforces the restrictions in the Corporations Act 2001 with respect to insider trading and use of price sensitive information. Under the terms of the policy applicable to company staff, MGL securities may only be sold or purchased outside the restricted period. The restricted period occurs during the following times:

- Two weeks prior to a Board Meeting.
- One month prior to the release of Half Year and Full Year Results to the ASX.
- The period 3 weeks prior to the announcement of a capital raising by the company to the date of allotment of shares under such capital raising.
- One week prior to the release of Quarterly Reports to the ASX.

If an individual needs to deal in the restricted period because of a special need they are required to contact the Company Secretary prior to entering into the transaction so that Management can determine whether the proposed dealing would be prohibited under the Corporations Act 2001.

DIRECTORS' REPORT

The Directors of Magontec Limited submit herewith the Annual Financial Report of the Company for the financial year ended 30 June 2012. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

The names and particulars of the Directors of the Company at the date of signing this Report are:

Board of Directors

MR NICHOLAS ANDREWS
BEC., MAICD.

Executive Chairman (reappointed 31 August 2009)
Member of the Remuneration & Appointments Committee
Member of Finance, Audit & Compliance Committee

Mr Andrews (55) has held a variety of positions in the Australian financial sector. Nic has spent 10 years with a global investment bank in management and sales in London and Sydney, 11 years as an institutional equities investor in large and small cap securities in Australia and five years providing corporate advise to small cap companies before joining Magontec in 2009.

MR ZHONGJUN LI

Non-executive Director (appointed 31 August 2009)
Member of the Remuneration & Appointments Committee
Member of Finance, Audit & Compliance Committee

Mr. Li (48) graduated from Wuhan University of Technology. He worked in the auto industry (manufacturing design) for 10 years. For more than 10 years he has owned and operated a metal recycling business (with a focus on magnesium). His experience and knowledge of the China metals market and understanding of the business practices in China and is an important adjunct to the Company to further its magnesium production and marketing endeavours in China.

MR ROBERT SHAW
BE,MBA, MPA, F.A.I.C.D., JP

Non-executive Director (re-appointed 22 November 2011)
Chairman of Remuneration & Appointments Committee
Chairman of Finance, Audit & Compliance Committee

Mr Shaw (70) has extensive experience in business management in both an Executive and Non-Executive capacity. He has specialist skills in finance and financial analysis, audit committees and corporate governance. He is a Non-Executive Director of Credit Corp (CCP) where he is Chairman of the Audit Committee.

MR GUENTER FRANKE

Non-executive Director (appointed 3 August 2011)

Mr Franke (62) will formally retire from the position of Managing Director Magontec Limited on 28 February 2013. In the period from 1 July 2012 to 28 February 2013 he will take leave and will not occupy an executive position. Mr Franke has been an employee of Magontec (previously Norsk Hydro Magnesiumgesellschaft GmbH) since 1975. In 1996 Mr Franke was appointed to the role of Managing Director and held that position for 16 years prior to 30 June 2012.

The particulars of Mr Brown a director who resigned on 5 October 2011 are;

MR MICHAEL BROWN
LLB, MAICD, MSDIA

Non-executive Director (reappointed 30 November 2010)
Chairman of Finance, Audit & Compliance Committee

Mr Brown (44) has held leadership and senior research positions with global investment bank teams over 17 years in Sydney, London, Hong Kong and New York before co-founding Pegasus Corporate Advisory in 2005.

Directors who held office during and since the end of the financial year were:

- Mr Nicholas Andrews
- Mr Michael Brown (resigned 5 October 2011)
- Mr Zhongjun Li
- Mr Robert Shaw (appointed Non Executive Director 22 November 2011)
- Mr Günter Franke (appointed Executive Director 3 August 2011)

Directorships of other listed companies

Director who has held a Directorship position in another publicly listed company in the three years immediately before the end of the financial year is:

- Mr Robert Shaw is a Non-Executive Director of Credit Corp Group Limited

Company Secretary

MR JD Talbot
B Bus (Acctg), CPA

Mr Talbot (65) joined MGL in February 2008. Prior to 2008 he was engaged as a financial consultant in the corporate finance field. Prior to 2000 he was a senior executive in the Commonwealth Bank of Australia.

Principal activities

The principal activities of the consolidated entity during the course of the financial year consisted of:

- Manufacturing and selling generic and specialist magnesium alloys for profit;
- Manufacture and distribution of magnesium and titanium cathodic corrosion protection products (anodes)
- Researching and developing new proprietary magnesium alloys and technologies;
- Research and development of cathodic corrosion protection products (CCP); and
- Creating markets for new magnesium alloys and technologies by supporting demonstration trials and programs for developing new applications

Directors meetings

The following table sets out the number of directors meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member).

Director	Board Meetings		Committee Meetings Attended	
	Attended	Held	FAC ¹	REM ²
N Andrews	9	9	2	1
M Brown ⁽¹⁾	4	9		
Mr Li	7	9	2	1
Mr Shaw	9	9	2	1
Mr Franke ⁽²⁾	8	9		

¹ Resigned 5 October 2011

² Appointed 3 August 2011

* There were two FAC and one REM committee meetings held during the year. Remuneration arrangements underwent extensive review by the Remuneration and Appointments Committee following the acquisition of Varomet Holdings Limited in July 2011 with advice sought from external specialists.

Directors' shareholdings

The following table sets out the relevant interest (direct and indirect) of each serving director in shares, debentures, and rights or options in shares or debentures of the Company or a related body corporate as at the date of this report.

Director	Security Type	Number of shares
Mr N Andrews	Ordinary	7,122,562
Mr G Franke	Ordinary	536,615
Mr R Shaw	Ordinary	100,000
Mr Z Li	Ordinary	56,197,298 ⁽¹⁾

Refer Note 28 for further detail

REMUNERATION REPORT

This remuneration report for the year ended 30 June 2012 outlines the remuneration arrangements of the Company and the Group in accordance with the requirements of the *Corporations Act 2001* (the Act) and its regulations.

The remuneration report details the remuneration arrangements for key management personnel (KMP) who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company. Executives who have a direct reporting responsibility to the Executive Chairman, Directors and the Executive Chairman are deemed to be such individuals.

The remuneration report is presented under the following sections:

1. Individual key management personnel disclosures
2. Remuneration at a glance
3. Board oversight of remuneration
4. Non-executive director remuneration arrangements
5. Executive remuneration arrangements
6. Company performance and the link to remuneration
7. Executive contractual arrangements
8. Equity instruments disclosures

1. INDIVIDUAL KEY MANAGEMENT PERSONNEL (KMP) DISCLOSURES

Details of KMP including the top four remunerated executives of the Parent and Group are set out below.

Key management personnel

(i) **Directors**

Mr M Brown⁽¹⁾
Mr Z Li
Mr R Shaw

(ii) **Executives (Being the Executive Chairman and his direct reports)**

Mr N Andrews - Executive Chairman
Mr G Franke – Managing Director⁽²⁾
Mr J Talbot - Chief Financial Officer and Company Secretary
Mr Q Sun - appointed as Chief Executive Officer HNKWE⁽³⁾

(1) Resigned 5 October 2011

(2) Retired as an Executive of MGL on 30 June 2012 and leaves the Company on 28 February 2013 at which time he will retire as a Non-Executive Director

(3) HNKWE = Henan Keweier Alloy Material Co Ltd

2. REMUNERATION AT A GLANCE

Remuneration strategy

The Company uses a combination of cash and non-cash mechanisms to remunerate KMP and consultants as a means of preserving its limited cash resources. Following review by shareholders of the Employee Share Option Plan (ESOP) at the 2010 AGM share options were issued during 2010-2011 as both a reward and to act as a performance incentive. At the Company's 2011 Annual General Meeting shareholders approved a plan for the issue of shares to the executives of the company and its wholly owned subsidiaries.

3. BOARD OVERSIGHT OF REMUNERATION

Remuneration Committee

The remuneration committee is responsible for making recommendations to the board on the remuneration arrangements for non-executive directors (NEDs) and executives.

The remuneration committee assesses the appropriateness of the nature and amount of remuneration of NEDs and executives on a periodic basis by reference to relevant employment market conditions, with the overall objective of ensuring maximum benefit from the retention of its directors and executive team.

Remuneration approval process

The board approves the remuneration arrangements of the Executive Chairman and executives and all issue of options under the Employee Share Option Plan following recommendations from the remuneration committee.

Remuneration structure

The structure of NED and executive remuneration is separate and distinct.

DIRECTORS' REPORT

4. NON-EXECUTIVE DIRECTOR REMUNERATION ARRANGEMENTS

Remuneration Policy and Structure

The remuneration of NEDs consists of directors' fees. Options may only be issued to a Director pursuant to the Employee Share Option Plan if the issue complies with the requirements (if any) of the Corporations Act and the Listing Rules

The aggregate amount of Non-Executive Directors' fees is approved by Shareholders and is currently limited to \$600,000 per annum. Any increase must be approved by Shareholders. The Board decides how that aggregate or a lesser amount is divided between the Directors.

Within the constraint of the aggregate \$600,000 fees approved by Shareholders for Non-Executive Directors (NEDs), the Board has set compensation at \$35,000 per annum for each Non Executive Director (inclusive of any payments for superannuation). Effective from 13 October 2011, this amount was revised up from \$25,000 per annum. As part of his retirement package Mr Franke continues to draw a salary until 28 February 2013 and is not remunerated as a Non-Executive Director.

5. EXECUTIVE REMUNERATION ARRANGEMENTS

The Board of Directors' policy on remuneration is as follows:

- When an executive or an employee is recruited, the Group's aim is to reward its staff at market rates within the manufacturing technology industry as determined and in consultation with a remuneration specialist;
- The individual's package is flexible and can incorporate salary sacrifice components making the individual's package tax effective;
- The aim of the remuneration policy is to retain key employees and to align employee interests with Company performance and Shareholders' interests;
- An Employee Share Option Plan (ESOP) was established in October 2005 and modified at the 2010 AGM. The ESOP is utilised to
 - a. motivate key management personnel (KMP) to originate and innovate strategies for growth;
 - b. reward KMP for the satisfaction of positive strategic and financial outcomes; and
 - c. provide an adjunct to cash remuneration to preserve cash resources.
- Staff remuneration has three components:
 - (i) Base or fixed remuneration;
 - (ii) Variable (at risk) performance (there were no bonuses awarded under this criterion during the year); and
 - (iii) A long-term incentive in the form of options and/or share issues approved by shareholders..
- Each KMP has a set of key performance indicators (KPIs) mutually agreed by the employee and the Executive Chairman/Board (as appropriate) on an annual basis. The KPIs reflect the employee's ability to add value to the entity and increase shareholder wealth by such things as ensuring productive gains such as increasing efficiencies, reduction in costs and increased profitability by maximising sales volumes and margins on sale revenues
- Variable and long term incentives will only be paid if set objectives are achieved.

Shares were issued by way of non-cash remuneration in 2011-2012 to Mr Nic Andrews, Mr J Talbot and Mr Q Sun. These shares, issued in terms of Resolutions 8(b) and 9 of the 2011 AGM, were accounted for in the financial year 2010-2011. Additional shares were issued in 2011-2012 to Mr Franke and other executives in the Magontec operating units. These shares, issued in terms of Resolution 8(b) of the 2011 AGM, were accounted for in the current reporting period.

The shares issued to Messrs Andrews and Talbot in 2011-2012 recognised the achievement in 2010-2011 of major financial and strategic targets. The shares issued to Mr Franke and other Magontec executives were as an incentive package for executives joining the company following the acquisition of Varomet Holdings Limited in July 2011.

Options as shown in Note 28 were awarded by way of remuneration during 2011.

Following the acquisition of Magontec GmbH in July 2011 the Company entered into employment contracts with the Executive Chairman and the Chief Financial Officer. These employment contracts expire on 30 June 2014. Employment contracts for senior executives in Germany and China becoming KMPs in 2012 are currently under review.

This Board Policy will be reviewed periodically by the Remuneration and Appointments Committee. Where appropriate, recommendations to the Board for variations will be made.

Structure

The Company's limited resources mean that its remuneration structures must be simple. The arrangements therefore must balance ease of administration with appropriate reward. Any non-cash mechanisms are confined to shares and options. Complex remuneration packages involving after tax benefits are avoided. The issue of shares will be in terms of resolutions put to shareholders. Only a limited number of KMP are eligible for the issue of options under the Company's Employee Share Option Plan (ESOP). Technical services tend to be required by the Company on an irregular basis. There is a reliable base of technical consultants on which the Company can call when the need arises. This avoids the cost of maintaining permanent resources.

In the 2012 financial year, the executive remuneration framework consisted of the following components:

- fixed cash component;
- non cash component; and
- post-employment benefits (superannuation and certain social benefits for Chinese personnel).

DIRECTORS' REPORT

Remuneration for KMP in the year to 30 June 2012 is shown in the table below.

Key Management Personnel Remuneration 2012	Salary & fees \$	ETP Payments	Super \$	Equity & Other Non Cash Benefits			Date Shares Issued	Total \$
				Shares \$	Options \$	Motor Vehicle \$		
Mr N Andrews (Executive Chairman)	275,225	-	24,770	-	-	-		299,996
(1) Mr G Franke (Managing Director)	297,130	342,924	548,538	29,944	-	20,907	2-Dec-11	1,239,443
Mr Q Sun (CEO HNKWE)	-	-	-	-	-	-		0
(2) Mr M Brown (Independent Director)	8,591	-	-	-	-	-		8,591
Mr Z Li (Non Executive Director)	34,505	-	-	-	-	-		34,505
Mr R Shaw (Independent Director)	10,495	-	23,750	-	-	-		34,245
Mr J Talbot (CFO & Company Secretary)	229,355	-	20,642	-	-	-		249,996
Total	855,301	342,924	617,700	29,944	-	20,907		1,866,776

Key management personnel are defined as Directors, the Executive Chairman and those who have a direct reporting responsibility to the Executive Chairman

- (1) Mr G Franke - appointed as Managing Director on 4 July 2011. Ceased to serve in this executive role on 30 June 2012 pending formal retirement on 28 February 2013

Will continue to serve as a Director of the company until 28 February 2013

The amount of \$548,538 is an actuarial assessed amount that needs to be added to a provision to cover the pension obligation due by the company to Mr Franke. This incremental funding to the provision makes assumptions about future interest rates and period.

