

27 September 2012

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

Dear Sirs,

**Magontec Limited (MGL or the Company) Audited Annual Report Year Ended 30 June 2012**

The Company's final audited Annual Report for the year ended 30 June 2012 is presented in the attached pages.

The audited Annual Report differs to the Preliminary Unaudited Annual Report for 30 June 2012 lodged with the ASX on 31 August 2012 in the following ways.

BALANCE SHEET DIFFERENCES	Preliminary	Audited	Effect on
	Report	Report	Net Assets
	\$'000	\$'000	\$'000
Current Liabilities - Trade and Other payables	16,537	16,698	(161) Decrease
Current Liabilities - Provisions	2,810	2,804	6 Increase
Non current liabilities - Other	(2)	0	(2) Decrease
Trade & Other Receivables	24,348	24,292	(56) Decrease
Current Assets - Other	1,114	654	(460) Decrease
Non Current Assets - Other Receivables	461	464	3 Increase
<b>Net Assets</b>	<b>8,780</b>	<b>8,110</b>	<b>(670) Decrease</b>
			<b>Effect on</b>
			<b>Equity</b>
Share capital	33,891	33,835	(56) Decrease
Accumulated losses - attributable to members of MGL	(28,808)	(28,962)	(155) Decrease
Share Capital - attributable to minority interests	461	2	(460) Decrease
<b>Equity</b>	<b>8,780</b>	<b>8,110</b>	<b>(670) Decrease</b>

PROFIT & LOSS DIFFERENCES	Preliminary	Audited	Effect on
	Report	Report	Loss
	\$'000	\$'000	\$'000
Other income	2,897	2,623	(274) Increase
Profit on sale of HNKWE	0	6	6 Decrease
Interest expense	(3,428)	(3,368)	60 Decrease
Operating costs	(7,996)	(7,942)	54 Decrease
<b>Profit/(Loss) after income tax expense including discontinued operations<sup>(1)</sup></b>	<b>(2,536)</b>	<b>(2,690)</b>	<b>(155) Increase</b>

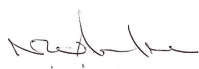
(1) The Comprehensive Loss has also increased by the same amount

The major differences are due to

- incorrect exchange rate applied to conversion of trade creditors denominated in RMB - leading to an increase in loss of \$214,145 and
- incorrect inclusion of an inter-company interest expense - leading to a reduction in loss of \$52,726.

The differences also lead to consequential changes in various tables presented throughout the Annual Report.

Yours sincerely



Nicholas Andrews  
Executive Chairman



# AUDITED ANNUAL REPORT

**Year Ended 30-Jun-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, dependent 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 export markets.

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.

## EXECUTIVE CHAIRMAN'S MESSAGE (cont...)

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 \$1,388,976. This loss forms part of the Group Loss of \$2,690,322. 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.

These items 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 \$946,884 as follows.

<b>Reconciliation of Net profit</b>	
Loss after income tax expense including discontinued operations	(\$2,690,322)
Patent sale by Advanced Magnesium Technologies Pty Ltd	(\$44,867)
Discount on Acquisition of Varomet Holdings Limited	(\$4,282,091)
HNKWE loss	\$2,768,806
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 German Authorities	\$147,225
Interest payments to SMM	\$889,734
Other	\$216,933
<b>Underlying Group operating position</b>	<b>(\$946,884)</b>

The Underlying Group operating position does not account for the earnings power of the assets under development and initiatives undertaken in financial year 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 2012 and 31 December 2013 as the Company rationalises in readiness for commencement of operations in Qinghai Province PRC.

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 2.165 cents. Included in this calculation is \$13.1 million of outstanding debt to Straits Mine Management Pty Limited (SMM).

## EXECUTIVE CHAIRMAN'S MESSAGE (cont...)

Refer 'NOTE 31 SUBSEQUENT EVENTS' dealing with restructure of the SMM debt. In the event that shareholder approval is forthcoming for the restructure of the SMM debt, and MGL can satisfy SMM's debt repayment requirements at point 4 of Note 31, the net tangible assets of the Company will rise by \$5.1m to \$13.20m.

### 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 financial year 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 AUD9 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 years.

### 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	
<b>TOTAL</b>		<b>259</b>	<b>39</b>

### 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 meet generally monthly and as required by special matters.

**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.

**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.

## CORPORATE GOVERNANCE STATEMENT (conf....)

### 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.

It is the policy of our auditor to rotate audit engagement partners conducting the audit 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, Half Year Report, Quarterly Cashflow 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 Cashflow 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:

**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 advice 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 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.

## DIRECTORS' REPORT (cont....)

### 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 <sup>*</sup>	REM <sup>*</sup>
N Andrews	9	9	2	1
M Brown <sup>(1)</sup>	4	9		
Mr Li	7	9	2	1
Mr Shaw	9	9	2	1
Mr Franke <sup>(2)</sup>	8	9		

<sup>1</sup> Resigned 5 October 2011

<sup>2</sup> 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 Godfrey Remuneration Consultants.

### 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 <sup>(1)</sup>

<sup>1</sup> 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. Directors and executives who have a direct reporting responsibility to the Executive Chairman are deemed to be such individuals.

## DIRECTORS' REPORT (cont....)

### REMUNERATION REPORT (cont...)

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 and their remuneration are set out below.

##### Key management personnel

(i) **Directors**

Mr M Brown<sup>(1)</sup>  
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<sup>(2)</sup>  
Mr J Talbot - Chief Financial Officer and Company Secretary  
Mr Q Sun - appointed as Chief Executive Officer HNKWE<sup>(3)</sup>

*(1) Resigned 5 October 2011*

*(2) Retired as an Executive of MGL on 30 June 2012 and will leave 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 a separate and distinct process.

#### 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.

## DIRECTORS' REPORT (cont....)

### REMUNERATION REPORT (cont...)

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 N 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.

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 are conducted under local laws.

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).

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

**DIRECTORS' REPORT (cont....)**

**REMUNERATION REPORT (cont...)**

**Key Management Personnel Remuneration 30-Jun-12**

	Salary & Fees	Termination Payment	Superannuation	Equity & Other Non Cash Benefits			Date Shares Issued	Total
				Shares	Options	Vehicle		
	\$	\$	\$	\$	\$	\$		\$
Mr N Andrews (Exec Chairman)	275,225	-	24,770	-	-	-	-	299,996
Mr G Franke (Managing Director) (1)	297,130	342,924	548,538	29,944	-	20,907	2-Dec-11	1,239,443
Mr Q Sun (CEO HNKWE)	-	-	-	-	-	-	-	-
Mr M Brown (Director) (2)	8,591	-	-	-	-	-	-	8,591
Mr Z Li (Director)	34,505	-	-	-	-	-	-	34,505
Mr R Shaw (Director)	17,189	-	17,057	-	-	-	-	34,245
Mr J Talbot (CFO & Coy Sec)	229,355	-	20,642	-	-	-	-	249,996
<b>Total</b>	<b>861,995</b>	<b>342,924</b>	<b>611,007</b>	<b>29,944</b>	<b>-</b>	<b>20,907</b>		<b>1,866,776</b>

**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. Mr Franke 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 over the period which the pension might be paid. Based on these assumptions \$548,538 needs to be set aside to add to the provision to meet Mr Franke's pension.

(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.

**6. COMPANY PERFORMANCE AND THE LINK TO REMUNERATION**

During financial year 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 (the former name of Magontec 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

**DIRECTORS' REPORT (cont....)**

**REMUNERATION REPORT (cont...)**

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.

Key Management Personnel	2007	2008	2009	2010	2011	2012
	\$	\$	\$	\$	\$	\$
Total remuneration	1,561,022	1,954,338	1,223,877	1,061,234	1,108,586	1,866,776

Consolidated Profit/(Loss) Attributable to Members of the Parent Entity						
	2007	2008	2009	2010	2011	2012
	\$	\$	\$	\$	\$	\$
Profit/(Loss) after income tax expense for the year from continuing operations - attributable to members of the parent entity	(5,949,715)	(3,989,186)	(2,812,797)	(3,190,479)	(1,764,719)	(1,365,231)
Gross Profit	212,540	76,793	144,834	(152,891)	1,218,774	8,789,808
Net cash used in operating activities	(5,748,850)	(3,831,183)	(2,461,113)	(6,047,874)	(6,306,213)	(1,757,099)
Net assets	0	3,201,538	1,119,290	5,930,491	5,053,007	8,110,260
Net tangible assets per share (cents)	0	0	0	0	1.885	2.165
Share price at 1 July prior calendar year	\$0.220	\$0.220	\$0.036	\$0.065	\$0.053	\$0.051
Share price at 30 June current calendar year	\$0.220	\$0.036	\$0.065	\$0.053	\$0.051	\$0.034
Return of capital	Nil	Nil	Nil	Nil	Nil	Nil
Dividend per share for relevant year	Nil	Nil	Nil	Nil	Nil	Nil

**7. EXECUTIVE CONTRACTUAL ARRANGEMENTS**

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

Personnel	Position	Remuneration <sup>(1)</sup>	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 <sup>(2)</sup>
Mr G Franke <sup>(3)</sup>	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 <sup>(4)</sup>	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 (cont....)

