

Appendix 4D

Magontec Limited



ASX Half-Year Report - 30 June 2013

Magontec Limited ("MGL") ABN 51 010 441 666

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

This information should be read in conjunction with the Annual Report of Magontec Limited for the six months ended 31 December 2012.

Compilation of Statements

The entity's annual reporting period ends 31 December (calendar year). The entity will present the following financial statements (condensed or complete) in its half-year interim financial report as of 30 June 2013:

Statement of Financial Position:	This Report	Comparative Position
At	30 June 2013	31 December 2012
Statement of Comprehensive Income:		
6 months ending	30 June 2013	30 June 2012
Statement of Cash Flows:		
6 months ending	30 June 2013	30 June 2012
Statement of Changes in Equity:		
6 months ending	30 June 2013	30 June 2012

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

**RESULTS FOR ANNOUNCEMENT TO THE MARKET
for the Half-Year Ended 30 June 2013**

Revenue and Net Loss		Percentage Change (against previous corresponding period)	Amount \$
Revenue	Down	(4.03%)	61,099,630
Profit/(Loss) from continuing operations after tax	Up	Not applicable – Change from loss to profit	1,447,520
Profit/(Loss) attributable to members of the Parent after tax	Up	Not applicable – Change from loss to profit	1,437,513

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

Brief Explanation of Revenue, Net Loss and Dividends

CONDENSED FINANCIAL REPORT
for the Half-Year Ended 30 June 2013

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DIRECTORS' REPORT

The Directors of **Magontec Limited** ('the Company or MGL') submit herewith the financial report for the half-year ended **30 June 2013**. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

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

Mr N Andrews (Executive Chairman)
Mr G Franke (Executive Director to 28 February 2013 Non-Executive Director to date of resignation from Directorship on 19 July 2013)
Mr R Kaye (Independent Director) Appointed 19 July 2013
Mr R Shaw (Independent Director)
Mr Kang Min Xie (Non-Executive Director)
Mr Zhong Jun Li (Non-Executive Director)

Review of Operations

For the six months ended 30 June 2013 the consolidated profit after tax from continuing operations was \$1,447,520 (six months to 30 June 2012: loss of \$5,431,982).

Corporate

The thirtieth annual general meeting of the Company was held on 17 May 2013. One of the shareholder resolutions passed at that meeting was the disposal of the Company's 53% interest in the registered capital of Henan Keweier Alloy Materials Co. Ltd (HNKWE) to Zhonghui International Trade Co., Ltd. The Company has already ceded control of HNKWE to Zhonghui International Trade Co., Ltd. The process of achieving legal disposal is now underway but is expected to take some time to complete.

Board Committees have been recently reconstituted and as at the date of this report the composition of the committees is as follows.

Remuneration Committee

Chairman: Robert Kaye (Independent Director) (Replacing Günter Franke)
Robert Shaw (Independent Director)
Li Zhongjun (Non-Executive Director)

Finance, Audit Committee

Chairman: Robert Shaw (Independent Director)
Robert Kaye (Independent Director) (Replacing Günter Franke)
Xie Kangmin (Non-Executive Director)

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

The following recommendations are made under the above guidelines.

	31 Dec 2012	30 Jun 2013
Recommendation 2.2 The chair should be an independent director	Not satisfied	Not satisfied
Recommendation 2.3: The roles of chair and chief executive officer should not be exercised by the same individual.	Not satisfied	Not satisfied
Recommendation 2.4: The board should establish a nomination committee.		
Recommendation 3.2 Companies should establish a policy concerning (employment) diversity.	Not satisfied	Not satisfied
Recommendation 3.3 Disclose measurable objectives for achieving gender diversity	Not satisfied	Not satisfied
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	Not satisfied	Satisfied
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.	Not satisfied	Satisfied

Magontec is a capital constrained company in the process of re-working its business strategy as it heads to its goal of building a profitable global magnesium products manufacturing and distribution business. There is a small team of core executives whose primary business tasks are the successful commercialisation of the Group’s proprietary technologies and intense management of the Group’s magnesium alloy production facilities within the constraint of limited funding.