- (2) Resigned 5 October 2011

Fixed Cash Remuneration

Executive contracts of employment do not include any guaranteed base pay increases.

Value of Options Issued To Key Management Personnel

During the financial year 2011 Messrs Talbot and Abbott were awarded 600,000 and 300,000 options respectively under the Company's Employee Share Option Plan. The options vested on 16 February 2012. No options were exercised during the financial year.

Value of Options – Basis of Calculation

Under the Employee Share Option Plan approved on 4 October 2005, options allowing subscription of up to 5% of the issued share capital of MGL are available for issue to employees, with options over a further 5% of the issued share capital in the future based on performance.

The options granted to employees on 16 August 2010 are unlisted options and exercisable at any time upon payment of the exercise price of \$0.10. They expire 3 years from issue on 16 August 2013. They vested on 16 February 2012. A binomial model was used to value these options at a theoretical cost of 18.9 cents each based on a volatility of 71%.

Notes 5 and 28 provide details of options awarded and vested.

DIRECTORS' REPORT

6. COMPANY PERFORMANCE AND THE LINK TO REMUNERATION

During 2012 the Company's management resources have been directed to the following high level tasks.

- Managing the integration of Varomet Holdings Limited and Advanced Magnesium Limited
- Identifying cost reduction and operational efficiencies across the group
- Managing the construction and commencement of operations at Santana in Romania
- Negotiating a Cooperation Agreement and other associated agreements with the Qinghai Salt Lake Industries Co Ltd for the development of the Company's Qinghai project
- Negotiating the sale of the Company's 53% holding in the HNKWE joint venture
- Negotiating the groups debt position and working capital requirements among other financial imperatives

Rewards will be directed to those personnel who can directly or indirectly further the Company's objectives of

- cost efficiency;
- market development; and
- strategic development.

In combination these goals will enhance the profit and loss result and the company's risk profile and chances for success.

The table below shows the historical relationship between remuneration for key management personnel and the company's performance.

Key Management Personnel					
	2008	2009	2010	2011	2012
	\$	\$	\$	\$	\$
Cash based remuneration	1,474,244 ⁽¹⁾	1,058,877 ⁽²⁾	878,208	651,576	1,198,225
Non-cash remuneration	480,094	165,000	183,026	457,010	668,551
Total remuneration	1,954,338	1,223,877	1,061,234	1,108,586	1,866,776
Consolidated Loss Attributable to Members of the Parent Entity					
	2008	2009	2010	2011	2012
	\$	\$	\$	\$	\$
Profit/(Loss) after income tax expense for the year from continuing operations - attributable to members of the parent entity	(3,989,186)	(2,812,797)	(3,190,479)	(1,764,719)	(1,217,037)
Gross Profit	76,793	144,834	(152,891)	1,218,774	8,789,808
Net cash used in operating activities –	(3,831,183)	(2,461,113)	(6,047,874)	(2,589,107)	(1,028,843)
Net assets	3,201,538	1,119,290	5,930,491	5,053,007	9,287,027
Net tangible assets per share (cents)				1.885	1.843
Share price at 1 July prior calendar year	\$0.220	\$0.036	\$0.065	\$0.053	\$0.051
Share price at 30 June current calendar year	\$0.036	\$0.065	\$0.053	\$0.051	\$0.034
Return of capital	Nil	Nil	Nil	Nil	Nil
Dividend per share for relevant year	Nil	Nil	Nil	Nil	Nil

1 Includes \$409,735 termination benefits

2 Includes \$140,389 termination benefits

DIRECTORS' REPORT

7. EXECUTIVE CONTRACTUAL ARRANGEMENTS

Remuneration arrangements for KMP whose employment is current as at 30 June 2012. Details are provided below.

Personnel	Position	Remuneration ⁽¹⁾	Notice Period For Termination	Payment In Lieu of Notice	Other Provisions
Mr N Andrews	Executive Chairman	\$299,996	Employer initiated – period to 30 June 2014 or as per contract Employee initiated – 6 months	6 months' pay	Eligible for participation in ESOP ⁽²⁾
Mr G Franke ⁽³⁾	Chief Operating Officer	\$1,239,443			Eligible for participation in ESOP
Mr J Talbot	Chief Financial Officer	\$249,996	Employer initiated – period to 30 June 2014 or as per contract Employee initiated – 6 months	6 months' pay	Eligible for participation in ESOP
Mr Q Sun ⁽⁴⁾	CEO HNKWE	Nil			

Notes

1. Total cost to the Company
2. Employee Share Option Plan
3. Mr Franke retired from executive duties on 30 June 2012 and will leave the company on 28 February 2013
4. Mr Q Sun (one of the joint venture partners in HNKWE) assumed the position of CEO HNKWE on 7 September 2010. He is not drawing a salary.

DIRECTORS' REPORT

Review of Income Statement and operations

	SUMMARY CONSOLIDATED	
	30-Jun 2012 \$'000	30-Jun 2011 \$'000
Sales revenue	126,511	22,586
Cost of sales	(117,721)	(21,367)
Gross profit	8,790	1,219
Other income	2,891	265
⁽¹⁾ Discount on acquisition of Varomet Holdings Ltd	4,282	0
Profit on sale of HNKWE	6	0
Impairment of inventory and receivable	(3,286)	55
Expenses	(16,654)	(3,028)
Profit/(Loss) before income tax expense from continuing operations	(3,972)	(1,489)
Income tax (expense)/benefit	1,460	13
tax	(2,512)	(1,475)
Profit/(Loss) after income tax expense from discontinued operations	(24)	(52)
Profit/(Loss) after income tax expense for the year	(2,536)	(1,528)
Other Comprehensive Income		
accounts	(974)	(469)
Total Comprehensive Income for the year	(3,510)	(1,997)
Total Comprehensive Income for the year is attributable to		
Minority interests	(1,185)	39
Members of the parent entity	(2,325)	(2,036)

Note 1 Varomet Holdings Ltd is the holding company for the Group's operating companies

DIRECTORS' REPORT

	CONSOLIDATED	
	30-Jun	30-Jun
	2012	2011
	\$'000	\$'000
Assets		
Cash and cash equivalents	4,775	3,526
Receivables	24,348	7,247
Inventory of finished goods and raw materials	23,203	2,020
Property, plant & equipment	13,109	3,442
Prepayments and other	9,413	2,253
Total	74,848	18,487
Liabilities		
Trade and Other Payables	16,537	6,291
Borrowings	23,354	3,651
Provisions	8,441	115
Owing to Straits Mine Management Pty Ltd	13,105	0
Other	4,631	3,377
Total	66,067	13,434
Net Assets	8,780	5,053

MGL has the following business activities

- manufacture and sale of generic and specialist magnesium alloys
- recycling of generic and specialist magnesium alloys
- manufacture of cathodic corrosion protection products; and
- development and commercialisation of proprietary magnesium based technologies.

The proprietary technologies are protected under patents. Intangible assets (human capital and intellectual property) are not recognised in the balance sheet.

Summary of Cashflow

	CONSOLIDATED	
	30-Jun	30-Jun
	2012	2011
	\$'000	\$'000
Opening Cash Balance	3,526	1,202
Inflows	-	-
Receipts from customers	125,311	17,800
Interest received	159	18
Cash acquired with acquisition of Varomet Holdings Limited & cash given up upon disposal of HNKWE	(3,408)	-
Other Receivables	1,420	-
Bank Loans	8,548	3,651
Net capital raised	4,919	1,815
Loans from related parties	-	886
Outflows	-	-
Payments to suppliers and employees	(126,710)	(20,268)
Interest expense	(3,428)	(139)
Loan to KWE(HK)	(118)	(1,421)
improvements	(5,325)	(18)
Other	-	-
Loans from related parties	522	-
Paid to Straits Mine Management Pty Ltd	(640)	-
Net Cash Inflows/ (Outflows)	1,249	2,323
Closing Cash Balance	4,775	3,526

DIRECTORS' REPORT

Dividends

The Directors have not recommended payment of a dividend and no dividends have been paid or declared since the end of the previous financial year.

Changes in state of affairs

Establishment of Magontec Shanxi Company Limited joint venture. – Refer Note 26(b) (ii)

Disposal of interest in Henan Keweier Alloy Materials Co Limited joint venture – Refer Note 26(c)

As announced on 18 May 2012 the Company's financial year end will alter to 31 December. The first annual report under the new reporting date will be 31 December 2012.

Subsequent events

Subsequent events are detailed in Note 31.

Share options on issue at the date of this report or exercised during the year

Details of unissued shares or interests under option are:

Issuing entity	Number of shares under option	Class of shares	Exercise price of option	Expiry date of options
MGL	1,300,000	ORD	\$0.10	16 Aug 13

The holders of such options do not have the right, by virtue of the option, to participate in any share issue or interest issue of any other body corporate or registered scheme.

Future developments

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations are likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

Non audit services

Camphin Boston (the company's group auditors) provided tax and other services during the financial year. Aggregate fees for non audit services paid in the financial year were \$32,306.

Auditor's independence declaration

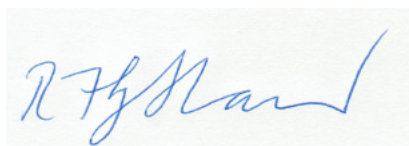
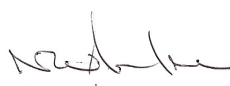
The Auditor's independence declaration is included on page 17 of the annual report.

Indemnification of officers and auditors

The Company paid a premium to insure certain officers of the Company and related bodies corporate in relation to performance of their duties as officers of the Company. The officers of the Company covered by the insurance policy include directors or secretaries of controlled entities who are not also directors of the Company. A confidentiality clause in the insurance contract does not permit further details to be disclosed.

The Company has not otherwise, during or since the financial year except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

On behalf of the Board of Directors



MR N ANDREWS
EXECUTIVE CHAIRMAN

MR R SHAW
NON-EXECUTIVE DIRECTOR

Signed on the 31 August 2012 in accordance with a resolution of the Directors made pursuant to Section 298(2) of the Corporations Act 2001.

INDEPENDENT AUDIT DECLARATION



The Board of Directors
Magontec Limited
Level 8, 139 Macquarie St
Sydney NSW 2000

Dear Board Members

Auditor's Independence Declaration Under Section 307C of the Corporations Act 2001

As is permitted by law, the accompanying preliminary accounts for the year ended 30 June 2012 are submitted to the ASX on 31 August 2012 on an unaudited basis.

Final audited accounts for the period will be lodged with the ASX during September 2012.

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED CASHFLOW STATEMENT

NOTES TO THE FINANCIAL STATEMENTS

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3	Income taxes	20	Share capital
4	Key management personnel remuneration	21	Reserves
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6	Remuneration of auditors	23	Earnings/(Loss) per share
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DIRECTORS' DECLARATION

AUDIT REPORT

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	NOTE	CONSOLIDATED	
		30-Jun 2012 \$'000	30-Jun 2011 \$'000
Sale of goods	2(a)	126,511	22,586
Cost of sales	2B	(117,721)	(21,367)
Gross profit		8,790	1,219
Other income	2(c)	2,897	265
Discount upon acquisition of Varomet Holdings Limited	26	4,282	-
Impairment of inventory and receivable	2(d)	(3,286)	55
Interest expense		(3,428)	(139)
Marketing		(166)	(80)
Travel accommodation and meals		(924)	(184)
Research, development, licensing and patent costs		(911)	(313)
Operating costs		(7,996)	(1,728)
Corporate, administration and other expenses		(3,230)	(584)
Profit/(Loss) before income tax expense from continuing operations		(3,972)	(1,489)
Income tax (expense)/benefit	3(a)	1,460	13
Profit/(Loss) after income tax expense from continuing operations		(2,512)	(1,475)
Profit/(Loss) after income tax expense from discontinued operations	2(d)	(24)	(52)
Profit/(Loss) after income tax expense including discontinued operations		(2,536)	(1,528)
Other Comprehensive Income			
Exchange differences taken to reserves in equity – translation of overseas entities	21	(354)	(469)
Movement in various actuarial assessments	21	(621)	-
Total Comprehensive Income for the year		(3,510)	(1,997)
Profit/(Loss) after income tax expense for the year (incl discontinued operations) attributable to			
Minority interests		(1,301)	290
Members of the parent entity		(1,234)	(1,817)
Profit/(Loss) from continuing operations after income tax		(2,536)	(1,528)
Comprehensive Income for the year attributable to			
Minority interests		(1,185)	39
Members of the parent entity		(2,325)	(2,036)
Total Comprehensive Income for the year		(3,510)	(1,997)
Profit/(Loss) per share:			
Profit/(Loss) after income tax expense for the year (Including Discontinued Operations)			
Members of the parent entity - Basic (cents per share)	23	(0.351)	(0.678)
⁽¹⁾ Members of the parent entity - Diluted (cents per share)	23	(0.349)	(0.674)
Profit/(Loss) after income tax expense for the year (Excluding Discontinued Operations)			
Members of the parent entity - Basic (cents per share)	23	(0.344)	(0.658)
⁽¹⁾ Members of the parent entity - Diluted (cents per share)	23	(0.343)	(0.655)
Notes			
1. Calculated on basis of vested options being exercised			