Review of Income Statement and operations

	SUMMARY CONSOLIDATED	
	30-Jun	30-Jun
	2012	2011
	\$'000	\$'000
Sales revenue	126,511	22,586
Cost of sales	(117,721)	(21,367)
<b>Gross profit</b>	<b>8,790</b>	<b>1,219</b>
Other income	2,623	265
Profit on sale of HNKWE	6	-
Discount on acquisition of Varomet Holdings Ltd(1)	4,282	-
Impairment of inventory & receivables	(3,286)	55
Interest expense	(3,368)	(139)
Expenses	(13,172)	(2,889)
<b>Profit/(Loss) before income tax expense from continuing operations</b>	<b>(4,126)</b>	<b>(1,489)</b>
Income tax (expense)/benefit	1,460	13
<b>(Loss)/Profit from continuing operations after income tax</b>	<b>(2,667)</b>	<b>(1,475)</b>
Profit/(Loss) after income tax expense from discontinued operations	(24)	(52)
<b>Profit/(Loss) after income tax expense for the year</b>	<b>(2,690)</b>	<b>(1,528)</b>
<b>Other Comprehensive Income</b>		
Net income/(expense) reflecting through Reserve accounts	(974)	(469)
<b>Total Comprehensive Income for the year</b>	<b>(3,665)</b>	<b>(1,997)</b>
<b>Total Comprehensive Income for the year is attributable to</b>		
Minority interests	(1,185)	39
Members of the parent entity	(2,479)	(2,036)

Note 1 Varomet Holdings Ltd is the holding company for the Group's wholly owned operating subsidiaries

**DIRECTORS' REPORT (cont....)**

**Review of Balance Sheet**

	CONSOLIDATED	
	30-Jun	30-Jun
	2012	2011
	\$'000	\$'000
<b>Assets</b>		
Cash and cash equivalents	4,775	3,526
Receivables	24,292	7,247
Inventory of Finished Goods and raw materials	23,203	2,020
Property, plant & equipment	13,109	3,442
Prepayments and other	7,881	2,253
<b>Total</b>	<b>73,260</b>	<b>18,487</b>
<b>Liabilities</b>		
Trade and Other Payables	16,698	4,103
Bank Loans	23,354	5,838
Provisions	8,435	115
Borrowings from/payables to related parties	3,557	1,022
Owing to Straits Mine Management Pty Ltd	13,105	0
Other	0	2,355
<b>Total</b>	<b>65,149</b>	<b>13,434</b>
<b>Net Assets</b>	<b>8,110</b>	<b>5,053</b>

**Summary of Cashflow**

	CONSOLIDATED	
	30-Jun	30-Jun
	2012	2011
	\$'000	\$'000
<b>Opening Cash Balance</b>	<b>3,526</b>	<b>1,202</b>
<b>Inflows</b>		
Receipts from customers	123,835	17,204
Interest received	155	18
Cash acquired with acquisition of Varomet Holdings Limited	2,534	-
Movement in security deposits	7	-
Bank Loans to Magontec wholly owned subsidiaries	8,454	-
Bank Loans to HNKWE disposed subsidiary	(2,094)	8,171
Net capital raised from issue of the Company's shares	4,870	1,793
New equity in Magontec Shanxi Company Limited joint venture	2	-
<b>Outflows</b>		
Payments to suppliers and employees	(123,269)	(23,389)
Interest expense	(2,479)	(139)
Cash given up upon disposal of HNKWE	(5,942)	-
Loan to KWE(HK)	(20)	(1,316)
Payment for property, plant & equipment	(5,486)	(19)
Group Information Technology software	(390)	-
Loans from/ (repayments to) related parties	1,712	-
Principal reduction on debt owing to Straits Mine Management Pty Ltd	(640)	-
<b>Net Cash Inflows/ (Outflows)</b>	<b>1,249</b>	<b>2,323</b>
<b>Closing Cash Balance</b>	<b>4,775</b>	<b>3,526</b>

## DIRECTORS' REPORT (cont....)

### 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	Expiry Date
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 16 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 27 September 2012 in accordance with a resolution of the Directors made pursuant to Section 298(2) of the Corporations Act 2001.

# CAMPHIN BOSTON

CHARTERED ACCOUNTANTS

## AUDITOR'S INDEPENDENCE DECLARATION

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

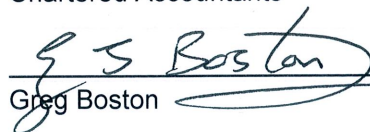
Dear Board Members

We hereby declare, that to the best of our knowledge and belief, during the financial-year ended 30 June 2012 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

**Name of Firm:** Camphin Boston  
Chartered Accountants

**Name of Partner:**

  
Greg Boston

**Address:** Sydney

**Dated this** 27th September 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED CASHFLOW STATEMENT

NOTES TO THE FINANCIAL STATEMENTS

Note	Contents	Note	Contents
	1 Summary of accounting policies	18	Non-current provisions
	2 Results from operations	19	Borrowings from/payables to related parties
	3 Income taxes	20	Share capital
	4 Key management personnel remuneration	21	Reserves
	5 Share based payment schemes	22	Accumulated losses
	6 Remuneration of auditors	23	Earnings/(Loss) per share
	7 Current trade and other receivables	24	Contingent liabilities and contingent assets
	8 Current inventories	25	Capital and leasing commitments
	9 Other current assets	26	Controlled entities
	10 Non-current trade and other receivables	27	Segment information
	11 Other non-current financial assets	28	Related party disclosures
	12 Property, plant and equipment	29	Notes to the cash flow statement
	13 Intangibles	30	Financial instruments
	14 Current trade and other payables	31	Subsequent events
	15 Borrowings	32	Parent entity information
	16 Current provisions	33	Additional company information
	17 Other current liabilities		

DIRECTORS' DECLARATION

AUDIT REPORT

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	NOTE	CONSOLIDATED		Refer Note 2 at foot of this table
		30-Jun 2012 \$'000	30-Jun 2011 \$'000	
Sale of goods	2(a)	126,511	22,586	
Cost of sales	2(b)	(117,721)	(21,367)	
<b>Gross profit</b>		<b>8,790</b>	<b>1,219</b>	
Other income	2(c)	2,623	265	
Profit on sale of HNKWE	2(c)	6	-	
Discount upon acquisition of Varomet Holdings Limited	26	4,282	-	
Impairment of inventory & receivables	2(d)	(3,286)	55	
Net Loss/Profit on sale of assets		-	-	
Interest expense		(3,368)	(139)	
Marketing		(166)	(80)	
Travel accommodation and meals		(924)	(184)	
Research, development, licensing and patent costs		(911)	(313)	
Operating costs		(7,942)	(1,728)	
Corporate, administration and other expenses		(3,230)	(584)	
<b>Profit/(Loss) before income tax expense from continuing operations</b>		<b>(4,126)</b>	<b>(1,489)</b>	
Income tax (expense)/benefit	3(a)	1,460	13	
<b>Profit/(Loss) after income tax expense from continuing operations</b>		<b>(2,667)</b>	<b>(1,475)</b>	
Profit/(Loss) after income tax expense from discontinued operations	2(e)	(24)	(52)	
<b>Profit/(Loss) after income tax expense including discontinued operations</b>		<b>(2,690)</b>	<b>(1,528)</b>	
<b>Other Comprehensive Income</b>				
Exchange differences taken to reserves in equity – translation of overseas entities	21	(354)	(469)	
Movement in various actuarial assessments	21	(621)	-	
<b>Total Comprehensive Income for the year</b>		<b>(3,665)</b>	<b>(1,997)</b>	
<b>Profit/(Loss) after income tax expense for the year (incl discontinued operations) attributable to</b>				
Minority interests		(1,301)	290	
Members of the parent entity		(1,389)	(1,817)	
<b>Total</b>		<b>(2,690)</b>	<b>(1,528)</b>	
<b>Comprehensive Income for the year attributable to</b>				
Minority interests		(1,185)	39	
Members of the parent entity		(2,479)	(2,036)	
<b>Total Comprehensive Income for the year</b>		<b>(3,665)</b>	<b>(1,997)</b>	
<b>Profit/(Loss) per share:</b>				
<b>Profit/(Loss) after income tax expense for the year (Including Discontinued Operations)</b>				
Members of the parent entity - Basic (cents per share)	23	(0.395)	(0.678)	
Members of the parent entity - Diluted (cents per share)(1)	23	(0.395)	(0.678)	
<b>Profit/(Loss) after income tax expense for the year (Excluding Discontinued Operations)</b>				
Members of the parent entity - Basic (cents per share)	23	(0.388)	(0.658)	
Members of the parent entity - Diluted (cents per share)(1)	23	(0.388)	(0.658)	

*Notes*

1. Calculated on basis of vested options being exercised

2. Refer Page 28 Note 1 item '(v) Reclassification of Items in 2011 Comprehensive Income Statement and Balance Sheet' for a summary of re-classifications made to components of the 2011 Comprehensive Income Statement.

**BALANCE SHEET**

	NOTE	CONSOLIDATED		Refer Note 1 at foot of this table
		30-Jun	30-Jun	
		2012	2011	
		\$'000	\$'000	
<b>Current assets</b>				
Cash and cash equivalents	29(a)	4,775	3,526	
Trade & Other Receivables	7	24,292	7,247	
Owing by KWE(HK)		1,713	1,693	
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	654	543	
<b>Total current assets</b>		<b>54,640</b>	<b>15,028</b>	
<b>Non-current assets</b>				
Other Receivables	10	464	2	
Other Financial Assets	11	585	-	
Property, Plant & Equip	12	13,109	3,442	
Future Income Tax Benefit	3	1,171	12	
Intangibles	13	3,290	4	
Other		-	-	
<b>Total non-current assets</b>		<b>18,620</b>	<b>3,459</b>	
<b>Total assets</b>		<b>73,260</b>	<b>18,487</b>	
<b>Current liabilities</b>				
Trade & Other Payables	14	16,698	4,103	
Borrowings	15	23,354	5,838	
Provisions	16	2,804	51	
Borrowings from/payables to related parties	17	3,557	2,355	
<b>Total current liabilities</b>		<b>46,413</b>	<b>12,347</b>	
<b>Non-current liabilities</b>				
Other Payables		-	-	
Borrowings		-	-	
Borrowings from/payables to related parties	19	-	1,022	
Provisions	18	5,631	64	
Owing to Straits Mine Management Pty Ltd		13,105	-	
Other		-	-	
<b>Total non-current liabilities</b>		<b>18,736</b>	<b>1,087</b>	
<b>Total liabilities</b>		<b>65,149</b>	<b>13,434</b>	
<b>Net assets</b>		<b>8,110</b>	<b>5,053</b>	
<b>Equity attributable to members of MGL</b>				
Share capital	20	33,835	26,603	
Reserves	21	3,236	4,014	
Accumulated losses	22	(28,962)	(27,263)	
<b>Equity attributable to minority interests</b>				
Share capital	20	2	2,737	
Reserves	21	-	(391)	
Accumulated losses	22	-	(647)	
<b>Total equity</b>		<b>8,110</b>	<b>5,053</b>	

**Notes**

1. Refer Page 28 Note 1 item '(v) Reclassification of Items in 2011 Comprehensive Income Statement and Balance Sheet' for a summary of re-classifications made to components of the 2011 Balance Sheet.