The board is highly cognisant of its fiduciary and corporate governance responsibilities to shareholders. The current corporate governance practices have been undertaken after judiciously balancing the allocation of resources to corporate governance and the primary business tasks.

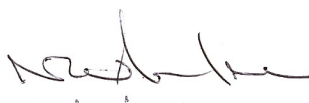
Auditor’s Independence Declaration

A copy of the Auditor’s Independence Declaration as required by S307C of the Corporations Act 2001 is set out on page 14.

Rounding of Amounts

The Company has rounded off amounts in the Directors’ Report and Financial Statements to the nearest thousand dollars in accordance with ASIC class order 98/100.

This Report is made in accordance with a resolution of the Directors.



Nicholas Andrews
Executive Chairman

Executive Chairman's Report

For the six months to 30 June 2013 Magontec recorded an Interim Net Profit After Tax (NPAT) of \$1.4 million on revenue of \$61.1 million.

The result reflects the impact of changes in foreign exchange rates, a sharp improvement in Gross Profit (+33%) and a continuing high level of expenditure on the final stages of restructuring in Europe and China.

In the table below we show the "one-off" charges that were taken through the last six months and the adjusted Interim NPAT reflecting profitability in the underlying operations. This calculation excludes the impact of foreign exchange adjustments.

The adjusted Interim NPAT was -\$0.034 million and cash generated from underlying operations is \$0.726 million.

As at 30 June 2013 Net Tangible Assets per share were 3.043 cents.

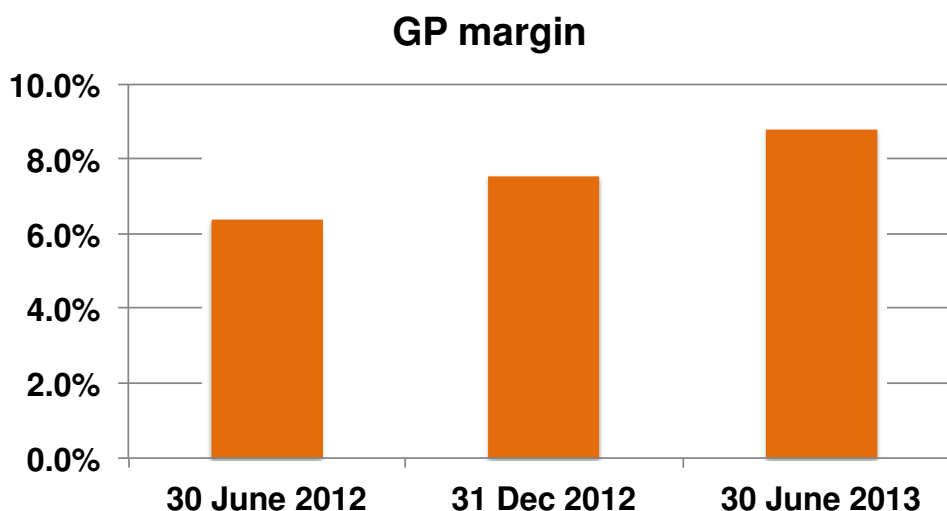
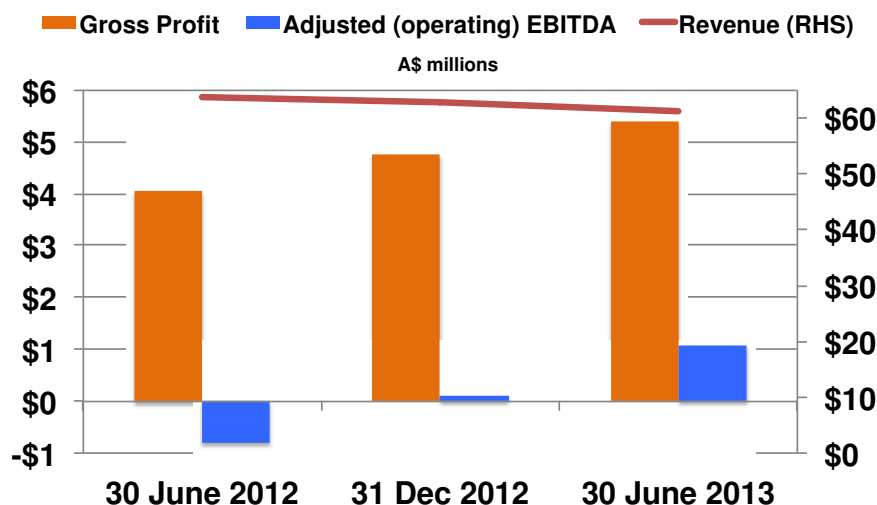
The table immediately below eliminates from the reported half year result the unrealised foreign exchange gains and the "one-off" strategic restructuring expenditure incurred in the half year. The resultant adjusted net operating loss is \$33,959 and the implied cash generated from operations is positive \$726,239 (refer second column in the table below).