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

BALANCE SHEET

	NOTE	CONSOLIDATED	
		30-Jun	30-Jun
		2012	2011
		\$'000	\$'000
Current assets			
Cash and cash equivalents	29(a)	4,775	3,526
Trade & Other Receivables	7	24,348	7,247
Future Income Tax Benefit	3	3	-
Inventory of Finished Goods	8	13,967	1,217
Stock of raw materials	8	9,236	803
Other	9	2,190	543
Total current assets		54,519	13,335
Non-current assets			
Other Receivables	10	461	2
Other Financial Assets	11	2,298	1,693
Property, Plant & Equip	12	13,109	3,442
Future Income Tax Benefit	3	1,171	12
Intangibles	13	3,290	4
Total non-current assets		20,329	5,152
Total assets		74,848	18,487
Current liabilities			
Trade & Other Payables	14	16,537	6,291
Borrowings	15	23,354	3,651
Provisions	16	2,810	51
Other	17	3,368	-
Total current liabilities		46,068	9,992
Non-current liabilities			
Borrowings from/payables to related parties	19	1,265	3,377
Provisions	18	5,631	64
Owing to Straits Mine Management Pty Ltd		13,105	-
Other		(2)	-
Total non-current liabilities		19,999	3,442
Total liabilities		66,067	13,434
Net assets		8,780	5,053
Equity attributable to members of MGL			
Share capital	20	33,891	26,603
Reserves	21	3,236	4,014
Accumulated losses	22	(28,808)	(27,263)
Equity attributable to minority interests			
Share capital	20	461	2,737
Reserves	21	-	(391)
Accumulated losses	22	-	(647)
Total equity		8,780	5,053

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

STATEMENT OF CHANGES IN EQUITY

Consolidated Entity	Share Capital		Retained Earnings	Foreign Currency Translation Reserve	Capital Reserve	Actuarial Reserve	Expired Options Reserve	Minority Interests	Total Equity
	Ordinary	Options							
		Valuation							
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2010	25,489	19	(25,446)	(134)	2,756	-	1,587	1,660	5,930
Loss attributable to members of parent entity	-	-	(1,817)	-	-	-	-	-	(1,817)
Profit attributable to minority interests	-	-	-	-	-	-	-	290	290
Total other comprehensive income for the year	-	-	-	(219)	-	-	-	(251)	(469)
Expired Options	-	(24)	-	-	-	-	24	-	-
Issue of new options to staff expiring 13 August 2013	-	32	-	-	-	-	-	-	32
Planned allocation of shares to key management personnel pending shareholder approval	440	-	-	-	-	-	-	-	440
Ordinary shares issued under July 2010 private placement	608	-	-	-	-	-	-	-	608
Additional Ordinary shares issued under June 2010 Securities Purchase Plan	39	-	-	-	-	-	-	-	39
Balance at 30 June 2011	26,577	26	(27,263)	(353)	2,756	-	1,611	1,699	5,053
Deconsolidation of interest in HNKWE	-	-	(310)	316	(6)	-	-	(513)	(513)
Profit/(Loss) for the relevant year	-	-	(1,234)	-	-	-	-	(1,301)	(2,536)
Write off of capital reserve upon closure of accounts for AMT Europe GmbH	-	-	-	-	-	-	-	-	-
Total other comprehensive income for the year	-	-	-	(470)	-	(621)	-	116	(974)
Expired Options	-	(2)	-	-	-	-	2	-	-
Issue of shares to Straits Mine Management Pty Ltd (net of costs) as part consideration for acquisition of Varomet Holdings Ltd	2,220	-	-	-	-	-	-	-	2,220
Issue of shares under July 2011 Securities Purchase Plan (net of costs)	2,909	-	-	-	-	-	-	-	2,909
Issue of shares to Executives of the company as per Resolutions 8(b) and 9 of 2011 AGM (net of costs)	84	-	-	-	-	-	-	-	84
Issue of shares to Qinghai Salt Lake Magnesium Company Limited	2,077	-	-	-	-	-	-	-	2,077
Share capital attributable to minority interest	-	-	-	-	-	-	-	461	461
Balance at 30 June 2012	33,866	25	(28,808)	(506)	2,750	(621)	1,612	461	8,780

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2012

CASHFLOW STATEMENT

	NOTE	CONSOLIDATED	
		30-Jun 2012 \$'000	30-Jun 2011 \$'000
		Inflows/ (Outflows)	Inflows/ (Outflows)
Cash flows from operating activities			
Receipts from customers		125,311	17,800
Payments to suppliers and employees		(123,071)	(20,268)
Interest received		159	18
Interest expense		(3,428)	(139)
Net cash (used)/generated in operating activities	29(d)	(1,029)	(2,589)
Cash flows from investing activities			
Cash acquired with acquisition of Varomet Holdings Limited & cash given up upon disposal of HNKWE		(3,408)	-
Loan to KWE(HK)		(118)	(1,421)
Other Receivables improvements		10	-
Other		(5,325)	(18)
		(2,230)	-
Net cash provided by/(used in) investing activities		(11,070)	(1,440)
Cash flows from financing activities			
Loans from related parties		522	886
Paid to Straits Mine Management Pty Ltd		(640)	-
Other financings		-	-
Bank Loans		8,548	3,651
Net capital raised		4,919	1,815
Net cash provided by financing activities		13,348	6,352
Net increase/(decrease) in cash and cash equivalents		1,249	2,323
Cash and cash equivalents at the beginning of the financial year		3,526	1,202
Cash and cash equivalents at the end of the financial year		4,775	3,526

The Cash Flow Statement reflects cash flow that occurred in the group during the period of the year in which HNKWE was a consolidated entity. Under a Share Purchase Agreement (announced to the market on 12 July 2012) and an earlier Heads of Agreement sign

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF ACCOUNTING POLICIES

Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

The financial statements were authorised for issue by the Directors on 31 August 2012.

Adoption of new and revised Accounting Standards

In the current year, The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for the current annual reporting period.

Basis of Preparation

The financial report has been prepared on an accruals basis and is based of historical cost, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. 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.

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 factors considered by the Directors in making this assessment, included:

- broader business activities (now including alloy production, sacrificial anodes and recycling) and reduced dependence on commercialisation of technologies;
- rationalisation of businesses (including sale of HNKWE);
- emphasis on cost reduction and extraction of production efficiencies; and
- development of the Company's pivotal project in Qinghai Province PRC.

The Directors and management are unable to predict the Company's achievement of future outcomes with any degree of certainty.

Significant Accounting Policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks, at call and on deposit.

(b) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured at the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

Contributions to superannuation plans are expensed when incurred.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (cont...)

(c) Financial assets

Subsequent to initial recognition, investments in subsidiaries are measured at cost less any allowance for impairment

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity' investments, 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Receivables

Trade receivables and other receivables are recognised initially at their fair values and subsequently at amortised cost less impairment.

(d) Financial instruments issued by the Company

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction costs on the issue of equity instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

(e) Foreign currency

Foreign Currency Transactions

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items are translated at the year end exchange rate. Non-monetary items measured at fair value are reported at the exchange rate prevailing at the date when the fair value was determined.

Exchange differences are recognised in profit or loss in the period in which they arise except that exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

Foreign Operations

On consolidation, the assets and liabilities of the consolidated entity's overseas operations are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are recognised in the foreign currency translation reserve, and recognised in profit or loss on disposal of the foreign operation.

(f) Goods and Services Tax and Value Added Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) or value added tax (VAT) for certain foreign jurisdictions, except where the GST or VAT is not recoverable from the relevant tax authority. In these circumstances the GST or VAT is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are included in the cash flow statement on a gross basis. The GST or VAT component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

(g) Impairment of assets

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If any such indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Where it is not possible to estimate the recoverable amount of an individual asset, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (cont...)

(h) Income tax

Current Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability to the extent that it is unpaid.

Deferred Tax

Deferred tax assets and liabilities are ascertained based on temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period(s) when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

Current and Deferred Tax for the Period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Tax Consolidation

The Company and all its wholly-owned Australian subsidiaries are part of a tax-consolidated group under Australian tax consolidation legislation. Magontec Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'stand-alone taxpayer' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the company and each member of the group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with the arrangement. Further information about the tax funding arrangement is detailed in Note 3 to the financial statements. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

(i) Intangible assets

Patents, Trademarks and Licences

Patents, trademarks and licences are recorded at cost of acquisition. Patents and trademarks have a finite life and are carried at cost less any accumulated amortisation and impairment losses. Such intangibles are also subject to the impairment tests as outlined in (g) above.

Research and Development Costs

Expenditure on the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project is expected to deliver future economic benefits and these benefits can be measured reliably.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (cont...)

(j) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs are assigned to inventory on hand by the method most appropriate to each particular class of inventory, being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(k) Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

Lease incentives

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis over the life of the lease term.

(l) Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. The sale of the asset (or disposal group) is expected to be completed within one year from the date of classification.

(m) Payables

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

(n) Presentation currency

The presentation currency of the MGL Group is Australian dollars.

(o) Principles of consolidation and investments in subsidiaries

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. A list of subsidiaries appears in Note 23 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Similarly, any excess of the fair market value over the cost of acquisition is recognised as a discount upon acquisition.

The consolidated financial statements include the information and results of each subsidiary from the date on which the company obtains control and until such time as the company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (cont...)

(p) Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is provided on plant and equipment and is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The assets' estimated useful lives and residual values is reviewed, and adjusted if appropriate, at the end of each annual reporting period.

The weighted average useful life applied to plant and equipment is 14.69 years.

(q) Provisions

Provisions are recognised when the consolidated entity has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(r) Revenue recognition

Sale of goods

Revenue from the sale of goods is recognised when the consolidated entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

Interest revenue

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(s) Share-based payments

Equity-settled share-based payments granted after 7 November 2002 that were unvested as of 1 July 2005, are measured at fair value at the date of grant. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the consolidated entity's estimate of shares that will eventually vest. For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

(t) Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in this note, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both the current and future periods.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (cont...)

(u) Adoption of New and Revised Accounting Standards

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards.

- AASB 9: Financial Instruments and AASB 2009-11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013).

These standards are applied retrospectively and amend the classification and measurement of financial assets. The Group has not yet determined the potential impact on the financial statements.

The changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;
 - simplifying the requirements for embedded derivatives;
 - removing the tainting rules associated with held to maturity assets;
 - removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
 - allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument;
 - reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on:
 - a) the objective of the entity's business model for managing the financial assets;
 - b) the characteristics of the contractual cash flows; and
 - requiring an entity that chooses to measure a financial liability at fair value to present the portions of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.
- AASB 10: Consolidated Financial Statements, AASB 11: Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements (August 2011), AASB 128: Investments in Associates and Joint Ventures (August 2011) and AASB 2011-7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards [AASB 1, 2, 3, 5, 7, 9, 2009-11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 & 1038 and Interpretations 5, 9, 16 & 17] (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 10 replaces parts of AASB 127: Consolidated and Separate Financial Statements (March 2008, as amended) and Interpretation 112: Consolidation – Special Purpose Entities. AASB 10 provides a revised definition of control and additional application guidance so that a single control model will apply to all investees.

The Group has not yet been able to reasonably estimate the impact of this Standard on its financial statements.

AASB 11 replaces AASB 131: Interests in Joint Ventures (July 2004, as amended). AASB 11 requires joint arrangements to be classified as either 'joint operations' (where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or 'joint ventures' (where the parties that have joint control of the arrangement have rights to the net assets of the arrangement). Joint ventures are required to adopt the equity method of accounting (proportionate consolidation is no longer allowed).

AASB 12 contains the disclosure requirements applicable to entities that hold an interest in a subsidiary, joint venture, joint operation or associate. AASB 12 also introduces the concept of a 'structured entity', replacing the 'special purpose entity' concept currently used in Interpretation 112, and requires specific disclosures in respect of any investments in unconsolidated structured entities. This Standard will affect disclosures only and is not expected to significantly impact the Group.

To facilitate the application of AASBs 10, 11 and 12, revised versions of AASB 127 and AASB 128 have also been issued. These Standards are not expected to significantly impact the Group.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF ACCOUNTING POLICIES (cont...)

- AASB 13: Fair Value Measurement and AASB 2011–8: Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3, 4, 5, 7, 9, 2009–11, 2010–7, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132] (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 13 defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosures about fair value measurement.

AASB 13 requires:

- inputs to all fair value measurements to be categorised in accordance with a fair value hierarchy; and
- enhanced disclosures regarding all assets and liabilities (including, but not limited to, financial assets and financial liabilities) to be measured at fair value.

These Standards are not expected to significantly impact the Group.

- AASB 2011–9: Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049] (applicable for annual reporting periods commencing on or after 1 July 2012).

The main change arising from this Standard is the requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently.

This Standard affects presentation only and is therefore not expected to significantly impact the Group.

- AASB 119: Employee Benefits (September 2011) and AASB 2011–10: Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) [AASB 1, AASB 8, AASB 101, AASB 124, AASB 134, AASB 1049 & AASB 2011–8 and Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2013).

These Standards introduce a number of changes to accounting and presentation of defined benefit plans. The Group does not have any defined benefit plans and so is not impacted by the amendment.

AASB 119 (September 2011) also includes changes to the accounting for termination benefits that require an entity to recognise an obligation for such benefits at the earlier of:

- for an offer that may be withdrawn – when the employee accepts;
- for an offer that cannot be withdrawn – when the offer is communicated to affected employees; and
- where the termination is associated with a restructuring of activities under AASB 137: Provisions, Contingent Liabilities and Contingent Assets, and if earlier than the first two conditions – when the related restructuring costs are recognised.