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							
<b>Balance at 30-Jun-10</b>	25,489	19	(25,446)	(134)	2,756	-	1,587	1,660	5,930
Profit/(Loss)	-	-	(1,817)	-	-	-	-	290	(1,528)
Capital Reserve	-	-	-	-	-	-	-	-	-
Comprehensive income	-	-	-	(219)	-	-	-	(251)	(469)
Expired Options	-	(24)	-	-	-	-	24	-	-
Options issue	-	32	-	-	-	-	-	-	32
Minority share capital	-	-	-	-	-	-	-	-	-
Issue of shares (1)	1,088	-	-	-	-	-	-	-	1,088
<b>Balance at 30-Jun-11</b>	<b>26,577</b>	<b>26</b>	<b>(27,263)</b>	<b>(353)</b>	<b>2,756</b>	<b>-</b>	<b>1,611</b>	<b>1,699</b>	<b>5,053</b>
HNKWE deconsolidation	-	-	(310)	316	(6)	-	-	(513)	(513)
Profit/(Loss)	-	-	(1,389)	-	-	-	-	(1,301)	(2,690)
Comprehensive income	-	-	-	(470)	-	(621)	-	116	(974)
Expired Options	-	(2)	-	-	-	-	2	-	-
Issue of shares (1)	7,234	-	-	-	-	-	-	-	7,234
Minority share capital	-	-	-	-	-	-	-	2	2
<b>Balance at 30-Jun-12</b>	<b>33,810</b>	<b>25</b>	<b>(28,962)</b>	<b>(506)</b>	<b>2,750</b>	<b>(621)</b>	<b>1,612</b>	<b>2</b>	<b>8,110</b>

Note 1 - Issue of Shares

Ordinary shares issued under July 2010 private placement	
Additional Ordinary shares issued under June 2010 Securities Purchase Plan	
Planned allocation of shares to key management personnel pending shareholder approval	
Straits Mine Management Pty Ltd (net of costs) as part consideration for acquisition of Varomet Holdings Ltd	
Under July 2011 Securities Purchase Plan (net of costs)	
To Executives of the company as per Resolutions 8(b) and 9 of 2011 AGM (net of costs)	
To Qinghai Salt Lake Magnesium Company Limited	<b>Paid</b>
<b>Issue of shares</b>	

	30-Jun-12	30-Jun-11
	\$'000	\$'000
	-	608
	-	39
	-	440
	2,220	-
	2,909	-
	84	-
	2,021	-
	<b>7,234</b>	<b>1,088</b>

**CASHFLOW STATEMENT  
FOR THE FINANCIAL YEAR ENDED 30 June 2012**

	NOTE	CONSOLIDATED	
		30-Jun	30-Jun
		2012	2011
		\$'000	\$'000
		Inflows/ (Outflows)	Inflows/ (Outflows)
<b>Cash flows from operating activities</b>			
Receipts from customers		123,835	17,204
Payments to suppliers and employees		(123,269)	(23,389)
Interest received		155	18
Interest expense		(2,479)	(139)
		-	-
Net cash (used)/generated in operating activities	29	<b>(1,757)</b>	<b>(6,306)</b>
<b>Cash flows from investing activities</b>			
Cash acquired with acquisition of Varomet Holdings Limited		2,534	-
Cash given up upon disposal of HNKWE		(5,942)	-
Loan to KWE(HK)		(20)	(1,316)
Movement in security deposits		7	-
Payment for property, plant & equipment		(5,486)	(19)
Group Information Technology software		(390)	-
Other		-	-
Net cash provided by/(used in) investing activities		<b>(9,297)</b>	<b>(1,335)</b>
<b>Cash flows from financing activities</b>			
Loans from/ (repayments to) related parties		1,712	-
Principal reduction on debt owing to Straits Mine Management Pty Ltd		(640)	-
Other financings		-	-
Bank Loans to Magontec wholly owned subsidiaries		8,454	-
Bank Loans to HNKWE disposed subsidiary		(2,094)	8,171
Net capital raised from issue of the Company's shares		4,870	1,793
New equity in Magontec Shanxi Company Limited joint venture	Refer NOTE 26 b ii	2	-
Net cash provided by financing activities		<b>12,303</b>	<b>9,964</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1,249</b>	<b>2,323</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>		<b>3,526</b>	<b>1,202</b>
<b>Cash and cash equivalents at the end of the financial year</b>		<b>4,775</b>	<b>3,526</b>

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 signed on 9 May 2012, Magontec Limited sold its share of the registered capital of 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.

Refer NOTE 26 c

## 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 unaudited financial statements were authorised for issue by the Directors on 31 August 2012 and these audited accounts are authorised for issue by the Directors on 24 September 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 by the Company to superannuation plans on behalf of Australian employees are expensed when incurred. Provision is made for any long term pension obligations the company has to employees in foreign jurisdictions. The required amount of the provision is actuarially assessed having regard to future interest rates, the date at which pension payments might commence and the likely period over which pensions may be paid.

## 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. 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 26 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 15 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.

Material examples of management applying critical accounting judgements and key sources of estimation uncertainty include:

- the likely receivable amount due from the buyer of MGL's provisional sale of its 53% interest in HNKWE;
- actuarial assessment of future pension liabilities;
- value of trade debtors; and
- valuation of intellectual property acquired with the Magontec group of companies in July 2011.

## 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 AASB 10 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.

• 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.

## NOTES TO THE FINANCIAL STATEMENTS

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

• 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.

#### (v) Reclassification of Items in 2011 Comprehensive Income Statement and Balance Sheet

The 2011 comparative values in the Comprehensive Income Statement and Balance Sheet reflect re-classifications as shown below of the values shown in the Company's original Annual Report for the period ended 30 June 2011.

2011 Profit and loss Reclassifications			
	Originally Reported	Reclassified	Modified
	30-Jun-11		30-Jun-11
Marketing	(\$79,502)	(\$56,145)	(\$135,647)
Travel accommodation and meals	(\$183,857)	\$56,145	(\$127,712)

2011 Balance Sheet Reclassifications			
	Originally Reported	Re classified	Modified
	30-Jun-11		30-Jun-11
<b>Current Assets</b>			
Trade & Other Receivables	\$7,175,988	\$70,709	\$7,246,697
Other financial assets (Owing by KWE(HK))	\$0	\$1,692,699	\$1,692,699
Prepayments	\$613,607	(\$70,709)	\$542,897
<b>Non Current Assets</b>			
Other Receivables	\$112,340	(\$110,173)	\$2,167
Other Financial Assets	\$1,692,699	(\$1,692,699)	\$0
<b>Decrease to Total Assets</b>		(\$110,173)	
<b>Current Liabilities</b>			
Trade & Other Payables	\$4,235,441	(\$131,957)	\$4,103,484
Borrowings	\$8,171,246	(\$2,333,223)	\$5,838,023
Borrowings from/payables to related parties	\$0	\$2,355,006	\$2,355,006
<b>Non Current Liabilities</b>			
Other Payables	\$1,022,254	(\$1,022,254)	\$0
Borrowings from/payables to related parties	\$0	\$1,022,254	\$1,022,254
<b>Decrease to Total Liabilities</b>		(\$110,173)	

NOTES TO THE FINANCIAL STATEMENTS

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

(w) Recognition of Cash Government Grant

A cash Government grant is recognised as revenue when irrevocably received

NOTE 2

RESULTS FROM OPERATIONS

		CONSOLIDATED	
		30-Jun	30-Jun
		2012	2011
		\$'000	\$'000
(a)	<b>Sales Revenue – continuing operations:</b>		
	Alloys	106,197	22,526
	Anodes	18,697	-
	Other	1,617	60
		-	-
		<b>126,511</b>	<b>22,586</b>
		CONSOLIDATED	
		30-Jun	30-Jun
		2012	2011
		\$'000	\$'000
(b)	<b>Cost of Sales – continuing operations:</b>		
	Alloys	(101,286)	(21,361)
	Anodes	(14,464)	-
	Other	(1,971)	(7)
		-	-
		<b>(117,721)</b>	<b>(21,367)</b>
(c)	<b>Other income</b>		
	Interest revenue	155	17
	Net Foreign exchange gain	163	56
	Government grant to HNKWE	780	146
	Profit on sale of HNKWE	6	-
	Reversal to income of disputed overpayment	594	-
	Unclaimed overpayment taken to income beyond statute of limitations	287	-
	Reversal of provisions	120	-
	Other	524	46
		<b>2,629</b>	<b>265</b>
(d)	<b>Loss before income tax</b>		
	Loss before income tax includes the following significant (expenses)/income		
	Net foreign exchange losses	-	(105)
	Adjustment to inventory to net realisable value	-	55
	Impairment of receivables	(3,286)	-
	Depreciation of non-current assets	(1,191)	(174)
	Operating lease rental minimum lease payments	(347)	(104)
	Equity settled share-based payments	(87)	(457)
	Consultancies	(231)	(212)
	Wages and salaries (incl post employment benefits)	(5,172)	(1,107)

## NOTES TO THE FINANCIAL STATEMENTS

### (e) (Loss)/Profit after income tax expense from discontinued operations

Other income	20	-
Marketing	-	-
Travel accommodation and meals	(3)	-
Research, development, licensing and patent costs	-	-
Operating costs	(46)	(5)
Corporate, administration and other expenses	(3)	(48)
Profit/(Loss) before income tax expense from continuing operations	(24)	(52)
<b>Other Comprehensive Income</b>	-	-
Exchange differences taken to reserves in equity – translation of overseas entities	(10)	-
Total Comprehensive Income for the year	(33)	(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. Its provisional year of liquidation ends on 9 September 2012.

## 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
<b>(a) Income tax recognised in profit and loss</b>			
<b>Tax expense comprises:</b>			
Current tax expense – Australian entities		-	-
Tax benefit/(expense) on recognition or reversal of deferred tax balances - foreign subsidiaries		1,748	12
Tax reimbursement/ (payment) – foreign subsidiaries		(288)	2
Total tax benefit/(expense)		1,460	13
<b>Attributable to:</b>			
Continuing operations		1,460	13
Discontinued operations		-	-
		<b>1,460</b>	<b>13</b>
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		(4,126)	(1,489)
Profit/(Loss) from discontinued operations		(24)	(52)
<b>Profit/(Loss) from total operations</b>		<b>(4,150)</b>	<b>(1,541)</b>
Nominal Income tax benefit calculated at 30%		1,245	462
Nominal income tax benefit reduced by		-	-
Timing differences - Tax effect of income and expenses in P & L being assessed or deducted for tax purposes at a different incidence		(352)	(4)
Permanent differences - Tax effect of income and expenses in P & L not being assessable or deductible for tax purposes.		(1,181)	(457)
Tax reimbursement/ (payment) – foreign subsidiaries		(288)	(2)

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 INCOME TAXES (cont....)