	Result Including "One Off" Strategic Expenditure	Result Excluding "One-Off" Strategic Expenditure
NPAT	\$1,437,513	\$1,437,513
Less Foreign exchange gain	(\$2,172,231)	(\$2,172,231)
Net operating loss after Foreign exchange gain	(\$734,718)	(\$734,718)
Add back European restructuring expenses ⁽¹⁾		\$488,505
Add back write off of VHL tax benefit		\$112,254
Add back PRC (China) restructuring expenses ⁽²⁾		\$100,000
Net operating loss after adjustments	(\$734,718)	(\$33,959)
Add back depreciation	\$760,198	\$760,198
Approximate cash generated from underlying operations	\$25,480	\$726,239

Note 1. Closure and re-location to Romania of all European magnesium anode manufacturing activities, the commencement of magnesium alloy recycling in Romania and the introduction of process initiatives and inventory reduction at Bottrop (Germany).

Note 2. The relocation of magnesium anode manufacturing within Xian and costs associated with the relocation of primary magnesium alloy manufacturing from Xian to a new location in Shanxi Province.

Compared to the previous corresponding period (six months to 30 June 2012) the Interim result reflects a continued rise in Gross Profit margins, further declines in interest and personnel costs and a significant drop in corporate expenses. The charts below show the improvement in EBITDA (excluding non-operating items of foreign exchange and asset impairment charges) and the improvement in actual Gross Profit and Gross Profit margin on Revenue over the last three quarters.



Changes in currency values have had a profound impact on the Interim result in 2013. Magontec is a company that conducts all of its operating activities outside of Australia and holds most of its assets and liabilities in Euros, Chinese RMB and Romanian New Lei (RON). In the period under review the Australian dollar declined 11% against the Euro, 14% against the RMB and 10% against the RON. These effects increased both the NPAT result (via unrealised foreign currency gains) and the Comprehensive Income result (via increases in the AUD value of foreign currency equity investments). The Total Comprehensive Income of A\$2.7m reflects the impact of the currency re-adjustments that have taken place in the six months to 30 June 2013.

Profitability in the first half, adjusted for “one-off” restructuring expenditure and foreign exchange effects, reflects the “work in progress” nature of much of the Magontec business over the last 18 months. Management have focussed on restructuring the business and preparing production and marketing assets to take advantage of the excellent growth prospects in the magnesium industry. The financial impact of these efforts is expected to emerge through the second half of 2013 and into 2014.

Operational Overview

While foreign exchange adjustments relative to the Australian dollar will likely continue to be a feature of the Magontec business, the underlying operating business remains the focus of attention. As we discussed in our operating reviews at 31 March 2013 and the 6 months to 31 December 2012, the company has undertaken a wide-ranging restructuring of its operations in the last year. In Europe this has included the closure and re-location to Romania of all European magnesium anode manufacturing activities, the commencement of magnesium alloy recycling in Romania and the introduction of process initiatives and inventory reduction at Magontec's Bottrop (Germany) recycling facility to improve efficiency and profitability. In the PRC it has involved the relocation of magnesium anode manufacturing within Xian and the relocation of primary magnesium alloy manufacturing from Xian to a new location in Shanxi Province.