This Standard affects presentation only and is therefore not expected to significantly impact the Group.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 RESULTS FROM OPERATIONS

		CONSOLIDATED	
		30-Jun	30-Jun
		2012	2011
		\$'000	\$'000
(a)	Sales Revenue – continuing operations:		
	Alloys	106,212	22,526
	Anodes	18,697	-
	Other	1,617	60
		126,526	22,586
		CONSOLIDATED	
		30-Jun	30-Jun
		2012	2011
		\$'000	\$'000
(b)	Cost of Sales – continuing operations:		
	Alloys	(101,293)	(21,361)
	Anodes	(14,464)	-
	Other	(1,971)	(7)
		(117,727)	(21,367)
(c)	Other income		
	Interest revenue	159	17
	Net Foreign exchange gain/(loss)	333	56
	Government grant to HNKWE	780	146
	Profit on sale of HNKWE	6	-
	Reversal to income of disputed overpayment	594	-
	Other	1,024	46
		2,897	265
(d)	Loss before income tax		
	Loss before income tax includes the following significant (expenses)/income		
	Net foreign exchange gains/(losses)	-	(105)
	Adjustment to inventory to net realisable value	-	55
	Impairment of non-current asset charge (other than inven	(3,286)	-
	Depreciation of non-current assets	(1,481)	(174)
	Operating lease rental minimum lease payments	(41)	(104)
	Equity settled share-based payments	(185)	(457)
	Consultancies	(231)	(212)
	Wages and salaries (incl post employment benefits)	(5,177)	(1,107)
(e)	(Loss)/Profit after income tax expense from discontinued operations		
	Gross profit	9	-
	Other income	20	-
	Marketing	-	-
	Travel accommodation and meals	(3)	-
	Operating costs	(46)	(5)
	Corporate, administration and other expenses	(3)	(48)
	Profit/(Loss) before income tax expense from continuing operations	(24)	(52)
	Other Comprehensive Income		
	Exchange differences taken to reserves in equity – translation of overseas entities	(10)	-
	Total Comprehensive Income for the year	172	(52)

In the financial year 2010-11 operations at both AMT Europe GmbH and AMT North America Inc ceased. AMT North America Inc was officially dissolved on 18 May 2011 and an official resolution was passed on 30 June 2011 to dissolve AMT Europe GmbH.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 INCOME TAXES

The aggregate amount of income tax attributable to the financial year differs from the amount calculated on the profit.

	NOTE	CONSOLIDATED	
		30-Jun	30-Jun
		2012	2011
		\$'000	\$'000
(a) Income tax recognised in profit and loss			
Tax expense comprises:			
Current tax expense – Australian entities		-	-
Tax benefit/(expense) on recognition or reversal of deferred tax balances - foreign subsidiaries		2,180	12
Tax reimbursement – foreign subsidiaries		(720)	2
Total tax expense		1,460	13
Attributable to:			
Continuing operations		1,460	13
Discontinued operations		-	-
		1,460	13
The prima facie income tax expense on pre-tax accounting profit/(loss) from operations reconciles to the income tax expense in the financial statements as follows:		-	-
Profit/(Loss) from continuing operations		(3,972)	(1,489)
Profit/(Loss) from discontinued operations		(24)	(52)
Loss from operations		(3,996)	(1,541)
Nominal Income tax benefit calculated at 30%		1,199	462
Nominal income tax benefit reduced by			
Tax effect of tax adjustments to income and expenses in profit and loss		(268)	(48)
Tax effect of taxable income in foreign subsidiaries		(1,460)	(13)
Deferred tax assets arising from tax losses of the consolidated entity not brought to account as at balance date because realisation is not considered probable		529	(401)

Future Income Tax Benefit:

Current	3	-
Non-Current	1,171	12
	1,174	12

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous report.

Tax Consolidation

Relevance of tax consolidation to the consolidated entity

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 February 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Magontec Limited. The members of the tax-consolidated group are identified at Note 26.

Nature of tax funding arrangements and tax sharing agreements

Entities within the tax-consolidated group ensure that inter company transactions are conducted at fair market value and at arm's length.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 INCOME TAXES (cont...)

Non-recognition of deferred tax assets

Unrecognised deferred tax balances

The following deferred tax assets have not been brought to account as assets:

DTA on pre-tax consolidation revenue losses
DTA on post-tax consolidation revenue losses
DTA on capital losses

	30-Jun 2012 \$'000	30-Jun 2011 \$'000
	81,581	81,581
	35,041	35,570
	28,868	28,868
	145,490	146,019
	271,936	271,936
	117,818	116,303
	96,228	96,228
	485,982	484,467

These are based on the following tax losses:

Tax losses – revenue pre-tax consolidation
Tax losses – revenue post-tax consolidation
Tax losses – capital

The benefit from the deferred tax asset in respect of unused tax losses will only be obtained if:

- (a) The tax consolidated group derives future assessable income of a nature and amount sufficient to enable the benefits to be realised;
- (b) the consolidated group continues to comply with the conditions for deductibility imposed by the tax law; and
- (c) no changes in tax legislation adversely affect the consolidated group in realising the benefit of the losses.

No deferred tax asset has been brought to account as an asset because it is not probable that taxable profit will be available against which such an asset could be utilised.

Unused tax losses incurred after the formation of the MGL consolidated group (\$116,401,684) will be fully available to offset future taxable income to the extent MGL continues to satisfy the loss integrity rules (i.e. Continuity of Ownership Test and Same Business Test). Based on testing performed by MGL and its advisors, these losses should satisfy the loss integrity rules as at 30 June 2012.

Unused tax losses incurred prior to the formation of the MGL consolidated group (\$271,936,272) will be subject to restricted use (Available Fraction rules). These restrictions on use are in addition to the loss integrity rules. Broadly, the Available Fraction rules limit the amount of losses that can be used each year by applying the following formula:

$$\text{Available Fraction} \times \text{Taxable income for year} = \text{Pre consolidation losses available for use for year}$$

Based on testing performed by MGL and its advisors, MGL's pre consolidation losses should satisfy the loss integrity rules at 30 June 2012 subject to further testing and continued compliance with loss integrity rules. No detailed Available Fraction calculations have been performed as at 30 June 2012, however it is unlikely that the Available Fraction applying to pre-consolidation tax losses will be greater than 0.2.

The Australian tax consolidated entity has not paid income tax up to 30 June 2012 and no income tax is expected to be paid prior to 30 June 2012. Accordingly, there are no franking credits available for distribution in the year ending 30 June 2012.

Tax outside of Australian tax consolidation regime

The Group has overseas entities which are not subject to Australian tax consolidation and are therefore not sheltered by Australian tax losses. Those entities may incur income tax based on local corporate tax law and are subject to the local jurisdiction.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 KEY MANAGEMENT PERSONNEL REMUNERATION

The aggregate compensation of the key management personnel of the consolidated entity and the Company is set out below:

	CONSOLIDATED	
	30-Jun	30-Jun
	2012	2011
	\$'000	\$'000
Short term employee benefits	855	615
Termination benefits	343	-
Post-employment benefits	618	36
Motor vehicle	21	-
⁽¹⁾ Equity based payment	30	457
Total Remuneration KMP	1,867	1,109

Individual directors and executives compensation disclosures

Information regarding individual directors and executives compensation and some equity instruments disclosures as required by Corporations Regulations 2M.3.03 is provided in the remuneration report section of the directors' report.

NOTE 5 SHARE-BASED PAYMENT SCHEMES

5.1 Employee Share Option Plan (ESOP)

On 4 October 2005 an ESOP was approved. Options allowing subscription of up to 5% of the issued share capital of MGL are available for issue to employees, with options over a further 5% of the issued share capital in the future based on performance.

The total options issued to employees during 2011 were 1,680,000

There were no options issued during 2012.

At 30 June 2012 1,300,000 options remained unforfeited. These are unlisted options exercisable at any time to 16 August 2013 upon payment of the exercise price of \$0.10. They expire on 16 August 2013 (3 years from issue).

5.2 Option Compensation to Executive Chairman

There has not been any option awarded to Executive Chairman during the year.

5.3 Option Compensation to Other Executives

The following share-based payment arrangements were in existence during the period:

Options series	Number Still Able to Be Exercised at 30 June 2012	Grant date	Expiry date	Exercise price \$	Fair value per option at grant date \$
Employee Share Option Plan	1,300,000	16-Aug-10	16-Aug-13	\$0.10	\$0.0189
	1,300,000				

Inputs used to calculate fair value per option of options granted on 16 August 2010 are as follows:

Inputs into the model	Option series ESOP
Grant date share price	\$0.055
Exercise price	\$0.100
Expected volatility	71.00%
Date Granted	16-Aug-10
Option life	3 years
Dividend yield	Nil
Risk-free interest rate	5.16%

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 SHARE-BASED PAYMENT SCHEMES (cont...)

The following table reconciles the outstanding share options granted under the share-based payment schemes at the beginning and end of the financial year (on a post-consolidated adjusted basis).

	2012		2011	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at beginning of the financial year	1,380,000	\$0.100	100,000	\$0.310
Granted during the financial year	-	-	1,680,000	\$0.100
Forfeited during the financial year (i)	-	-	(300,000)	\$0.100
Exercised during the financial year (ii)	-	-	-	-
Expired during the financial year (iii)	(80,000)	\$0.100	(100,000)	\$0.310
Balance at end of the financial year (iv)	1,300,000	\$0.100	1,380,000	\$0.100
Exercisable at end of the financial year (v)	1,300,000	\$0.100	1,380,000	\$0.100

(i) Forfeited during the financial year

Under the terms of the ESOP, employees leaving the MGL Group have 30 days from the date of termination to exercise their options holding (if any), or they are forfeited.

(ii) Exercised during the financial year

No share options granted under the employee share option plan were exercised during the financial year:

Option Series	Number Exercised	
	2012	2011
ESOP	Nil	Nil

(iii) Expired during the financial year

(iv) Balance at end of the financial year

All of the share options outstanding at the end of the financial year had an exercise price of \$0.10 and remaining contractual life of 412 days (2011: weighted average exercise price of \$0.10 and weighted average remaining contractual life of 778 days).

(v) Exercisable at end of the financial year

As at 30 June 2011, all outstanding options are exercisable.

NOTE 6 REMUNERATION OF AUDITORS

REMUNERATION OF AUDITORS

	CONSOLIDATED	
	30-Jun 2012	30-Jun 2011
	\$'000	\$'000
Group auditor		
- Audit or review of the financial report	65	66
- One off audit of overseas subsidiaries	18	-
- Accounting/taxation services	32	18
Auditors of subsidiaries		
- Audit or review of the financial reports	48	2
	163	86

The auditor of Magontec Limited is Camphin Boston Chartered Accountants. HNKWE is audited by local Chinese auditors who report to Camphin Boston

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 CURRENT TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
	30-Jun	30-Jun
	2012	2011
	\$'000	\$'000
Trade receivables	23,210	6,585
Allowance for doubtful debts	-	-
	23,210	6,585
Net GST/VAT recoverable	744	119
Security deposits	118	3
Securities Purchase Plan application money held by Registries Ltd		
Derivatives fair value adjustment	147	-
Unpaid share capital	56	-
Other	73	539
	1,138	661
Total receivables	24,348	7,247

The average credit period on sales is 90 days. No interest is charged on trade receivables for the first 90 days of invoice. Thereafter, the entity may charge a market rate of interest.

NOTE 8 CURRENT INVENTORIES

	CONSOLIDATED	
	30-Jun	30-Jun
	2012	2011
	\$'000	\$'000
Inventory of finished alloy at cost	14,019	1,341
Provision for Inventory loss	(52)	(124)
Net value of finished goods inventory	13,967	1,217
Raw materials	9,236	803
Finished alloy and raw materials at net realisable value	23,203	2,020

NOTE 9 OTHER CURRENT ASSETS

	CONSOLIDATED	
	30-Jun	30-Jun
	2012	2011
	\$'000	\$'000
Prepayments	2,190	543
	2,190	543

NOTE 10 NON CURRENT TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
	30-Jun	30-Jun
	2012	2011
	\$'000	\$'000
Security deposits and prepayments	461	2
	461	2

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 OTHER NON-CURRENT FINANCIAL ASSETS

(1) Loan to HNKWE	
Less write down to recoverable amount	
Amount due from buyer of Company's interest in HNKWE	
Net other Financial Assets	

CONSOLIDATED	
30-Jun 2012	30-Jun 2011
\$'000	\$'000
1,811	1,693
(98)	-
585	-
2,298	1,693

Note 1 KWE(HK) is the company via which MGL has made its loan to HNKWE

NOTE 12 PROPERTY, PLANT & EQUIPMENT

Gross carrying amount

Balance at 1 July 2010

Additions

Disposals

Net foreign currency exchange differences

Balance at 30 June 2011

Additions

Acquired with acquisition of Magontec companies

Disposals/ Write Offs

Balance at 30 June 2012

Accumulated depreciation/ amortisation and impairment

Balance at 1 July 2010

Disposals/ Write Offs

Depreciation expense

Net foreign currency exchange differences

Balance at 30 June 2011

Disposals/ Write Offs

Acquired with acquisition of Magontec companies

Depreciation expense

Balance at 30 June 2012

Net book value

As at 30 June 2011

As at 30 June 2012

CONSOLIDATED			
	Land & Buildings \$'000	Plant and equipment \$'000	Total \$'000
Balance at 1 July 2010	2,979	793	3,772
Additions	237	330	567
Disposals	-	(5)	(5)
Net foreign currency exchange differences	(457)	(103)	(560)
Balance at 30 June 2011	2,758	1,016	3,775
Additions	3,341	1,247	4,588
Acquired with acquisition of Magontec companies	9,691	18,054	27,745
Disposals/ Write Offs	(2,758)	(922)	(3,680)
Balance at 30 June 2012	13,032	19,396	32,428
Accumulated depreciation/ amortisation and impairment			
Balance at 1 July 2010	63	112	175
Disposals/ Write Offs	-	(1)	(1)
Depreciation expense	67	106	174
Net foreign currency exchange differences	(8)	(7)	(15)
Balance at 30 June 2011	122	211	333
Disposals/ Write Offs	(122)	(135)	(258)
Acquired with acquisition of Magontec companies	5,011	12,806	17,818
Depreciation expense	105	1,320	1,426
Balance at 30 June 2012	5,117	14,202	19,319
Net book value			
As at 30 June 2011	2,636	806	3,442
As at 30 June 2012	7,915	5,194	13,109