(b) Future Income tax benefit

Current  
Non Current  
Total

CONSOLIDATED	
30-Jun 2012	30-Jun 2011
\$'000	\$'000
3	-
1,171	12
<b>1,174</b>	<b>12</b>

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.

(c) Unrecognised deferred tax balances

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

Deferred Tax Asset (DTA) on pre-tax consolidation revenue losses  
DTA on post-tax consolidation revenue losses  
DTA on capital losses

These are based on the following tax losses:

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

CONSOLIDATED PARENT ENTITY	
30-Jun 2012	30-Jun 2011
\$'000	\$'000
-	-
81,581	81,581
35,858	35,570
28,868	28,868
<b>146,307</b>	<b>146,019</b>
-	-
271,936	271,936
118,792	116,303
96,228	96,228
<b>486,955</b>	<b>484,467</b>

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

- (a) The tax consolidated group derives future Australian 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 former Advanced Magnesium Limited (the former name of Magontec Limited) consolidated group are \$118,791,576. These losses 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-Jun-2012.

Unused tax losses incurred prior to the formation of the former Advanced Magnesium Limited (the former name of Magontec Limited) consolidated group were \$271,936,272. These losses will be subject to restricted use (Available Fraction rules).

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 3 INCOME TAXES (cont....)

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.

## NOTE 4

### KEY MANAGEMENT PERSONNEL (KMP) REMUNERATION

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

	CONSOLIDATED	
	30-Jun 2012 \$'000	30-Jun 2011 \$'000
Short term employee benefits	862	615
Termination benefits	343	-
Post-employment benefits	611	36
Motor vehicle	21	-
Equity based payment(1)	30	457
Total Remuneration KMP	1,867	1,109

*Note 1 - Shares issued under employee Retentions Rights Scheme approved by shareholders at 2011 AGM*

#### 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.

**NOTES TO THE FINANCIAL STATEMENTS**  
**NOTE 5 SHARE-BASED PAYMENT SCHEMES**

**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	Grant date	Expiry date	Exercise price	Fair value per option at
	Exercised at 30 June 2012			\$	grant date
				\$	
Employee Share Option Plan (ESOP)	1,300,000	16-Aug-10	16-Aug-13	\$0.10	\$0.0189
	<b>1,300,000</b>				

**Inputs into the model to value various option series**

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	Weighted \$	Number of	Weighted \$
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 relevant financial year

(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**

Group auditor

- Audit or review of the financial report
- One off audit of overseas subsidiaries
- Accounting/taxation services

Auditors of subsidiaries

- Audit or review of the financial reports

	CONSOLIDATED	
	30-Jun 2012	30-Jun 2011
	\$'000	\$'000
	65	66
	18	-
	32	18
	48	2
	<b>163</b>	<b>86</b>

The auditor of Magontec Limited is Camphin Boston Chartered Accountants. HNKWE and Magontec GmbH are audited by relevant local auditors who supply information as requested by the Group Auditor Camphin Boston.

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 7**

**CURRENT TRADE AND OTHER RECEIVABLES**

	Notes		CONSOLIDATED	
	30-Jun	30-Jun	30-Jun	30-Jun
	2012	2011	2012	2011
			\$'000	\$'000
Trade receivables			23,210	6,585
Allowance for doubtful debts			-	-
			<b>23,210</b>	<b>6,585</b>
Net GST/VAT recoverable			744	119
Security deposits			118	3
Derivatives fair value adjustment			147	-
Other			73	539
			<b>1,082</b>	<b>661</b>
Total receivables			<b>24,292</b>	<b>7,247</b>

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
Inventory of finished alloy at cost		14,019
Provision for Inventory loss		(52)
Net value of finished goods inventory		<b>13,967</b>
Raw materials		8,284
Work in progress		952
Current inventories at net realisable value		<b>23,203</b>

**NOTE 9**

**OTHER CURRENT ASSETS**

	CONSOLIDATED	
	30-Jun	30-Jun
	2012	2011
		\$'000
Prepayments		654
		<b>654</b>

**NOTE 10**

**NON CURRENT TRADE AND OTHER RECEIVABLES**

	CONSOLIDATED	
	30-Jun	30-Jun
	2012	2011
		\$'000
Amount due from HNKWE		3
Security deposits and prepayments		461
		<b>464</b>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 11

#### OTHER NON-CURRENT FINANCIAL ASSETS

Amount due from buyer of Company's interest in HNKWE  
Net other Financial Assets

CONSOLIDATED	
30-Jun 2012	30-Jun 2011
\$'000	\$'000
585	-
585	-

Refer NOTE 26 c regarding the disposal of MGL's interest in HNKWE.

The external receivable due on 31 December 2013 from the buyer of MGL's interest, is geared to the net asset value of HNKWE on 31 December 2013.

The receivable has therefore been recorded as a financial asset at the assessed fair value of net assets, through the Comprehensive Income Statement on initial recognition.

### NOTE 12

#### PROPERTY PLANT & EQUIPMENT

##### Gross carrying amount

##### Balance at 1 July 2010

Additions  
Prior year adjustment  
Disposals  
Net foreign currency exchange differences

##### Balance at 30 June 2011

Additions  
Acquired with acquisition of Magontec companies  
Disposal of HNKWE assets  
Disposals/ Write Offs  
Net foreign currency exchange differences

##### Balance at 30 June 2012

CONSOLIDATED		
Land & Buildings \$'000	Plant and equipment \$'000	Total \$'000
2,979	793	3,772
237	330	567
-	-	-
-	(5)	(5)
(457)	(103)	(560)
<b>2,758</b>	<b>1,016</b>	<b>3,775</b>
3,232	1,536	4,769
9,691	17,604	27,294
(2,747)	(919)	(3,665)
(12)	(3)	(15)
109	161	270
<b>13,032</b>	<b>19,396</b>	<b>32,428</b>

##### 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  
Disposal of HNKWE assets  
Depreciation expense  
Net foreign currency exchange differences

##### Balance at 30 June 2012

##### Net book value

As at 30 June 2011

As at 30 June 2012

63	112	175
-	(1)	(1)
67	106	174
(8)	(7)	(15)
<b>122</b>	<b>211</b>	<b>333</b>
(11)	(1)	(13)
5,011	12,517	17,528
(111)	(134)	(245)
73	1,118	1,191
32	491	524
<b>5,117</b>	<b>14,202</b>	<b>19,319</b>
<b>2,636</b>	<b>806</b>	<b>3,442</b>
<b>7,915</b>	<b>5,194</b>	<b>13,109</b>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 13 INTANGIBLES

#### Gross carrying amount

##### Balance at 30-Jun-11

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

Information Technology systems acquired with acquisition of VHL

Disposal upon sale of HNKWE

Additions

##### Balance at 30-Jun-12

#### Accumulated depreciation/ amortisation and impairment

##### Balance at 30-Jun-11

Acquired with acquisition of VHL

Depreciation expense

##### Balance at 30-Jun-12

##### Net book value at 30-Jun-12

	CONSOLIDATED		
	Indefinite Life \$'000	Finite Life \$'000	Total \$'000
Balance at 30-Jun-11	-	5	5
Intellectual Property acquired with acquisition of VHL on 4 July 2011(1)	2,800	-	2,800
Information Technology systems acquired with acquisition of VHL	-	457	457
Disposal upon sale of HNKWE	-	(5)	(5)
Additions	-	386	386
<b>Balance at 30-Jun-12</b>	<b>2,800</b>	<b>843</b>	<b>3,643</b>
Balance at 30-Jun-11	-	-	-
Acquired with acquisition of VHL	-	292	292
Depreciation expense	-	61	61
<b>Balance at 30-Jun-12</b>	<b>-</b>	<b>353</b>	<b>353</b>
<b>Net book value at 30-Jun-12</b>	<b>2,800</b>	<b>490</b>	<b>3,290</b>

Note 1 Patents in relation to "Correx" and AE44

Refer Note NOTE 26 b i

The intellectual property referred to under the heading 'Indefinite Life' is described at NOTE 26 CONTROLLED ENTITIES b i on Page 44.

The Board believes both products enjoy a margin of technical superiority over possible alternatives. AE44 is a magnesium alloy that continues to be developed by the Group. Its qualities have application in specific automotive high temperature parts. The Company continues to develop this family of alloys and continues to protect its inventions through patent applications and other means. The annuity income from both products provides high gross margins.

There is no sign of the assumptions on which the initial valuations were made breaking down. Expectations for the AE44 alloy are for greater applications as "light weighting" and environmental factors assume greater importance in the automotive sector.