Each of these actions has generated a cost to the business through the changeover period. Through the last quarter and into the current quarter the positive financial impact from these actions is beginning to emerge. This is reflected in an improvement in Gross Profit (dollars and margin) on lower overall sales in the period under review. As we move through the second half of the 2013 Financial Year the declining burden of restructuring costs and the rising impact of efficiencies is expected to further improve group profitability.

Operations - China

In the last few months we have agreed a change to the structure of our Shanxi primary magnesium alloy manufacturing business. This venture was established in July 2012 as a 30:70 joint venture (MGL 70%) with the owner of the facility and supplier of pure magnesium, Dongfang Industries (30%). While the joint venture structure remains, the agreement has been changed so that Magontec is entitled to 100% of the prior and future Profit and Loss results. We continue to receive pure magnesium crowns under a formula related to the Chinese market price as per the original agreement.

Over the 12 months period since Magontec assumed management control of the Shanxi facility we have pursued a fast track qualification process so that our export and domestic customers can accept material from this facility. The company has had to outlay capital in the short term to bring the facility up to a standard of production and safety acceptable to Magontec and its customers, impacting profitability in 2013. To date Magontec has received qualification sign-off from the majority of its customers and expects to have sign-off from its remaining customers by the end of September this year.

Magontec's more established Chinese businesses continue to gather momentum. The recycling plant at Suzhou, which commenced operations in 2011, is now generating good and sustainable profitability. The reduced capacity alloy facility in Xian, now largely focussed on specialist alloy products, is achieving modest levels of profitability as generic alloy product increasingly shifts to the Shanxi plant. In the second half of this year a significant reduction in Xian employee levels associated with this shift is expected to further improve profitability. The Chinese magnesium anode business, now relocated to our wholly owned site at Xian, is in the middle of an automation upgrade to increase competitiveness in a challenging market.

Operations – Europe

Magontec's Romanian activities continue to grow. Our magnesium die casting customers are also relocating to lower labour-cost locations in Eastern Europe and seeking to access the benefits of our efficient new facility. Magontec's new magnesium alloy recycling facility will reach full capacity in August 2013. We are also in the process of reassembling our magnesium anode equipment at the same plant. The Romanian facility is located on a wholly owned five-hectare plot and offers Magontec the flexibility to further grow its magnesium activities.

In Germany the Bottrop alloy recycling facility has worked through a number of issues in the last 12 months to lower its cost base and improve competitiveness. At 30 June 2012 the company had a stockpile of some 2,000 tonnes of scrap accumulated over a period of many years and

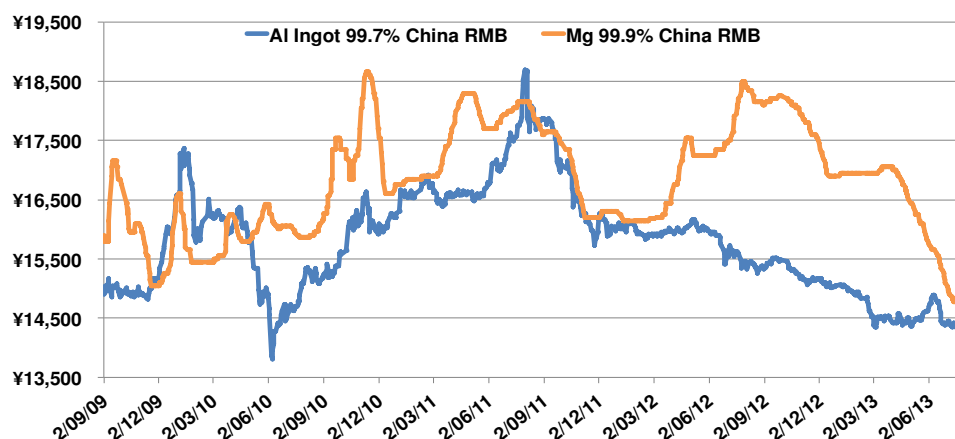
stored at an offsite location. This stockpile has now been eliminated, reducing carrying costs but adding to processing costs through the period. Together with the introduction of improved metal handling processes, these actions are expected to further improve the cost base of the Bottrop factory in the coming months.