NOTE 13 INTANGIBLES

(1) Intellectual Property acquired with acquisition of VHL on 4 July 2011	
Accounting software	

CONSOLIDATED	
30-Jun 2012	30-Jun 2011
\$'000	\$'000
2,800	-
490	4
3,290	4

Note 1 Patents in relation to "Correx" and AE44

NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 CURRENT TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	30-Jun	30-Jun
	2012	2011
	\$'000	\$'000
Trade creditors	14,636	5,024
Other creditors and accruals	1,856	1,223
Accrued audit fees	44	44
	16,537	6,291

Amounts outstanding relate to the purchase of raw materials with payment terms up to 60 days. Payment term on average is 19 days. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

NOTE 15 BORROWINGS

	CONSOLIDATED		
	30-Jun	30-Jun	30-Jun
	2012	2012	2012
	\$'000		
	Maturity Date	Interest pa (compounding annually)	
Current Borrowings			
Magontec GmBH (Money Market Loan)	8,350	30-Jun-14	3.09%
Magontec GmBH (Overdraft Facility)	5,559	30-Jun-14	2.91%
Magontec Xian	9,445	Various to 16 Nov 12	2.68%
Non-Current Borrowings			
Straits Mine Management Pty Ltd	13,105		

This debt has been re-organised in terms of an agreement with SMM announced by the Company to the ASX dated 8 June 2012 - Refer heading "Subsequent Events"

NOTE 16 CURRENT PROVISIONS

	CONSOLIDATED	
	30-Jun	30-Jun
	2012	2011
	\$'000	\$'000
Provision for Annual Leave	1,411	47
Provision for Income Tax Payable	188	-
Provision for Other Taxes Payable	27	4
Provision for Loss on Interest rate swap	1,183	-
	2,810	51

NOTE 17 OTHER CURRENT LIABILITIES

	CONSOLIDATED	
	30-Jun	30-Jun
	2012	2011
	\$'000	\$'000
Payable to Straits Mine Management Pty Limited under Convertible Note (residual owing in respect of purchase of Varomet Holdings Limited)	3,368	-
	3,368	-

NOTES TO THE FINANCIAL STATEMENTS

NOTE 18 NON-CURRENT PROVISIONS

	CONSOLIDATED	
	30-Jun	30-Jun
	2012	2011
	\$'000	\$'000
Provision for redundancy	-	64
Provision for employee pensions	5,631	-
	5,631	64

NOTE 19 BORROWINGS FROM / PAYABLES TO RELATED PARTIES

	NOTE	CONSOLIDATED	
		30-Jun	30-Jun
		2012	2011
		\$'000	\$'000
Deferred project fee owing to Li Zhongjun (joint venture partner in HNKWE) by HNKWE	<i>i</i>	-	511
Deferred project fee owing to Sun Qiujian (joint venture partner in HNKWE) by HNKWE	<i>i</i>	-	511
Owing to Li Zhongjun by HNKWE	<i>ii</i>	-	914
Net amount owing (by)/ to interests associated with Qiujian Sun to/by HNKWE	<i>ii</i>	-	43
Owing to Shanxi Dongfang Resources by Magontec Xian	<i>iii</i>	1,076	-
Owing to KWE (HK) Limited by HNKWE	<i>iv</i>	-	1,398
Owing to KWE (HK) Limited by MGL	<i>v</i>	189	-
		1,265	3,377

Note (i)

Project development fee of RMB7,000,000 due to the the joint venture partners in HNKWE. The fee will be paid by HNKWE in 5 instalments of RMB1,400,000. The first instalment is to be paid on 30 June 2014. Subsequent instalments of the fee will be paid each 6 months thereafter with the final instalment ot be paid on 30 June 2016.

Note (ii)

Joint venture partners of HNKWE.

Note (iii)

On 13 June 2013 Magontec Limited (via Magontec Xian Limited) invested \$1,075,996 in the Magontec Shanxi Company Limited joint venture. The joint venture is owned as to 70% by Magontec Limited and 30% by Shanxi Dongfang Resources Limited (Dongfang). Dongfang subscribed equity of \$461,141 to the joint venture

The terms of the joint venture agreement provide for Dongfang to make a loan to Magontec Limited for the amount of its equity contribution to the joint venture. The loan will continue during the term of the joint venture

The Magontec Shanxi joint venture is a co-operative arrangement which combines the skills and resources of the joint venture partners but does not involve the commitment of or investment in physical assets.

Note (iv)

This is the counter part of the loan made by MGL to KWE (HK) which was then on lent to HNKWE. Refer NOTE 11. The difference is due to foreign exchange rate movements.

Note (v)

Exchange rate indemnity payment due in respect of establishment of HNKWE joint venture

NOTES TO THE FINANCIAL STATEMENTS

NOTE 20 SHARE CAPITAL

	NOTE	CONSOLIDATED	
		30-Jun	30-Jun
		2012	2011
		\$'000	\$'000
Opening balance		26,137	25,489
Raised under private placement (net of costs) July 10		-	608
Additional raising (net of costs) received post 30 June 2010 in respect of Securities Purchase Plan		-	39
Issue of shares to Straits Mine Management Pty Ltd (net of costs) as part consideration for acquisition of Varomet Holdings Ltd		2,220	-
Issue of shares under July 2011 Securities Purchase Plan (net of costs)		2,909	-
Issue of shares to Executives of the company as per 2011 AGM (net of costs)		524	-
Issue of shares to Qinghai Salt Lake Magnesium Company Limited (net of costs)	Paid	2,021	-
Issue of shares to Qinghai Salt Lake Magnesium Company Limited	Unpaid	56	-
Share capital on issued ordinary shares 425,007,674 (2011: 269,994,448)		33,866	26,137
Planned allocation of shares to key management personnel pending shareholder approval		-	440
⁽¹⁾ ESOP options expiring 16 August 2013		25	26
Share capital attributable to members of MGL		33,891	26,603
Share capital attributable to minority interest		461	2,737
Total share capital		34,352	29,340

(1) Options issued on 16 August 2010 under Company's Employee Share Option Plan. The options vested on 16 February 2012.

A reconciliation of the movement in fully paid ordinary shares at the line in Note 20" Share capital on issued ordinary shares 425,007,674 (2011: 269,994,448)" is set below:

	NOTE	CONSOLIDATED / PARENT ENTITY			
		2012		2011	
		No.	\$	No.	\$
Fully paid ordinary shares					
Balance at beginning of financial year		269,994,448	26,136,926	214,671,854	25,489,185
Shares issued in 2010/2011 under June 2010 Securities Purchase Plan on which application moneies were received in 2010/11		-	-	11,928,428	608,319
Shares issued in 2010/2011 under June 2010 Securities Purchase Plan on which application moneies were received in 2009/10		-	-	780,056	39,422
Issue of shares to Straits Mine Management Pty Ltd (net of costs) as part consideration for acquisition of Varomet Holdings Ltd		40,499,167	2,219,936	42,614,110	-
Issue of shares under July 2011 Securities Purchase Plan (net of costs)		49,680,172	2,908,826	-	-
Issue of shares to Executives of the company as per 2011 AGM (net of costs)		9,398,103	523,964	-	-
Issue of shares to Qinghai Salt Lake Magnesium Company Limited (net of costs)		55,435,784	2,076,672	-	-
		425,007,674	33,866,322	269,994,448	26,136,926

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Share options

All share options carry no rights to dividends and no voting rights until paid for conversion into ordinary shares. Further details of the share-based payment schemes are contained in Note 5 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 21 RESERVES

	30-Jun 2012 \$'000	30-Jun 2011 \$'000
Capital reserve		
Balance at beginning of financial year	2,762	2,762
Derecognition of minority interest attributable to HNKWE on deconsolidation	(6)	-
Transfer MGL interest attributable to HNKWE on deconsolidation to retained earnings GmbH	(6)	-
	-	-
Balance at end of financial year	2,750	2,762
Foreign currency translation reserve		
Balance at beginning of financial year	(749)	(280)
Derecognition of minority interest attributable to HNKWE on deconsolidation	281	-
Transfer MGL interest attributable to HNKWE on deconsolidation to retained earnings	316	-
Translation of foreign operations - VHL	(591)	-
Translation of foreign operations - other than VHL	237	(469)
Balance at end of financial year	(506)	(749)
Actuarial Reserves		
Balance at beginning of financial year	-	-
Deferred Tax assets	(57)	-
Employee pensions	(401)	-
Derivatives	(162)	-
Balance at end of financial year	(621)	-
Expired Options Reserve		
Balance at beginning of financial year	1,611	1,587
ESOP options expiry	2	24
Balance at end of financial year	1,612	1,611
Total reserves	3,236	3,623
Reserves attributable to minority interests	-	(391)
Reserves attributable to members of MGL	3,236	4,014
Total reserves	3,236	3,623

The capital reserve is a historical reserve from 2002 that arose after calculation of the outside equity interest in the (as it then was) Australian Magnesium Investments Pty Ltd consolidated entity.

The foreign currency translation reserve is a result of translating overseas subsidiaries from their functional currency to the presentation currency of Australian dollars.

The expired options reserve captures the balance of unexercised options on their expiry date from the appropriate share capital account.

NOTE 22 ACCUMULATED LOSSES

	CONSOLIDATED	
	30-Jun 2012 \$'000	30-Jun 2011 \$'000
Balance at beginning of financial year	(27,263)	(25,446)
Deconsolidation of interest in HNKWE	(310)	-
Profit/(Loss) attributable to members of the parent entity	(1,234)	(1,817)
Accumulated losses attributable to members of MGL	(28,808)	(27,263)
Accumulated losses attributable to minority interests	-	(647)
Total accumulated losses	(28,807)	(27,910)

(i)

NOTES TO THE FINANCIAL STATEMENTS

NOTE 23 EARNINGS/(LOSS) PER SHARE

Basic and diluted loss per share

	NOTE	CONSOLIDATED	
		2012	2011
		cents per share	cents per share
Basic earnings/(loss) per share (including Discontinued Operations):		(0.351)	(0.678)
⁽¹⁾ Diluted earnings/(loss) per share (including Discontinued Operations):		(0.349)	(0.674)
Basic earnings/(loss) per share (excluding Discontinued Operations):		(0.344)	(0.658)
⁽¹⁾ Diluted earnings/(loss) per share (excluding Discontinued Operations):		(0.343)	(0.655)

Notes

(1) Options issued on 16 August 2010 under Company's Employee Share Option Plan. The options vested on 16 February 2012.

As EPS is a loss per share for 2012 and 2011, any potential ordinary shares would be anti-dilutive. As a result, loss per share is identical for basic and diluted EPS calculations.

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted loss per share are as follows:

	CONSOLIDATED	
	2012	2011
	\$'000	\$'000
Profit/(Loss) after income tax expense for the year (Including Discontinued Operations)		
Members of the parent entity	(1,234)	(1,817)
Profit/(Loss) after income tax expense for the year (Excluding Discontinued Operations)		
Members of the parent entity	(1,211)	(1,765)
Weighted average number of ordinary shares for the purposes of basic loss per share.	351,930	268,110

NOTE 24 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

1. Advanced Magnesium Technologies Pty Ltd, a wholly-owned subsidiary of MGL, had entered into a contract with IMS Experts-Conseils, Inc (IMS) a Canadian corporation, for the licensing of technology to AMT for the Stanwell Magnesium Project. IMS claimed licensing fee installments due on dates after the contract terminated. Export Development Canada (EDC) a Canadian Government entity, is a provider of trade credit insurance and insured IMS on accounts receivable under its contract with AMT. EDC has advised it paid an amount of C\$410,000 (A\$439,000) to IMS and now claims that amount from AMT as IMS has assigned its rights to EDC. This contingent liability was first disclosed in the 31 December 2003 half year report. The Directors continue to believe neither IMS, nor EDC as the assignee of IMS' rights, has a valid claim against AMT. AMT will defend any such claim if action is taken against it. In the year to 30 June 2012 (and to the date of this report) no correspondence has issued to or been received from EDC. Given the passage of time, the Directors are of the opinion action is unlikely and will discontinue this disclosure at the next annual report (31 December 2012).