### NOTE 14 CURRENT TRADE AND OTHER PAYABLES

Trade creditors

Other creditors and accruals

Accrued audit fees

	CONSOLIDATED	
	30-Jun 2012 \$'000	30-Jun 2011 \$'000
Trade creditors	14,851	2,836
Other creditors and accruals	1,804	1,223
Accrued audit fees	44	44
	<b>16,698</b>	<b>4,103</b>

Amounts outstanding relate to the purchase of raw materials with payment terms up to 60 days but generally not more than 20 days. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 15

BORROWINGS

	CONSOLIDATED			CONSOLIDATED		
	30-Jun	30-Jun	30-Jun	30-Jun	30-Jun	30-Jun
	2012	2012	2012	2011	2011	2011
	\$'000	Maturity Date	Interest pa(1)	\$'000	Maturity Date	Interest pa(1)
<b>Current Liabilities in respect of bank borrowings</b>						
Magontec GmbH (Money Market Loan) from Bank	8,350	30-Jun-14	3.09%	-	-	-
Magontec GmbH (Overdraft Facility) from Bank	5,559	30-Jun-14	2.91%	-	-	-
Magontec Xian Limited from Bank	2,306	31-Oct-12	6.81%	-	-	-
Magontec Xian Limited from Bank	6,795	16-Nov-12	5.25%	-	-	-
Magontec Xian Limited from Bank	344	2-Nov-12	5.57%	-	-	-
HNKWE Bank accepted bill	-	-	-	146	14-Sep-11	-
HNKWE Bank accepted bill	-	-	-	849	22-Aug-11	-
HNKWE Bank accepted bill	-	-	-	437	23-Aug-11	-
HNKWE Bank accepted bill	-	-	-	146	3-Sep-11	-
HNKWE Bank accepted bill	-	-	-	1,482	7-Sep-11	-
HNKWE from Bank	-	-	-	1,460	15-Jul-11	5.04%
HNKWE from Bank	-	-	-	2,191	15-Nov-11	9.60%
HNKWE from Bank	-	-	-	1,460	7-Sep-11	7.40%
Less cash deposited in support of bank accepted bills	-	-	-	(2,333)	-	-
<b>Total Borrowings</b>	<b>23,354</b>			<b>5,838</b>		

**Current Liabilities in respect of bank accepted bills issued to suppliers for materials classified as trade creditors**

Cash backed bank accepted bills	-	-	-	2,333	-	-
<b>Total Trade Bills on Issue</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,333</b>	<b>-</b>	<b>-</b>

**Non Current Borrowings**

Varomet Holdings Limited owing to Straits Mine Management Pty Ltd(2)	13,105	-	-	-	-	-
Convertible Loan Note issued by MGL to Straits Mine Management Pty Ltd(3)	3,557	-	-	-	-	-
<b>Total Non Current borrowings</b>	<b>16,662</b>			<b>-</b>		

(1) Interest rate is the rate applying at the end of the relevant reporting period and is expressed as compounding annually in arrears.

(2) This debt is to be re-organised in terms of an agreement with SMM announced by the Company to the ASX dated 8 June 2012 - Refer heading "Subsequent Events".

(3) Refer NOTE 26 - CONTROLLED ENTITIES b i Page 44 for a summary of the key terms of this note.

NOTE 16

CURRENT PROVISIONS

	CONSOLIDATED	
	30-Jun	30-Jun
	2012	2011
	\$'000	\$'000
Provision for Annual Leave	1,405	47
Provision for Income Tax Payable	188	-
Provision for Other Taxes Payable	27	4
Provision for Loss on Interest rate swap	1,183	-
	<b>2,804</b>	<b>51</b>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 17

#### BORROWINGS FROM/PAYABLES TO RELATED PARTIES

	Notes	CONSOLIDATED	
		30-Jun	30-Jun
		2012	2011
		\$'000	\$'000
Owing to Li Zhongjun by HNKWE	(i)	-	914
Net amount owing (by)/ to interests associated with Qiuqian Sun to/by HNKWE	(i)	-	43
Owing to KWE (HK) Limited by HNKWE	(ii)	-	1,398
Owing to KWE (HK) Limited by MGL	(iii)	189	-
Payable to Straits Mine Management Pty Limited under Convertible Note (residual owing in respect of purchase of Varomet Holdings Limited)		3,368	-
		<b>3,557</b>	<b>2,355</b>

Note (i)

Joint venture partners of HNKWE.

Note (ii)

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 (iii)

As part of the JV arrangements signed in June 2009 MGL agreed to indemnify KWE(HK) for the additional cost suffered if AUD1 was greater than RMB5.3 at the time KWE(HK) invested in shares in MGL.

### NOTE 18

#### NON-CURRENT PROVISIONS

	CONSOLIDATED	
	30-Jun	30-Jun
	2012	2011
	\$'000	\$'000
Provision for redundancy	-	64
Provision for defined benefit pensions	5,491	-
Other Provisions	140	-
	<b>5,631</b>	<b>64</b>

#### Reconciliation of the defined benefit obligation

	Year Ended 30 June 2012 Actual	Year Ended 30 June 13 Expected
	\$'000	\$'000
<b>Defined benefit obligation beginning of year</b>	4,863	5,491
Current service cost	122	170
Interest cost	244	217
Total benefits paid - actual	(139)	(170)
Experience adjustments (gains)/ losses	(492)	
Actuarial (gains)/ losses due to change of assumptions	892	
<b>Defined benefit obligation end of year</b>	<b>5,491</b>	<b>5,709</b>

### 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	-	511
Deferred project fee owing to Sun Qiuqian (joint venture partner in HNKWE) by HNKWE	i	-	511
		<b>-</b>	<b>1,022</b>

## NOTES TO THE FINANCIAL STATEMENTS

### Note (i)

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

## NOTE 20

### SHARE CAPITAL

	CONSOLIDATED	
	30-Jun	30-Jun
	2012	2011
	\$'000	\$'000
Opening balance	26,137	25,489
July 2010 private placement	-	608
Issued in 2011 under June 2010 SPP	-	39
Issued to Straits Mine Management Pty Ltd(1)	2,220	-
Issue of shares under July 2011 SPP	2,909	-
Issue of shares to Execs of the company as per 2011 AGM	524	-
Issued to Qinghai Salt Lake Magnesium Company Limited	2,021	-
Share capital on issued ordinary shares 425,007,674 (2011: 269,994,448)	<b>33,810</b>	<b>26,137</b>
Allocation of shares to KMP pending shareholder approval	-	440
ESOP options expiring 16 August 2013(2)	25	26
Share capital attributable to members of MGL	<b>33,835</b>	<b>26,603</b>
Share capital attributable to minority interest	2	2,737
<b>Total share capital</b>	<b>33,837</b>	<b>29,340</b>

All amounts received are net of costs

(1) Part consideration for acquisition of Varomet Holdings Ltd

(2) 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 out below

	CONSOLIDATED / PARENT ENTITY			
	2012		2011	
	No.	\$'000	No.	\$'000
<b>Fully paid ordinary shares</b>				
Balance at beginning of financial year	269,994,448	26,137	214,671,854	25,489
Issued under July 2010 private placement	-	-	11,928,428	0,608
Issued in 2011 under June 2010 SPP	-	-	780,056	0,039
Straits Mine Management Pty Ltd	40,499,167	2,220	42,614,110	-
July 2011 SPP	49,680,172	2,909	-	-
Executives of the company as per 2011 AGM	9,398,103	524	-	-
Qinghai Salt Lake Magnesium Company Limited	55,435,784	2,021	-	-
	<b>425,007,674</b>	<b>33,810</b>	<b>269,994,448</b>	<b>26,137</b>
Issued to Qinghai Salt Lake Magnesium Company Limited(1)		56		-
			Unpaid	

(1) Exchange rate difference since paid by QSLM post balance sheet date.

All amounts received are net of costs

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

##### Capital reserve

Balance at beginning of financial year	
Derecognition of minority interest attributable to HNKWE on deconsolidation	
Transfer MGL interest attributable to HNKWE on deconsolidation to retained earnings	
Movement as a result of closure of balance sheet of AMT Europe GmbH	
Balance at end of financial year	

##### Foreign currency translation reserve

Balance at beginning of financial year	
Derecognition of minority interest attributable to HNKWE on deconsolidation	
Transfer MGL interest attributable to HNKWE on deconsolidation to retained earnings	
Translation of foreign operations - VHL	
Translation of foreign operations - other than VHL	
Balance at end of financial year	

##### Actuarial Reserves

Balance at beginning of financial year	
Deferred Tax assets	
Employee pensions	
Derivatives	
Balance at end of financial year	

##### Expired Options Reserve

Balance at beginning of financial year	
ESOP options expiry	
Balance at end of financial year	

##### Total reserves

Reserves attributable to minority interests	
Reserves attributable to members of MGL	
<b>Total reserves</b>	

CONSOLIDATED	
30-Jun 2012 \$'000	30-Jun 2011 \$'000
2,762	2,762
(6)	-
(6)	-
-	-
<b>2,750</b>	<b>2,762</b>
-	-
(749)	(280)
281	-
316	-
(591)	-
237	(469)
<b>(506)</b>	<b>(749)</b>
-	-
-	-
(57)	-
(401)	-
(162)	-
<b>(621)</b>	-
-	-
1,611	1,587
2	24
<b>1,612</b>	<b>1,611</b>
<b>3,236</b>	<b>3,623</b>
-	-
-	(391)
3,236	4,014
<b>3,236</b>	<b>3,623</b>

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.

The **actuarial reserve** represents the cumulative amount of actuarial gains / (losses) on the Company's unfunded defined benefit pension obligation that needs to be recognised in "Other comprehensive income" (OCI).

### NOTE 22

#### ACCUMULATED LOSSES

Balance at beginning of financial year	
Deconsolidation of interest in HNKWE	
Profit/(Loss) attributable to members of the parent entity	
Accumulated losses attributable to members of AML	
Accumulated losses attributable to minority interests	
<b>Total accumulated losses</b>	

CONSOLIDATED	
30-Jun 2012 \$'000	30-Jun 2011 \$'000
(27,263)	(25,446)
(310)	-
(1,389)	(1,817)
(28,962)	(27,263)
-	(647)
<b>(28,962)</b>	<b>(27,910)</b>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 23

#### EARNINGS/(LOSS) PER SHARE

	CONSOLIDATED	
	2012	2011
	cents per share	cents per share
Basic earnings/(loss) per share (including Discontinued Operations):	(0.395)	(0.678)
Diluted earnings/(loss) per share (including Discontinued Operations)(1):	(0.395)	(0.678)
Basic earnings/(loss) per share (excluding Discontinued Operations):	(0.388)	(0.658)
Diluted earnings/(loss) per share (excluding Discontinued Operations)(1):	(0.388)	(0.658)

#### Notes

(1) Options issued on 16 August 2010 under Company's Employee Share Option Plan. The options vested on 16 February 2012. However, 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
<b>Profit/(Loss) after income tax expense for the year (i)</b>		
Members of the parent entity	(1,389)	(1,817)
<b>Profit/(Loss) after income tax expense for the year (ii)</b>		
Members of the parent entity	(1,365)	(1,765)
Weighted average number of ordinary shares on issue	351,930	268,110

(i) Including Discontinued Operations

(ii) Excluding Discontinued Operations

### NOTE 24

#### CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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 claimed 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, lack of any contact with the claimant since at least 2007, 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)