NOTES TO THE FINANCIAL STATEMENTS

NOTE 25 CAPITAL AND LEASING COMMITMENTS

a. Operating Lease Arrangements (contractual lease payments to lease expiry the Company is obligated to make)

Operating Leases							
Nature of Lease	Date of Lease Agreement	Date of Lease Expiry	Frequency of Lease Payments	Lease Payment Per Frequency	Lease Payments Due Within 12 Months	Lease Payments Due Beyond 12 Months	Unexpired lease obligation
Xi'an anode workshop lease	15-Sep-08	14-Sep-12	Quarterly	8,335	8,335	0	8,335
Xi'an anode plant forklift	06-Dec-09	06-Dec-12	Monthly	1,460	8,760	0	8,760
Xi'an anode plant forklift	01-Dec-11	01-Dec-12	Monthly	922	5,532	0	5,532
Sydney Head Office Premises	01-May-12	30-Apr-13	Monthly	2,330	23,287	0	23,287
MagontecGmbH company car	13-Jan-12	12-Jan-16	Monthly	716	8,592	21,487	30,079
MagontecGmbH company car	17-Apr-12	16-Apr-15	Monthly	776	9,312	16,288	25,600
MagontecGmbH company car	11-May-12	10-May-16	Monthly	548	6,576	18,632	25,208
MagontecGmbH company car	19-Mar-10	18-Mar-14	Monthly	541	6,492	3,784	10,276
MagontecGmbH company car	27-Feb-12	26-Aug-13	Monthly	298	3,576	298	3,874
Magontec GmbH storage facility	01-Jun-06	30-Sep-12	Monthly	4,330	12,989	0	12,989
Magontec GmbH anode workshop	01-Jun-04	31-May-14	Monthly	14,226	170,712	156,481	327,193

NOTE	CONSOLIDATED	
	30-Jun 2012	30-Jun 2011
	\$'000	\$'000
Non-cancellable operating lease payments		
Not longer than 1 year	264	23
Longer than 1 year and not longer than 5 years	217	-
	481	23

b. Capital Expenditure Commitments

On 10 June 2012, the Company entered into an agreement with Qinghai Salt Lake Magnesium Company Limited (QSLM) to construct plant and equipment for an alloy manufacturing operation at Golmud in Qinghai province in the Peoples Republic of China. MGL will own and operate the magnesium alloy production plant and equipment adjacent to the Qinghai electrolytic magnesium smelter.

Expenditure on the plant and equipment is expected to be up to \$12million which will be incurred over the period to 30 June 2013. Under the co-operation agreement, QSLM has agreed to contribute capital by way of debt or equity to the cost of this plant and equipment.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 26 CONTROLLED ENTITIES

a. CONTROLLED ENTITIES CONSOLIDATED

Name of entity	Country of Incorporation	Ownership interest	Ownership interest
		2012 %	2011 %
<u>Parent entity</u>			
Magontec Limited (a)	Australia	100%	100%
<u>Subsidiaries Of Parent</u>			
Advanced Magnesium Technologies Pty Ltd (a)	Australia	100%	100%
AMT North America, Inc (b)	USA	100%	100%
AMT Europe GmbH (c)	Germany	100%	100%
Henan Keweier Alloy Materials Co Ltd (e)	China	53%	53%
AML China Ltd (d)	China	100%	100%
Varomet Holdings Limited	Cyprus	100%	Nil

(a) Entities included in the Australian tax consolidated Group.

(b) Company dissolved on 18 May 2011

(c) Resolution passed to dissolve company on 30 June 2011. Company entered a provisional liquidation year commencing 9 September 2011 and ending 9 September 2012. No trading occurs during the provisional liquidation year.

(d) Dormant from 30 June 2012

(e) Refer announcement to market dated 12 July 2012 regarding intention to dispose of this interest and the note at the foot of the Cash Flow Statement

b. ACQUISITION OF CONTROLLED ENTITIES

In terms of AASB 3 (Business Combination) the Company is required to make certain disclosures about acquisitions during the financial year.

i. 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	\$5,595,501

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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 26 CONTROLLED ENTITIES (cont...)

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

ASSETS

Current Assets

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

Non-Current Assets

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

LIABILITIES

Current Liabilities

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

Non-Current Liabilities

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

NET ASSETS as per VHL balance sheet above	\$7,077,592
Plus value of Intangibles taken into consolidated accounts	\$2,800,000
Less Consideration Paid	<u>(\$5,595,501)</u>
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
Buildings	Cost less cumulative depreciation	} Audit verification
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"

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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 26 CONTROLLED ENTITIES (cont...)

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.

VHL Consolidated Results 4 July 2011 to 30 June 2012

The consolidated results for the VHL group in the reporting period are reflected in Note 27 (Segment Information) under the headings "Other Operating Units"

ii. Magontec Shanxi Company Limited

The Company entered into an equity joint venture agreement with Shanxi Yitong Magnesium Co., Ltd on 29 May 2012. The name of the joint venture entity is Magontec Shanxi Company Limited (located at [Jishan.PRC](#)). MGL owns 70% of the registered capital of this joint venture and assumes full management control of magnesium alloy production at the Jishan facility.

The registered capital of Magontec Shanxi Company Limited is \$1,537,137 of which Magontec's nominal contribution is \$1,075,996. However, the economic effect of the joint venture arrangement is that Shanxi Yitong Magnesium Co., Ltd bears the burden of this equity contribution so that MGL has no effective capital outlaid in the joint venture. MGL will earn its 70% shareholding through its contribution of logistics, distribution, marketing and production expertise and bearing the indirect cost of the working capital on sales of joint venture product.

Under the joint venture arrangements, Shanxi Yitong Magnesium Co., Ltd will guarantee to the joint venture a maximum cost of the process of converting pure magnesium to magnesium alloy. Magontec Shanxi Company Limited will sell its manufactured alloys to a Magontec group entity.

The joint venture arrangements will enable MGL to better manage raw material price and supply volatility. It will also ensure that MGL achieves a magnesium alloy tolling cost that is competitive with other integrated Chinese manufacturers.

As at 30 June 2012 no activity had occurred in the joint venture (other than some minor administrative establishment functions). The balance sheet of the joint venture on 30 June 2012 is shown below.

	Assets	Liabilities
Cash	\$1,537	
Equity		\$1,537,137
Prepayments	\$1,535,600	

NOTES TO THE FINANCIAL STATEMENTS

NOTE 26 CONTROLLED ENTITIES (cont...)

c. DISPOSAL OF CONTROLLED ENTITIES

Under a Share Purchase Agreement (announced to the market on 12 July 2012) and an earlier Heads of Agreement signed on 9 May 2012, Magontec Limited sold its 53% interest in the registered capital of Henan Keweier Alloy Materials Co Ltd (HNKWE) to interests associated with the existing joint venture partners in HNKWE.

In terms of the Agreements Magontec Limited ceded control of HNKWE to its joint venture partners on 30 June 2012. Whilst Magontec Limited transferred its equitable title in, and control of, HNKWE to the buyer on 30 June 2012 transfer of its legal title is subject to

- approval of the sale by MGL shareholders (at the 2012 annual general meeting); and
- acceptance and processing by the various Chinese corporate regulatory authorities of the sale documentation.

Should either of the aforementioned approvals not be forthcoming, MGL will reassume control.

As a consequence of Magontec ceding control, the balance sheet of HNKWE as at 30 June 2012 is no longer consolidated in the Group's balance sheet. However, the effect of the HNKWE profit and loss for the year ended 30 June 2012 does appear in the Group consolidated Comprehensive Income Statement.

The principal terms of the Share Purchase Agreement between the prospective buyer and Magontec are as follows:

- i. 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 HNKWE net assets as at the date of payment of the purchase price (not later than 31 December 2013).
- ii. The purchase price is due to be paid on or before 31 December 2013

A purchase price of \$2,100,000 implies a net asset value in HNKWE at 31 December 2013 of about \$4.7m. This compares to net assets of about \$1.1m in HNKWE as at 30 June 2012. Significant energy is currently being expended within HNKWE to recover doubtful debts of about \$3.24m for which provision has been made in the accounts. Given

- the current level of net assets in HNKWE
- the work being conducted to recover doubtful debts; and
- other opportunities for increasing the value of net assets

the Directors believe that net assets in HNKWE are unlikely to exceed \$1.3m on 31 December 2013.

On this basis, it has been assumed in the Group 2012 Consolidated Comprehensive Income Statement that MGL will receive \$585,000 (45% * \$1,300,000) for the sale of its interest in HNKWE.

NOTE 27 SEGMENT INFORMATION

Identification of reportable segments

The consolidated entity comprises eight legal and accounting entities as disclosed in Note 26.

In respect of the financial year to June 2012 segment information is presented in respect of two main departments within the company:

- Corporate/Head Office
- HNKWE
- Other Operating Activities

This reflects the increasing emphasis within the group on its operating (manufacturing) activities.

Types of products and services

The principal operating activities comprise:

- Magnesium alloy production
- Magnesium alloy recycling
- Cathodic corrosion product

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally are the same as those contained in Note 1 to the accounts.

Magontec GmbH (Bottrop, Germany) is the entity through which alloy production at Magontec Xian Co Limited (Xian, PRC) and, eventually, production at the new joint venture at Jishan (Magontec Shanxi Company Limited – refer Note 26(b)(ii)) destined for Europe is sold.

Inter-company sales conducted on this basis in 2012 amounted to \$32.1m
Other inter-company transactions occur by way of loans and management fees.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 27 SEGMENT INFORMATION (cont...)

	30-Jun 2012 \$'000	30-Jun 2012 \$'000	30-Jun 2012 \$'000	30-Jun 2012 \$'000	30-Jun 2011 \$'000	30-Jun 2011 \$'000	30-Jun 2011 \$'000	30-Jun 2011 \$'000
	Corporate / Head Office	HNKWE	Other Operating Units	TOTAL	Corporate / Head Office	HNKWE	Other Operating Units	TOTAL
Sale of goods	-	13,063	113,463	126,526	290	22,236	60	22,586
Cost of sales	-	(12,757)	(104,971)	(117,727)	(247)	(21,113)	(7)	(21,367)
Other income	(167)	924	2,159	2,917	-	186	80	266
Discount upon acquisition of Varemnet Holdings Limited	4,282	-	-	4,282	-	-	-	-
Operating expenses excluding interest, taxation, depreciation and amortisation	(2,102)	(3,778)	(9,203)	(15,083)	(2,058)	(407)	(247)	(2,712)
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	2,013	(2,548)	1,449	914	(2,015)	901	(114)	(1,228)
Interest expense	-	(920)	(2,508)	(3,428)	-	(139)	-	(139)
Depreciation and Amortisation	(10)	(288)	(1,183)	(1,481)	(14)	(159)	(1)	(174)
Profit/(Loss) before income tax expense	2,003	(3,756)	(2,242)	(3,996)	(2,029)	602	(115)	(1,541)
Income tax expense/reimbursement	-	986	473	1,460	-	13	-	13
Profit/(Loss) after income tax expense including discontinued operations	2,003	(2,770)	(1,769)	(2,536)	(2,029)	616	(115)	(1,528)
Other Comprehensive Income	-	-	-	-	-	-	-	-
Movement in various actuarial assessments	-	-	(621)	(621)	-	-	-	-
Exchange differences taken to reserves in equity – translation of overseas entities	-	247	(600)	(354)	-	(533)	64	(469)
Total Comprehensive Income for the year	2,003	(2,523)	(2,989)	(3,510)	(2,029)	82	(51)	(1,997)

	30-Jun 2012 \$'000	30-Jun 2012 \$'000	30-Jun 2012 \$'000	30-Jun 2012 \$'000	30-Jun 2011 \$'000	30-Jun 2011 \$'000	30-Jun 2011 \$'000	30-Jun 2011 \$'000
	Corporate / Head Office	HNKWE	Other Operating Units	TOTAL	Corporate / Head Office	HNKWE	Other Operating Units	TOTAL
Segment Assets								
Segment assets	5,619	-	69,229	74,848	1,972	16,496	19	18,487
Segment Liabilities								
Segment liabilities	895	-	65,173	66,067	542	12,880	13	13,434
Segment Disclosures								
Acquisition of segment fixed assets	-	-	-	-	-	567	-	567
Non-cash share based payments	-	-	-	-	417	40	-	457
Inventory provisioning Increase/(Decrease)	176	-	-	176	(23)	(65)	-	(88)
Doubtful debts provisioning Increase/(Decrease)	-	-	-	-	-	-	-	-

Segment Disclosures by Product & Services

	30-Jun 2012 \$'000	30-Jun 2012 \$'000	30-Jun 2012 \$'000	30-Jun 2012 \$'000	30-Jun 2011 \$'000	30-Jun 2011 \$'000	30-Jun 2011 \$'000	30-Jun 2011 \$'000
	Corporate / Head Office	HNKWE	Other Operating Units	TOTAL	Corporate / Head Office	HNKWE	Other Operating Units	TOTAL
Alloys	-	11,725	94,487	106,212	242	22,218	-	22,460
Cathodic Corrosion Protection (Anodes and Correx)	-	-	18,697	18,697	-	-	-	-
Other	45	1,338	234	1,617	48	18	60	126
Total Sales (including discontinued operations)	45	13,063	113,418	126,526	290	22,236	60	22,586

NOTES TO THE FINANCIAL STATEMENTS

NOTE 27 SEGMENT INFORMATION (cont...)

- i. Segment revenue reconciliation to the statement of comprehensive income

	Consolidated	
	2012	2011
	\$'000	\$'000
Corporate/ Head Office	2,046	(2,354)
HNKWE	(2,523)	82
Other Operating Units	(3,033)	274
Total comprehensive income	(3,510)	(1,997)

- ii. Segment sales revenue reconciliation to the comprehensive income statement

	Consolidated	
	2012	2011
	\$'000	\$'000
Corporate/ Head Office	45	290
HNKWE	13,063	22,236
Other Operating Units	113,403	60
Total segment external sales revenue	126,511	22,586

- iii. Segment net operating profit reconciliation to the statement of comprehensive income

	Consolidated	
	2012	2011
	\$'000	\$'000
Corporate/ Head Office	2,046	(2,354)
HNKWE	(2,770)	616
Other Operating Units	(1,812)	263
Total segment net operating profit including Discontinued Operations	(2,536)	(1,475)

- iv. Segment assets reconciliation to the balance sheet

	Consolidated	
	2012	2011
	\$'000	\$'000
Corporate/ Head Office	5,619	1,972
HNKWE	-	16,496
Other Operating Units	69,229	19
Total segment assets	74,848	18,487

- v. Segment liabilities reconciliation to the balance sheet

	Consolidated	
	2012	2011
	\$'000	\$'000
Corporate/ Head Office	895	542
HNKWE	-	12,880
Other Operating Units	65,173	13
Total segment liabilities	66,067	13,434

NOTES TO THE FINANCIAL STATEMENTS

NOTE 28 RELATED PARTY DISCLOSURES

(a) Equity interests in related parties

Equity interest in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in Note 26 to the financial statements.