Nature of Lease	Date of First Lease Payment	Date of Last Lease Payment	Frequency of Lease Payments	Lease Payment Per Frequency	Current Year Lease Payments	Lease Payments Due Within 12 Months	Lease Payments Due Beyond 12 Months	Unexpired Lease Obligation
Xi'an anode workshop lease	15-Sep-08	15-Sep-12	Quarterly	\$8,335	\$33,339	\$8,335	-	\$8,335
Xi'an anode plant forklift	6-Dec-09	6-Dec-12	Monthly	\$1,460	\$17,520	\$8,760	-	\$8,760
Xi'an anode plant forklift	1-Dec-11	1-Dec-12	Monthly	\$922	\$11,064	\$5,532	-	\$5,532
Sydney Head Office Premises	1-May-12	1-Apr-13	Monthly	\$2,330	\$27,960	\$23,300	-	\$23,300
MagontecGmbH company car	13-Jan-12	13-Dec-15	Monthly	\$716	\$8,592	\$8,592	\$21,480	\$30,072
MagontecGmbH company car	17-Apr-12	17-Mar-15	Monthly	\$776	\$9,312	\$9,312	\$16,296	\$25,608
MagontecGmbH company car	11-May-12	11-Apr-16	Monthly	\$548	\$6,576	\$6,576	\$18,632	\$25,208
MagontecGmbH company car	19-Mar-10	19-Feb-14	Monthly	\$541	\$6,492	\$6,492	\$4,328	\$10,820
MagontecGmbH company car	27-Feb-12	27-Jul-13	Monthly	\$298	\$3,576	\$3,576	\$298	\$3,874
Magontec GmbH storage facility	1-Jun-06	1-Sep-12	Monthly	\$4,330	\$51,960	\$12,990	-	\$12,990
Magontec GmbH anode workshop	1-Jun-04	1-May-14	Monthly	\$14,226	\$170,712	\$170,712	\$156,486	\$327,198
<b>Total</b>					<b>\$347,103</b>	<b>\$264,177</b>	<b>\$217,520</b>	<b>\$481,697</b>

Non-cancellable operating lease payments

Not longer than 1 year

Longer than 1 year and not longer than 5 years

Longer than 5 years

NOTE	CONSOLIDATED	
	30-Jun 2012	30-Jun 2011
	\$'000	\$'000
	264	23
	218	-
	-	-
	<b>482</b>	<b>23</b>

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	0%	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 Section (c) of this note.

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. Two acquisitions were made during the relevant period.

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 Straits Mine Management Pty Ltd was made up as follows.

- Cash	\$ 0
- 40,499,167 ordinary shares issued at \$0.055 to Straits Mine Management Pty Ltd	2,227,454
- Convertible Loan Note (CLN) issued to Straits Mine Management Pty Ltd	3,368,047
- Total Consideration	<b>5,595,501</b>

Key Conditions of the CLN are as follows

- No interest is payable
- Dependent on the availability of the option, SMM may on, or after 4 July 2012, convert any amount then outstanding under the CLN into shares in AML 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**

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**

Land & Buildings	4,679,504
Plant & Equipment	5,086,606
Other	804,643

**Total Non Current assets**

**10,570,752**

**LIABILITIES**

**Current**

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

**28,048,682**

**Non Current**

Provision for Employee entitlements	5,471,465
Owing to Straits Mine Management Pty Limited	12,855,603
Other	0

**Total Non Current liabilities**

**18,327,068**

**NET ASSETS as per VHL balance sheet above**

7,077,592

Plus Value of Intangibles in Consolidated Accounts

2,800,000

Less Consideration Paid

(5,595,501)

Discount on acquisition

**4,282,091**

**Value of Tangible Assets**

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 val'n
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	

**Value of 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".

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 26 CONTROLLED ENTITIES (Cont....)

Correx® impressed current systems feed a continuous protective electric current for hot water tanks. In particular, the combination of solar energy systems, heat pumps or combined heat and power plants with hot water generation all benefit from an electronically regulated protective current. Additionally Correx® Impressed Current Systems indicates any system failure and reduce maintenance. The system consists of two central components; the Correx® potentiostat and the Correx® titanium anode with mixed oxide coating. They are connected by cable and powered via mains cable. AE 44 is a magnesium alloy that is suitable for high temperature applications. It has particularly high creep resistance and high ductility as well as good corrosion protection properties. The product is an alloy of magnesium with aluminium and rare earths.

The following process was adopted in valuing the two patents.

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

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

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

#### Value of Liabilities

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

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

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

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

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

#### 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). The joint venture arrangement is a co-operation of intellect and skills. It will not involve the ownership of physical assets or a commitment to capital expenditure. It 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.

MGL has a 70% interest in the joint venture and assumes full management control of magnesium alloy production at the Jishan facility. 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.

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 as it appears in the consolidated accounts of MGL (ie after relevant eliminations) is shown below.

#### Magontec Shanxi Company Limited - Balance Sheet as it appears in the MGL consolidated balance sheet

	Assets	Liabilities
	\$	\$
Cash	1,537	-
Equity	-	(1,537)
Retained Earnings	687	-
Trade Creditors	-	(687)
<b>Total</b>	<b>2,224</b>	<b>(2,224)</b>

## 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.

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 27

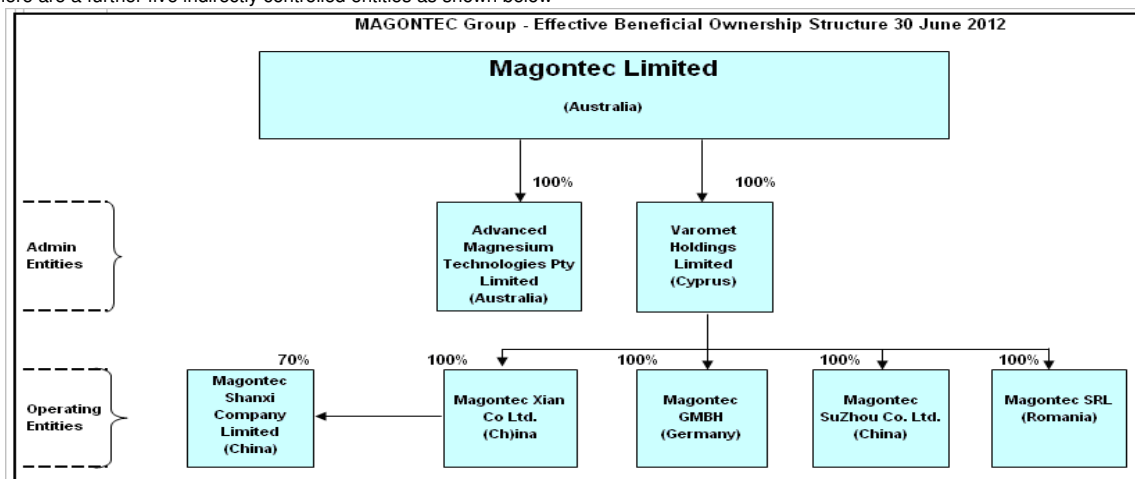
#### SEGMENT INFORMATION

##### Identification of reportable segments

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

As at 30 June 2012 the Company's consolidated balance sheet reflects two active subsidiaries - AMT and VHL. (Refer Note 26) During the year the AMT Europe GmbH and AML China Ltd balance sheets were brought to zero and the provisional sale of HNKWE and reliniquishment of control meant HNKWE was no longer a consolidated entity.

However there are a further five indirectly controlled entities as shown below



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

- Corporate/Head Office (Magontec Limited and Advanced Magnesium Technologies Pty Ltd)
- HNKWE (profit and loss account only to 30 June 2012)
- Other Operating Activities (the separate VHL consolidated group of companies).

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**

**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(ii)	-	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	(94)	924	1,818	2,649	-	186	80	266
Discount upon acquisition of Varomet Holdings Limited	4,282	-	-	4,282	-	-	-	-
Operating expenses excluding interest, taxation, depreciation and amortisation	(2,003)	(3,777)	(9,249)	(15,030)	(2,058)	(407)	(247)	(2,712)
<b>EBITDA(1)</b>	<b>2,185</b>	<b>(2,547)</b>	<b>1,061</b>	<b>699</b>	<b>(2,015)</b>	<b>901</b>	<b>(114)</b>	<b>(1,228)</b>
Interest expense	-	(920)	(2,448)	(3,368)	-	(139)	-	(139)
Depreciation and Amortisation	(10)	(288)	(1,183)	(1,481)	(14)	(159)	(1)	(174)
<b>Profit/(Loss) before income tax expense</b>	<b>2,175</b>	<b>(3,755)</b>	<b>(2,570)</b>	<b>(4,150)</b>	<b>(2,029)</b>	<b>602</b>	<b>(115)</b>	<b>(1,541)</b>
Income tax expense/reimbursement	-	986	473	1,460	-	13	-	13
Profit/(Loss) after income tax expense including discontinued operations(iii)	<b>2,175</b>	<b>(2,769)</b>	<b>(2,096)</b>	<b>(2,690)</b>	<b>(2,029)</b>	<b>616</b>	<b>(115)</b>	<b>(1,528)</b>
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)
<b>Total Comprehensive Income for the year(i)</b>	<b>2,175</b>	<b>(2,522)</b>	<b>(3,317)</b>	<b>(3,665)</b>	<b>(2,029)</b>	<b>82</b>	<b>(51)</b>	<b>(1,997)</b>

(1) Earnings before interest, taxation, depreciation and amortisation

(i) **Segment revenue reconciliation to the statement of comprehensive income**

	Consolidated	
	2012	2011
	\$'000	\$'000
Corporate/ Head Office	2,218	(2,354)
HNKWE	(2,522)	82
Other Operating Units	(3,360)	274
<b>Total comprehensive income</b>	<b>(3,665)</b>	<b>(1,997)</b>

(ii) **Segment Sales Revenue reconciliation to the statement of comprehensive income**

	Consolidated	
	2012	2011
	\$'000	\$'000
Corporate/ Head Office	45	290
HNKWE	13,063	22,236
Other Operating Units	113,418	60
<b>Total segment external sales revenue</b>	<b>126,526</b>	<b>22,586</b>

**NOTES TO THE FINANCIAL STATEMENTS**

**SEGMENT INFORMATION (Cont...)**

(iii) **Segment net operating profit reconciliation to the statement of comprehensive income**