(b) Transactions with key management personnel

Key management personnel compensation

Details of key management personnel compensation are disclosed in Note 4 to the financial statements.

(c) Key Management Personnel Equity Holdings

Fully paid ordinary shares of Magontec Limited – 2012

	Balance @ 30/6/2011	Granted as remuneration	Received on exercise of options	Acquired On Market or Under Share Purchase Plan	Total balance (held directly and indirectly) @ 30/6/2012	Balance held nominally (indirectly)
	No.	No.	No.	No.	No.	No.
(1) Mr Z Li	56,197,298	-	-	-	56,197,298	55,797,298
(2) Mr N Andrews	3,288,461	3,584,101	-	250,000	7,122,562	3,538,461
Mr R Shaw	-	-	-	100,000	100,000	-
Mr G Franke	-	536,615	-	-	536,615	-
Mr J Talbot	250,000	3,584,101	-	166,667	4,000,768	-
	59,735,759	7,704,817	-	516,667	67,957,243	59,335,759

(1) 55,797,298 shares held via KWE (HK) Investment Development Co Limited and 400,000 shares is held personally

(2) 3,538,461 shares held via DEWBERRI PTY LIMITED as trustee for Andrews Superannuation Fund and 3,584,101 shares is held personally

Fully paid ordinary shares of Magontec Limited – 2011

	Balance @ 30/6/2010	Granted as remuneration	Received on exercise of options	Net Market Trades	Total balance held (directly and indirectly) @ 30/6/2011	Balance held nominally (indirectly)
	No.	No.	No.	No.	No.	No.
(1) Mr Z Li	56,197,298	-	-	-	56,197,298	55,797,298
(2) Mr N Andrews	3,288,461	-	-	-	3,288,461	1,500,000
Mr M Brown	1,872,222	-	-	(1,214,444)	657,778	-
Mr R Shaw	-	-	-	-	-	-
Mr J Talbot	250,000	-	-	-	250,000	-
	61,607,981	-	-	(1,214,444)	60,393,537	57,297,298

(1) 55,797,298 shares held via KWE (HK) Investment Development Co Limited and 400,000 shares is held personally

(2) 1,500,000 shares held via DEWBERRI PTY LIMITED as trustee for Andrews Superannuation Fund and 1,788,461 shares is held personally

Share options of Magontec Limited – 2012

	Bal @ 1/07/2011	Bal vested @ 1/07/2011	Exer-cised / Lapsed	Net other change	Bal @ 30/06/2012	Bal vested @ 30/06/2012	Vested but not exerci-sable	Vested and exerci-sable	Options vested during year
	No.	No.	No.	No.	No.	No.	No.	No.	No.
Key Management Personnel									
Mr J Talbot	600,000	-	-	-	600,000	600,000	-	600,000	600,000
Other Personnel									
Dr T Abbott	300,000	-	-	-	300,000	300,000	-	300,000	300,000
Mr Q Guo	80,000	-	(80,000)	-	-	-	-	-	-
Mr S Erickson	200,000	-	-	-	200,000	200,000	-	200,000	200,000
Mr J Bolstad	200,000	-	-	-	200,000	200,000	-	200,000	200,000
	1,380,000	-	(80,000)	-	1,300,000	1,300,000	-	1,300,000	1,300,000

All options outstanding at 30-Jun-2012 (1,300,000) were issued on 16 August 2010 under the Company's Employee Share Option Plan. They vested on 16 February 2012 and can be exercised at any time from the vesting date to 16 August 2013

NOTES TO THE FINANCIAL STATEMENTS

NOTE 28 RELATED PARTY DISCLOSURES (Cont...)

Share options of Magontec Limited – 2011

	Bal vested @ 1/07/2010	Granted as remuneration(1)	Exer-cised / Lapsed	Net other change	Bal @ 30/06/2011	Bal vested @ 30/06/2011	Vested but not exerci-sable	Vested and exerci-sable	Options vested during year
	No.	No.	No.	No.	No.	No.	No.	No.	No.
Key Management Personnel									
Mr J Talbot	-	600,000	-	-	600,000	-	-	-	-
Dr T Abbott	100,000	300,000	(100,000)	-	300,000	-	-	-	-
Other Personnel	-	-	-	-	-	-	-	-	-
Mr Q Guo	-	80,000	-	-	80,000	-	-	-	-
Mr S Erickson	-	200,000	-	-	200,000	-	-	-	-
Mr J Bolstad	-	200,000	-	-	200,000	-	-	-	-
	100,000	1,380,000	(100,000)	-	1,380,000	-	-	-	-

(1) Options issued on 16 August 2010 under Company's Employee Share Option Plan. They will vest on 16 February 2012.

Further details of the Employee Share Option Plan and of share options granted during the financial year is contained in Notes 4 and 5 to the financial statements.

(d) Group Entity

The parent entity is Magontec Limited. Members of the group are set out in Note 26.

Transactions during the financial year between group entities included:

- Investment in controlled entities;
- Repayment of interest free funds from controlled entities to the parent entity; and
- Incurring expenditure on behalf of other entities for office rental and related costs, travel costs, seconded employees and other sundry costs. (The entity is fully reimbursed for these costs on an actual cost basis).

(e) Transactions involving Henan Keweier Alloy Materials Co Ltd and its Related Directors

(i) Sales and Purchases

RELATED PARTY SALES AND PURCHASES YEAR ENDED 30-6-2012				
	Quantity (Tonnes)	Aggregate Purchase Cost	Counter Party	Relationship
Purchases	327.27	RMB5,184,546	Tian Jin Ke Wei Er Alloy Material Co., Ltd	Associated with HNKWE joint venture partner
	393.38	RMB7,030,171	Chang Ge Yi Yang	Associated with HNKWE joint venture partner
		<u>RMB12,214,717</u>		14.94% of HNKWE COGS
Sales	0.00	<u>RMB0</u>		0.00% of HNKWE Sales
		RMB0		

RELATED PARTY SALES AND PURCHASES YEAR ENDED 30-6-2011				
	Quantity (Tonnes)	Aggregate Purchase Cost	Counter Party	Relationship
Purchases	236.15	RMB3,469,562	Tian Jin Ke Wei Er International Trade Co., Ltd.	Associated with HNKWE joint venture partner
	343.55	RMB5,180,279	Tian Jin Ke Wei Er Alloy Material Co., Ltd	Associated with HNKWE joint venture partner
	210.44	RMB3,051,338	Chang Ge Yi Yang	Associated with HNKWE joint venture partner
		<u>RMB11,701,180</u>		8.09% of HNKWE COGS
Sales	42.47	<u>RMB664,186</u>	Tian Jin Ke Wei Er Alloy Material	Associated with HNKWE joint venturer
		RMB664,186		0.44% of HNKWE Sales

NOTES TO THE FINANCIAL STATEMENTS

NOTE 28 RELATED PARTY DISCLOSURES (Cont...)

Mr Li Zhongjun is a

- a Director of and shareholder in Magontec Limited
- a Director of and shareholder in HNKWE - the Company in which Magontec Limited is selling its joint venture interest
- a Director of and shareholder in Tian Jin Ke Wei Er Alloy Material Co., Ltd - a company via which HNKWE purchases some raw materials.
- a Director of and shareholder in Tian Jin Ke Wei Er International Trade Co., Ltd. - a company via which HNKWE purchases some raw materials.

He is also related to the principal shareholder of the company that has agreed to acquire the interest of Magontec Limited in HNKWE

In the 12 months to 30 June 2012 Mr Li received Directors' fees amounting to \$32,500

(ii) Deferred project Fee

Refer Note 19

NOTES TO THE FINANCIAL STATEMENTS

NOTE 29 NOTES TO THE CASH FLOW STATEMENT

	30-Jun 2012 \$'000	30-Jun 2011 \$'000
(a) Reconciliation of cash and cash equivalents		
Notes		
For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:		
Cash on hand	-	-
Cash at bank	4,775	-
Total cash and cash equivalents after disposal of interest in HNKWE	4,775	4,335
(b) Non-cash financing and investing activities		
other than those disclosed elsewhere in this financial report.		
(c) Cash balances not available for use		
(d) Reconciliation of loss for the period to net cashflows from operating activities		
Profit/(Loss) after income tax	(2,536)	(1,528)
Movement in Current Assets	-	-
Increase in Trade & Other Receivables	(19,414)	
Increase in Inventory	(22,759)	(6,129)
Increase in Prepayments	(2,418)	
Increase in Other Current Assets	(3)	
Movement in Current Liabilities	-	-
Increase in Trade & Other Payables	18,688	
Increase in Borrowings	23,447	9,329
Increase in Provisions	2,759	
Increase in Other Current Assets	3,368	
Prima facie net operating cash flow	1,132	1,673
Adjustments to prima facie operating cash flows		
Add non cash outflows implied by movement in other Current Liabilities	693	
Deduct non cash inflows implied by movement in Current Liabilities associated with acquisition of VHL	(31,340)	
Deduct non cash inflows implied by movement in other Current Liabilities	(10,277)	
Add non cash outflows implied by movement in Current Assets associated with acquisition of VHL	40,022	
Add non cash outflows implied by movement in other Current Assets	72	
Deduct non cash inflows implied by movement in other Current Assets	(3,324)	
Deduct non cash income in P & L after tax	(8,362)	(445)
Add non cash expenses in P & L after tax	10,363	646
Deduct profit on disposal of HNKWE	(6)	
Movement in Current Liabilities taken to Finance & Investing cash flows	-	(8,171)
Movement in Non Current Liabilities taken to Operating cash flows	-	1,316
Movement in Current Assets taken to Finance & Investing cash flows	-	(1,170)
Movement in Non-Current Assets taken to Operating cash flows	-	(155)
Net cash from operating activities	(1,029)	(6,306)

NOTES TO THE FINANCIAL STATEMENTS

NOTE 30 FINANCIAL INSTRUMENTS

(a) Capital Risk Management

The Consolidated entity and the company ("Group") manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the potential future return to stakeholders through the development and marketing of the Group's technologies.

The capital structure of the Group consists of cash and cash equivalents, equity attributable to equity holders of the parent, comprising issued capital, reserves and accumulated losses as disclosed in Notes 20, 21, and 22 respectively and debt funding provided by Chinese banks (Note 15).

The group's main financial risk management issues are:

- ensuring the integrity of debtors;
- planning for production capacity expansion in China;
- Continued availability of debt funding.

The Group operates globally, primarily through subsidiary companies established in the markets in which the Group trades. None of the Group's entities are subject to externally imposed capital requirements.

(b) Financial risk management objectives

The magnesium alloy industry operates with a disparity of trade terms on the purchase of production inputs (generally not better than 15 days) and the sale of output (up to 120 days). The Group's senior management effort is aimed at firstly, arranging funding for working capital and secondly, negotiating with purchasers and buyers, the best available terms. The magnesium industry currently does not have the scale where derivative risk instruments are available.

The Group's senior management team co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group in line with the Group's policies. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The consolidated entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

(c) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

(d) Categories and maturity profile of financial instruments and interest rate risk

The following table details the consolidated entity's exposure to interest rate risk as at 30 June 2012.

2012	Weighted average effective interest rate	Variable interest rate	Fixed maturity dates	Non interest bearing	Total
	%	\$'000	Less than 1 year	\$'000	\$'000
Financial assets:					
Cash and cash equivalents	1.14%	4,775	0	0	4,775
Trade & other receivables (net of provision for loss)		0	0	24,348	24,348
Loan owing by KWE (HK)	Nil	0	0	1,713	1,713
Other receivables		0	0	0	0
		4,775	0	26,061	30,836
Financial liabilities:					
Trade & other payables	Nil	0	0	16,537	16,537
Deferred fee to joint venture partners in HNKWE	Nil	0	0	0	0
Bank loans Refer Note 15	4.08%	0	23,354	0	23,354
Owing to Straits Mine Management Pty Limited Refer Note 15		0	0	13,105	13,105
		0	23,354	29,642	52,995

NOTES TO THE FINANCIAL STATEMENTS

NOTE 30 FINANCIAL INSTRUMENTS (cont...)

The following table details the consolidated entity's exposure to interest rate risk as at 30 June 2011.

2011	Weighted average effective interest rate	Variable interest rate	Fixed maturity dates	Non interest bearing	Total
	%	\$'000	Less than 1 year	\$'000	\$'000
Financial assets:					
Cash and cash equivalents	0.10%	72	2,333	1,121	3,526
Trade & other receivables (net of provision for loss)		0	0	6,560	6,560
Loan owing by KWE (HK)	Nil	0	0	1,693	1,693
Other receivables		0	0	616	616
		72	2,333	9,990	12,394
Financial liabilities:					
Trade & other payables	Nil	0	0	1,901	1,901
Other payables	Nil	0	0	2,335	2,335
Deferred fee to joint venture partners in HNKWE	Nil	0	0	1,022	1,022
Bank loans	7.67%	5,111	Refer Note 15	0	5,111
Bank accepted bills	3.00%	3,060	Refer Note 15	0	3,060
Employee benefits	Nil	0	0	51	51
		8,171	0	5,309	13,480

(e) Market risk

Refer comments under headings a and b of Note 30.

(f) Foreign currency risk management

The Group has exposure to four currencies – the United States Dollar (USD), the Euro (EUR), the Chinese Yuan (RMB) and the Romanian Leu (RON).