	Consolidated	
	2012	2011
	\$'000	\$'000
Corporate/ Head Office	2,218	(2,354)
HNKWE	(2,769)	616
Other Operating Units	(2,139)	210
<b>Total segment net operating profit including Discontinued Operations</b>	<b>(2,690)</b>	<b>(1,528)</b>

**Segment Disclosures by Product & Services**

	30-Jun	30-Jun	30-Jun	30-Jun	30-Jun	30-Jun	30-Jun	30-Jun
	2012	2012	2012	2012	2011	2011	2011	2011
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'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
<b>Total Sales (including discontinued operations)</b>	<b>45</b>	<b>13,063</b>	<b>113,418</b>	<b>126,526</b>	<b>290</b>	<b>22,236</b>	<b>60</b>	<b>22,586</b>

30-Jun	30-Jun	30-Jun	30-Jun	30-Jun	30-Jun	30-Jun	30-Jun
2012	2012	2012	2012	2011	2011	2011	2011
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
CORPORATE/ HEAD OFFICE	HNKWE	OTHER OPERATING UNITS	TOTAL	CORPORATE/ HEAD OFFICE	HNKWE	OTHER OPERATING UNITS	TOTAL

**Segment Assets**

Segment assets(iv)	5,567	-	67,693	73,260	1,972	16,496	19	18,487
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**Segment Liabilities**

Segment liabilities(v)	862	-	64,288	65,149	542	12,880	13	13,434
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**Segment Disclosures**

Acquisition of segment fixed assets	-	-	4,769	4,769	-	567	-	567
Non-cash share based payments	-	-	84	84	417	40	-	457
Provisioning								
- Inventory Increase/(Decrease)	(72)	-	-	(72)	(23)	(65)	-	(88)
- Doubtful debts Increase/(Decrease)	-	-	-	-	-	-	-	-

(iv) **Segment assets reconciliation reconciliation to the balance sheet**

	Consolidated	
	2012	2011
	\$'000	\$'000
Corporate/ Head Office	5,567	1,972
HNKWE	-	16,496
Other Operating Units	67,693	19
<b>Total segment assets</b>	<b>73,260</b>	<b>18,487</b>

**NOTES TO THE FINANCIAL STATEMENTS**

**SEGMENT INFORMATION (Cont...)**

(v) **Segment liabilities reconciliation to the balance sheet**

	Consolidated	
	2012 \$'000	2011 \$'000
Corporate/ Head Office	862	542
HNKWE	-	12,880
Other Operating Units	64,288	13
<b>Total segment liabilities</b>	<b>65,149</b>	<b>13,434</b>

**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**

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.
Mr Z Li(1)	56,197,298	-	-	-	56,197,298	55,797,298
Mr N Andrews(2)	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	-
	<b>59,735,759</b>	<b>7,704,817</b>	<b>-</b>	<b>516,667</b>	<b>67,957,243</b>	<b>59,335,759</b>

(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.
Mr Z Li(1)	56,197,298	-	-	-	56,197,298	55,797,298
Mr N Andrews(2)	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	-
	<b>61,607,981</b>	<b>-</b>	<b>-</b>	<b>(1,214,444)</b>	<b>60,393,537</b>	<b>57,297,298</b>

(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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 28 RELATED PARTY DISCLOSURES(Cont...)

Share options of Magontec Limited - 2012

	Bal @ 1/07/2011	Bal vested @ 1/07/2011	Exercised / Lapsed	Net other change	Bal @ 30/06/2012	Bal vested @ 30/06/2012	Vested but not exercisable	Vested and exercisable	Options vested during year
	No.	No.	No.	No.	No.	No.	No.	No.	No.
<b>Key Management Personnel</b>									
Mr J Talbot	600,000	-	-	-	600,000	600,000	-	600,000	600,000
<b>Other Personnel</b>									
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
	<b>1,380,000</b>	<b>-</b>	<b>(80,000)</b>	<b>-</b>	<b>1,300,000</b>	<b>1,300,000</b>	<b>-</b>	<b>1,300,000</b>	<b>1,300,000</b>

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

Share options of Magontec Limited - 2011

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

(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 & Purchases**

RELATED PARTY SALES AND PURCHASES YEAR ENDED 30-6-2012				Relationship
Quantity (Tonnes)	Aggregate Purchase Cost RMB'000	Counter Party		
<b>Purchases</b>				
	327.272	RMB5,185	Tian Jin Ke Wei Er Alloy Material Co., Ltd	Associated with HNKWE joint venture partner
	393.382	RMB7,030	Chang Ge Yi Yang	Associated with HNKWE joint venture partner
		RMB12,215	14.94% of HNKWE COGS	
<b>Sales</b>	-	-	-	0.00% of HNKWE Sales

**NOTES TO THE FINANCIAL STATEMENTS**

**NOTE 28 RELATED PARTY DISCLOSURES(Cont...)**

<b>RELATED PARTY SALES AND PURCHASES YEAR ENDED 30-6-2011</b>				
	<b>Quantity (Tonnes)</b>	<b>Aggregate Purchase Cost RMB'000</b>	<b>Counter Party</b>	<b>Relationship</b>
<b>Purchases</b>	236.146	RMB3,470	Tian Jin Ke Wei Er International Trade Co., Ltd.	Associated with HNKWE joint venture partner
	343.547	RMB5,180	Tian Jin Ke Wei Er Alloy Material Co., Ltd	Associated with HNKWE joint venture partner
	210.442	RMB3,051	Chang Ge Yi Yang	Associated with HNKWE joint venture partner
		<u>RMB11,701</u>	8.09% of HNKWE COGS	
<b>Sales</b>	42.474	RMB664	Tian Jin Ke Wei Er Alloy Material Co., Ltd	Associated with HNKWE joint venturer
		<u>RMB664</u>	0.44% of HNKWE Sales	

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 \$34,505

- ii **Deferred Project fee**  
Refer Note (i) to NOTE 19

NOTES TO THE FINANCIAL STATEMENTS

NOTE 29

NOTES TO THE CASH FLOW STATEMENT

	CONSOLIDATED	
	30-Jun	30-Jun
	2012	2011
	\$'000	\$'000
<b>(a) Reconciliation of cash and cash equivalents</b>		
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 as follows:		
Cash on hand	-	-
Cash at bank	4,775	3,526
Bank accepted bills	-	-
Total cash and cash equivalents after disposal of interest in HNKWE	4,775	3,526
<b>(b) Cash balances not available for use</b>		
<b>(c) Reconciliation of loss for the period to net cashflows from operating activities</b>		
<b>Profit/(Loss) after income tax expense including discontinued operations</b>	(2,690)	(1,528)
<b>Movement in Current Assets</b>		
Increase in Trade & Other Receivables	(19,358)	(6,129)
Increase in Inventory	(22,759)	-
Increase in Prepayments	(883)	-
Increase in Other Current Assets	(23)	-
<b>Movement in Current Liabilities</b>		
Increase in Trade & Other Payables	21,037	9,329
Increase in Borrowings	21,260	-
Increase in Provisions	2,753	-
Increase in Other Current Assets	2,545	-
<b>Prima facie net operating cash flow</b>	<b>1,881</b>	<b>1,673</b>
<b>Adjustments to prima facie operating cash flows</b>		
Add non cash outflows implied by movement in Current Liabilities associated with acquisition of VHL	-	-
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	(1,724)	-
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	75	-
Deduct non cash inflows implied by movement in Current Assets associated with acquisition of VHL	-	-
Deduct non cash inflows implied by movement in other Current Assets	(3,422)	-
Deduct non cash income in P & L after tax	(10,133)	(445)
Add non cash expenses in P & L after tax	10,177	646
Deduct profit on disposal of HNKWE	(6)	-
Movement in Current Liabilities taken to Finance & Investing cash flows	(8,000)	(8,171)
Movement in Non Current Liabilities taken to Operating cash flows	-	1,316
Movement in Current Assets taken to Finance & Investing cash flows	20	(1,170)
Movement in Non Current Assets taken to Operating cash flows	-	(155)
<b>Net cash from operating activities</b>	<b>(1,757)</b>	<b>(6,306)</b>

## 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 and its production facilities.

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 and European 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 interest rate	Non interest bearing	Total
	Notes	%	\$'000	\$'000	\$'000	\$'000
<b>Financial assets:</b>						
Cash and cash equivalents		1.14%	4,775	-	0	4,775
Trade & other receivables (net of provision for loss)		-	-	-	24,292	24,292
Loan owing by KWE (HK)		-	-	-	1,713	1,713
Receivable in respect of sale of HNKWE		-	-	-	585	585
Other		-	-	-	654	654
			4,775	-	27,244	32,019
<b>Financial liabilities:</b>						
Trade & Other Payables		-	-	-	16,698	16,698
Current Borrowings	15	4.08%	23,354	-	-	23,354
Bank accepted bills issued to suppliers	15	-	-	-	-	-
Current Borrowings from/payables to related parties	15	-	-	-	3,557	3,557
Non Current Borrowings		-	-	-	-	-
Non Current Borrowings from/payables to related parties		-	-	-	-	-
Non Current Owing to Straits Mine Management Pty Ltd	15	-	-	-	13,105	13,105
			23,354	-	33,360	56,714

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	\$'000	\$'000	\$'000
<b>Financial assets:</b>						
Cash and cash equivalents	Notes	0.10%	72	2,333	1,121	3,526
Trade & other receivables (net of provision for loss)		-	-	-	7,247	7,247
Loan owing by KWE (HK)		-	-	-	1,693	1,693
Other receivables		-	-	-	543	543
			72	2,333	10,603	13,008
<b>Financial liabilities:</b>						
Trade & Other Payables		-	-	-	4,103	4,103
Current Borrowings		0	5,838	-	-	5,838
Bank accepted bills issued to suppliers	15	-	-	-	2,333	2,333
Current Borrowings from/payables to related parties	15	-	-	-	2,355	2,355
Non Current Borrowings	15	-	-	-	-	-
Non Current Borrowings from/payables to related parties		-	-	-	1,022	1,022
Non Current Owing to Straits Mine Management Pty Ltd		-	-	-	-	-
	15		5,838		9,814	15,652

(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	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Cash and cash equivalents			4,373	3,476
Trade and other receivables			25,429	7,147
Trade and other payables	16,628	6,191		
Borrowings	23,354	5,838		
<b>Total</b>	<b>39,981</b>	<b>12,029</b>	<b>29,802</b>	<b>10,623</b>

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.