The Group undertakes sales transactions denominated in RMB, USD and EUR and incurs manufacturing input costs denominated in EUR, RMB and RON. Additionally certain Head office overheads are incurred in AUD and the Group reports in AUD. The long term objective is to centralise treasury risk and cash management so that foreign exchange risk washes through to a single point. In the absence of such a centralised function foreign exchange hedging is undertaken on a case by case basis if the risk cannot be reduced by natural hedges.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows.

	Foreign Currency Assets & Liabilities			
	Liabilities		Assets	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Cash and cash equivalents			4,371	3,476
Trade and other receivables			23,262	7,147
Trade and other payables	16,446	9,696		
Borrowings	23,354	2,333		
Other	-	-	22,944	7,174
Total	39,800	12,029	50,578	17,797

NOTES TO THE FINANCIAL STATEMENTS

NOTE 30 FINANCIAL INSTRUMENTS (cont...)

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 10% increase and 10% decrease in the Australian Dollar against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates over the medium term. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. The sensitivity analysis includes loans to foreign operations within the Group where the denomination of the loan is in a currency other than the currency of the lender or the borrower.

A positive number in the table below indicates an increase in profit or a decrease in loss and other equity where the Australian Dollar strengthens against the respective currency. A negative number in the table below indicates a decrease in profit or an increase in loss and other equity where the Australian Dollar weakens against the respective currency.

		USD impact	
		Consolidated	
		2012	2011
		\$	\$
Effect on Loss of a 10% increase in USD rate	(i)	0	975
Effect on Loss of a 10% decrease in USD rate		0	(975)
		EUR impact	
		Consolidated	
		2012	2011
		\$	\$
Effect on Loss of a 10% increase in EUR rate	(ii)	568,052	(4,793)
Effect on Loss of a 10% decrease in EUR rate		(568,052)	4,793
		RMB impact	
		Consolidated	
		2012	2011
		\$	\$
Effect on Loss of a 10% increase in RMB rate	(iii)	631,374	580,549
Effect on Loss of a 10% decrease in RMB rate		(631,374)	(580,549)
		RON impact	
		Consolidated	
		2012	2011
		\$	\$
Effect on Loss of a 10% increase in RON rate	(iv)	(121,660)	0
Effect on Loss of a 10% decrease in RON rate		121,660	0

A positive number in the above table represent a reduction in the operating loss.

- (i) Exposure to USD is represented by net assets of USD0 in respect of 2012 (exposure on net assets of USD10,329 in 2011)
- (ii) Exposure to EUR represented by net assets of EUR4,588,092 in respect of 2012 (exposure on net liabilities of EUR35,300 in 2011)
- (iii) Exposure to RMB is represented by net assets of RMB40,472,712 in respect of 2012 (exposure on net assets of RMB39,753,735 in 2011)
- (iv) Exposure to RON is represented by net liabilities of RON4,416,006 in respect of 2012 (exposure on net assets of RON0 in 2011)

The Group's sensitivity to foreign currency has increased during the current period due to increased holdings of cash and other assets essentially in China.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 30 FINANCIAL INSTRUMENTS (cont...)

(g) Capital Management and Interest rate risk management

The consolidated entity has bank loans outstanding of \$23,353,625 (refer Note 15). Although \$13,908,558 is not due for repayment until 30 June 2014 the aggregate amount of loans appears in the consolidated balance sheet as Current Liabilities because as at 30 June 2012 certain covenants on the Commerzbank facilities had been breached. The Company holds a letter from Commerzbank dated 2 August 2012 which states that notwithstanding the breach "... we hereby confirm the prolongation of our loan commitment from 28 June 2012 concerning credit facilities....".

The short term nature of these borrowings represents a refinance risk to the Company. The Company is addressing this risk by exploring other financing options. Currently, the Company is exposed to interest rate movements on the refinance of these facilities. Interest rate risk may arise in the proper management of surplus funds. Maintenance of sound forward budgets will assist the appropriate nomination of the duration of invested funds.

(h) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of as far as possible dealing with creditworthy counterparties – an ideal not always possible in a product development environment. The use of collateral or other contributions can act as a means of mitigating the risk of financial loss from defaults. Credit exposure is controlled by limits that are continually reviewed.

The Group's alloy sales to European customers are, for the most part, centralised through Magontec GmbH in Bottrop Germany. Magontec GmbH has insurance cover in place to cover its exposure to debtors. The Insured percentage cover for "named" debtors is 90% and for "unnamed" debtors is 65%.

Despite these practices HNKWE exposure to domestic debtors has resulted in the need to establish a provision for loss of about \$3.2m

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

(i) Liquidity risk management

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

(j) Fair value of financial instruments

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

NOTE 31 SUBSEQUENT EVENTS

On 7 June 2012, MGL entered into an agreement with Straits Mine Management Pty Ltd to reorganize the debt owed by Varomet Holdings Limited.

The key features of this debt reorganisation are as follow:

1. In the period on and after 5 July 2012 the loan amount outstanding will attract no interest
2. Prior to 31 December 2012 MGL will make a repayment to SMM of \$6,000,000. Payment of this amount will be facilitated by other elements of the Group's strategic plan to be rolled out in the period to 31 December 2012.
3. Subject to the approval of shareholders at MGL's 2012 Annual General Meeting, MGL will issue an unsecured convertible note to SMM with the following essential characteristics.
 - **Face Value:** \$2,000,000
 - **Interest Rate:** Zero
 - **Maturity Date:** 3 years after the date of issue of the note.
 - **Conversion:**
 - **Compulsory** - If SMM has not previously requested MGL to redeem the note then, at the Maturity Date, the note will automatically convert into 49,822,719 ordinary shares of MGL.
 - **Optional** – SMM may elect to convert a part all, or part of the note at any time in the period to and including the day prior to the Maturity Date into the relevant part of 49,822,719 ordinary shares of MGL.
 - **Conversion Ratio:** The conversion ratio into 49,822,719 ordinary shares of MGL reflects a price per share of \$0.040142 being the 10-day volume weighted average price for the period prior to the signing of the Heads of Agreement.
 - **Redemption:** SMM may require MGL to redeem the note at Face Value at any time in the period from the first anniversary of issue of the note to and including the day prior to the Maturity Date.
4. Subject to repayment of \$6,000,000 and issue of the convertible note, SMM has agreed to forego its claim for the balance of the debt of \$5,114,726.
5. In the event shareholders do not approve the issue of the convertible note to SMM, the loan amount owing to SMM will reduce to \$7,114,726 (the balance of the loan having been repaid). The interest rate regime that applies to the existing loan will continue in respect of any residual loan.

Of the \$6,000,000 due to SMM prior to 31 December 2012, MGL paid \$899,953.95 on 22 August 2012 leaving an amount of \$5,100,046.05 owing to SMM to satisfy the condition precedent to SMM foregoing its claim for \$5,114,726.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 32 PARENT ENTITY INFORMATION (Magontec Limited)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	PARENT ENTITY	
	30-Jun	30-Jun
	2012	2011
	\$'000	\$'000
Sale of goods	-	2
Cost of sales	(1)	(2)
Gross profit	(1)	-
Other income	(38)	(185)
Write (down)/back in value of fixed assets and debtors	(2,232)	(982)
Research, development, licensing and patent costs	(25)	-
Operating costs	(185)	(530)
Corporate, administration and other expenses	(299)	(158)
Profit/(Loss) before income tax expense from continuing operations	(2,781)	(1,855)
Income tax expense/reimbursement	-	-
Profit/(Loss) after income tax expense from continuing operations	(2,781)	(1,855)
Profit/(Loss) after income tax expense from discontinued operations	-	-
Profit/(Loss) after income tax expense including discontinued operations	(2,781)	(1,855)
Other Comprehensive Income		
Exchange differences taken to reserves in equity – translation of overseas entities	-	-
Movement in various actuarial assessments	-	-
Total Comprehensive Income for the year	(2,781)	(1,855)

NOTES TO THE FINANCIAL STATEMENTS

NOTE 32 PARENT ENTITY INFORMATION (Magontec Limited) (cont...)

BALANCE SHEET

	PARENT ENTITY	
	30-Jun	30-Jun
	2012	2011
	\$'000	\$'000
Current assets		
Cash and cash equivalents	377	67
Trade & Other Receivables	57	-
Total current assets	434	67
Non-current assets		
Inter Company Loan Receivables	5,661	5,148
Investment In Subsidiaries	7,696	(2,320)
Other Financial Assets	1,713	1,693
Total non-current assets	15,070	4,521
Total assets	15,503	4,588
Current liabilities		
Trade & Other Payables	21	41
Other	3,368	-
Total current liabilities	3,389	41
Non-current liabilities		
Borrowings from/payables to related parties	189	-
Other	2,871	2
Total non-current liabilities	3,061	2
Total liabilities	6,450	43
Net assets	9,053	4,545
Equity attributable to members of MGL		
Share capital	33,891	26,603
Reserves	1,612	1,611
Accumulated losses	(26,450)	(23,669)
Total equity	9,053	4,545

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2012 and 30 June 2011.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2012 and 30 June 2011.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in Note 1.

NOTE 33 ADDITIONAL COMPANY INFORMATION

Magontec Limited (MGL) is a listed public company and is incorporated in Australia. The MGL Group operates globally with subsidiaries in Australia, North America Europe and China.

Registered Office and Principal place of business

Office 10, Level 8
139 Macquarie St
Sydney, NSW 2000
Tel: 61 2 8231 7085
Fax: 612 9252 8960

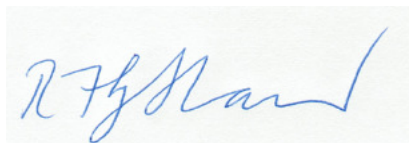
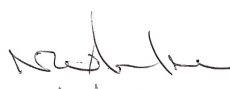
DIRECTORS' DECLARATION

The Directors declare that the financial statements and notes thereto, set out on pages 20 to 59:

- (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;
- (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 give a true and fair view of the financial position and performance of the Company and consolidated entity; and
- (c) the Directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors



MR NICHOLAS ANDREWS
EXECUTIVE CHAIRMAN

MR ROBERT SHAW
NON-EXECUTIVE DIRECTOR

31 August 2012

Independent Auditor's Report to the members of Magontec Limited

As is permitted by law, the accompanying preliminary accounts for the year ended 30 June 2012 are submitted to the ASX on 31 August 2012 on an unaudited basis.

Final audited accounts for the period will be lodged with the ASX during September 2012.

SHAREHOLDER INFORMATION ORDINARY SHARES FULLY PAID

Class: Ordinary share fully paid

ASX Code: MGL

Voting Rights: Voting rights of members are governed by the Company's constitution. In summary, every member present in person or by proxy, attorney or representative has one vote on a show of hands and one vote for each share on a poll.

Twenty Largest Holders of Ordinary Shares as at 30 June 2012

	Name of Holder	No. Of Shares	Percentage
1	KWE (HK) INVESTMENT DEVELOPMENT CO LIMITED	55,797,298	13.129
2	QINGHAI SALT LAKE MAGNESIUM INDUSTRY LTD	55,435,784	13.043
3	STRAITS MINE MANAGEMENT PTY LIMITED	40,499,167	9.529
4	CITICORP NOMINEES PTY LIMITED	32,482,661	7.643
5	NATIONAL NOMINEES LIMITED	15,862,809	3.732
6	OPTIMIST INTERNATIONAL INVESTMENTS LIMITED <OPTIMIST A/C>	13,974,949	3.288
7	J P MORGAN NOMINEES AUSTRALIA LIMITED	10,180,725	2.395
8	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	8,165,508	1.921
9	MR NICHOLAS WILLIAM ANDREWS	7,122,562	1.676
10	MR JOHN STUART HAMER FITTON	4,832,926	1.137
11	MR DAVID PARHAM	4,830,331	1.137
12	MR JOHN DAVID TALBOT	4,000,767	0.941
13	MRS DAWN PATRICIA DAVIS	4,000,000	0.941
14	JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	2,903,300	0.683
15	MR IANAKI SEMERDZIEV	2,770,000	0.652
16	MR HOWARD LEONARD PATRICK & MS CAROL FRANCIS PATRICK <HL & CF PATRICK S/FUND A/C>	2,400,000	0.565
17	MR PETER FABIAN HELLINGS & MRS JACQUELINE KIM GUN HELLINGS <BOX SUPER FUND A/C>	1,960,000	0.461
18	FLUOR AUSTRALIA PTY LTD	1,947,756	0.458
19	MR DAVID ALOYSIUS DRABSCH	1,700,000	0.400
20	MIENGROVE PTY LTD <G J & P K BIRD SUPER A/C>	1,650,000	0.388

Distribution of Shareholdings as at 30 June 2012

Number Held	Holders	No. of Securities	Percentage
1-1000	11,139	3,823,587	0.900
1001-5000	2,011	4,417,555	1.039
5001-10000	465	3,903,215	0.918
10001-100000	1,480	43,098,862	10.141
100001 and over	348	369,764,455	87.002
TOTAL	15,443	425,007,674	100

As at 30 June 2012 a marketable parcel of securities (\$500) is a holding of at least 14,706 securities.

Issued Capital and Securities	On Issue	Substantial shareholders	Number of Ordinary Shares	Voting Power
Ordinary Shares fully paid	425,007,674	KWE (HK) INVESTMENT DEVELOPMENT CO LIMITED	55,797,298	13.129%
		QINGHAI SALT LAKE MAGNESIUM INDUSTRY LTD	55,435,784	13.043%

Unlisted Options	Number	Grant Date	Expiry Date	Exercise Price \$
Unlisted Employee Options	1,380,000	16 August 2010	16 August 2013	\$0.10

Share Registry: Boardroom Pty Limited

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