		<b>USD impact</b>	
		<b>Consolidated</b>	
		<b>2012</b>	<b>2011</b>
		<b>\$'000</b>	<b>\$'000</b>
Effect on Loss of a 10% increase in USD rate	(i)	-	1
Effect on Loss of a 10% decrease in USD rate		-	(1)
		<b>EUR impact</b>	
		<b>Consolidated</b>	
		<b>2012</b>	<b>2011</b>
		<b>\$'000</b>	<b>\$'000</b>
Effect on Loss of a 10% increase in EUR rate	(ii)	568	(5)
Effect on Loss of a 10% decrease in EUR rate		(568)	5
		<b>RMB impact</b>	
		<b>Consolidated</b>	
		<b>2012</b>	<b>2011</b>
		<b>\$'000</b>	<b>\$'000</b>
Effect on Loss of a 10% increase in RMB rate	(iii)	785	581
Effect on Loss of a 10% decrease in RMB rate		(785)	(581)
		<b>RON impact</b>	
		<b>Consolidated</b>	
		<b>2012</b>	<b>2011</b>
		<b>\$'000</b>	<b>\$'000</b>
Effect on Loss of a 10% increase in RON rate	(iv)	(122)	-
Effect on Loss of a 10% decrease in RON rate		122	-

A positive number in the above table represents a reduction in the operating loss

Exposure to USD is represented by net assets of USD00,000 in respect of period ended 30-Jun-12 (exposure on net assets of USD10,329 in period ended 30-

Exposure to EUR is represented by net assets of EUR4,588,092 in respect of 30-Jun-12 (exposure on net liabilities of EUR35,300 in 30-Jun-11)

Exposure to RMB is represented by net assets of RMB50,321,754 in respect of 30-Jun-12 (exposure on net assets of RMB39,753,377 in 30-Jun-11)

Exposure to RON is represented by net liabilities of RON4,416,006 in respect of 30-Jun-12 (exposure on net assets of RON00,000 in 30-Jun-11)

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 reorganise 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 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.
- 6 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)
<b>Gross profit</b>	<b>(1)</b>	<b>(0)</b>
Other income	82	(185)
Discount upon acquisition of Varomet Holdings Limited	-	-
Impairment of inventory & receivables	(3,747)	(982)
Net Loss/Profit on sale of assets	-	-
Interest expense	-	-
Marketing	-	-
Travel accommodation and meals	(0)	-
Research, development, licensing and patent costs	(25)	-
Operating costs	(185)	(530)
Corporate, administration and other expenses	(299)	(158)
<b>Profit/(Loss) before income tax expense from continuing operations</b>	<b>(4,176)</b>	<b>(1,855)</b>
Income tax (expense)/benefit	-	-
<b>Profit/(Loss) after income tax expense from continuing operations</b>	<b>(4,176)</b>	<b>(1,855)</b>
Profit/(Loss) after income tax expense from discontinued operations	-	-
<b>Profit/(Loss) after income tax expense including discontinued operations</b>	<b>(4,176)</b>	<b>(1,855)</b>
<b>Other Comprehensive Income</b>		
Exchange differences taken to reserves in equity – translation of overseas entities	-	-
Movement in various actuarial assessments	-	-
<b>Total Comprehensive Income for the year</b>	<b>(4,176)</b>	<b>(1,855)</b>
<b>Profit/(Loss) after income tax expense for the year (incl discontinued operations) attributable to</b>		
Minority interests	-	-
Members of the parent entity	(4,176)	(1,855)
<b>Total</b>	<b>(4,176)</b>	<b>(1,855)</b>
<b>Comprehensive Income for the year attributable to</b>		
Minority interests	-	-
Members of the parent entity	(4,176)	(1,855)
<b>Total Comprehensive Income for the year</b>	<b>(4,176)</b>	<b>(1,855)</b>

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
<b>Current assets</b>		
Cash and cash equivalents	377	67
Trade & Other Receivables	1	(0)
Owing by KWE(HK)	1,713	-
Future Income Tax Benefit	-	-
Inventory of Finished Goods	-	-
Stock of raw materials	-	-
Other	-	-
<b>Total current assets</b>	<b>2,090</b>	<b>67</b>
<b>Non-current assets</b>		
Other Receivables	-	-
Inter Company Loan Receivables	5,782	99
Investment In Subsidiaries	5,596	2,729
Other Financial Assets	585	1,693
Property, Plant & Equip	-	-
Future Income Tax Benefit	-	-
Intangibles	-	-
Other	-	(0)
<b>Total non-current assets</b>	<b>11,962</b>	<b>4,521</b>
<b>Total assets</b>	<b>14,052</b>	<b>4,588</b>
<b>Current liabilities</b>		
Trade & Other Payables	21	41
Borrowings	-	-
Provisions	-	-
Borrowings from/payables to related parties	3,557	-
<b>Total current liabilities</b>	<b>3,579</b>	<b>41</b>
<b>Non-current liabilities</b>		
Other Payables	-	-
Borrowings	-	-
Borrowings from/payables to related parties	-	-
Provisions	-	-
Owing to Straits Mine Management Pty Ltd	-	-
Other	2,871	2
<b>Total non-current liabilities</b>	<b>2,871</b>	<b>2</b>
<b>Total liabilities</b>	<b>6,450</b>	<b>43</b>
<b>Net assets</b>	<b>7,602</b>	<b>4,545</b>
<b>Equity attributable to members of MGL</b>		
Share capital	33,835	26,603
Reserves	1,612	1,611
Accumulated losses	(27,845)	(23,669)
<b>Equity attributable to minority interests</b>		
Share capital	-	-
Reserves	-	-
Accumulated losses	-	-
<b>Total equity</b>	<b>7,602</b>	<b>4,545</b>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 32 PARENT ENTITY INFORMATION (MAGONTEC LIMITED) (Cont...)

#### *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 22 to 61:

- (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 pay
- (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 Board of Directors**



MR N ANDREWS  
EXECUTIVE CHAIRMAN



MR R SHAW  
NON-EXECUTIVE DIRECTOR

27 September 2012

## INDEPENDENT AUDIT REPORT

**CAMPHIN BOSTON**

CHARTERED ACCOUNTANTS

### AUDIT REPORT TO THE MEMBERS OF MAGONTEC LIMITED

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MAGONTEC LIMITED

##### Report on the Financial Report

We have audited the accompanying financial report of Magontec Limited and Controlled Entities, which comprises the consolidated balance sheet as at 30 June 2012, and the consolidated comprehensive income statement, statement of changes in equity and cash flow statement for the year ended on that date, a statement of accounting policies, other explanatory notes and the directors' declaration.

##### *Directors' Responsibility for the Financial Report*

The directors of Magontec Limited are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

##### *Auditor's Responsibility*

Our responsibility is to express a conclusion on the financial report based on our audit. We conducted our audit in accordance with Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

##### *Auditor's Independence Declaration*

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

Level 9, 5 Elizabeth Street SYDNEY NSW 2000 GPO BOX 3403 SYDNEY NSW 2001  
T (02) 9221 7022 F (02) 9221 7080 E [cambos@cambos.com.au](mailto:cambos@cambos.com.au)  
W [www.camphinboston.com.au](http://www.camphinboston.com.au) ABN 69 688 697 499



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Professional Standards  
Legislation

## INDEPENDENT AUDIT REPORT

**CAMPHIN BOSTON**

CHARTERED ACCOUNTANTS

### AUDIT REPORT TO THE MEMBERS OF MAGONTEC LIMITED (cont)

#### *Auditor's Opinion*

In our opinion:

- (a) the financial report of Magontec Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the-year ended on that date; and
  - (ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

#### *Material Uncertainty Regarding Continuation as a Going Concern*

Without qualifying our opinion, we draw attention to Note 1, "Going Concern" in the financial report which describes the company undergoing a process of rationalising its businesses, reducing costs and seeking production efficiencies as well as reliance on a start-up operation to generate future profitability. The outcome of these factors is materially uncertain and when combined with the short term nature of the group's debt facilities, may cast significant doubt about the company's and consolidated entity's ability to continue as going concerns and, therefore, whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

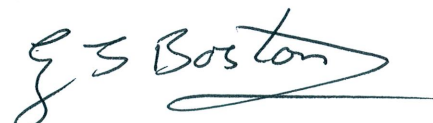
#### Report on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 12 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

#### *Auditor's Opinion*

In our opinion the Remuneration Report of Magontec Limited for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

**Camphin Boston**  
Chartered Accountants



**Greg Boston**  
Partner

Level 9, 5 Elizabeth Street, Sydney NSW 2000

Dated: 27th September 2012

## SHAREHOLDER INFORMATION

**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-Jun-2012

Name of Holder		No. Of Shares	Percentage
<b>Substantial Shareholders</b>			
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
<b>Other Shareholders</b>			
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	0.4
20	MIENGROVE PTY LTD <G J & P K BIRD SUPER A/C>	1,650,000	0.388

### Distribution of Shareholders as at 30-Jun-2012

Number Held	Holders	No. of Securities	Percentage
1-1000	11,139	3,823,587	0.9
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
<b>TOTAL</b>	<b>15,443</b>	<b>425,007,674</b>	<b>100</b>

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

Issued Capital and Securities	On Issue
Ordinary Shares fully paid	425,007,674

Unlisted Options	Number	Grant Date	Expiry Date	Exercise Price
Unlisted Employee Options	1,380,000	16-Aug-10	16-Aug-13	\$0.10

#### Share Registry: Boardroom Pty Limited

Address: Level 7, 207 Kent Street  
SYDNEY, NSW 2000

#### Postal:

GPO Box 3993,  
SYDNEY 2001

#### Local:

Tel: 1300 737 760  
Fax: 1300 653 459

#### International

Tel: +61 2 9290 9600  
Fax: +61 2 9279 0664

Website: [www.boardroomlimited.com.au](http://www.boardroomlimited.com.au)

LAST PAGE

LAST PAGE

LAST PAGE

LAST PAGE

LAST PAGE

LAST PAGE

LAST PAGE

LAST PAGE

LAST PAGE

LAST PAGE

LAST PAGE

LAST PAGE