Operations - Safety

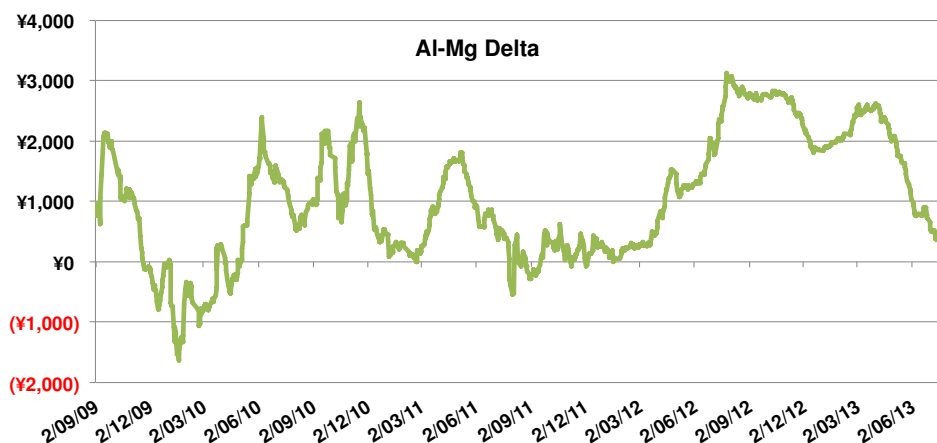
Magontec continues to take the safety of its employees very seriously at all of its manufacturing locations. Handling molten magnesium metal requires strict attention to safety procedures by senior management and workshop operatives. Over the last 12 months a considerable effort has been expended in bringing the Shanxi facility up to an acceptable standard. Through the six-month period to 30 June the company experienced one lost-time injury in the Bottrop factory in February.

Market summary

Over the last seven months the price of magnesium has fallen from ¥17,250 on 1 January to ¥15,300 at the beginning of August, tracking the decline of other non-ferrous metals. This decline does not significantly impact Magontec profitability because we buy pure magnesium and convert it to magnesium alloy passing price changes through to the customer. Having said this it is difficult to hedge magnesium alloy contracts and booking forward volumes on today's prices holds some metal price risk.



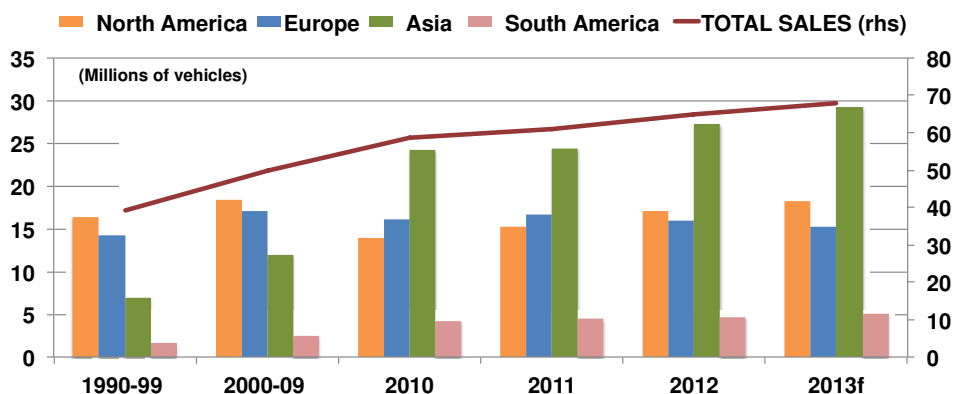
There are other influences from this price change that are generally positive for Magontec. The premium of magnesium over aluminium has fallen to its lowest level since March 2012. Aluminium is a principal competitor metal for automotive die cast applications and the lower the premium the greater the attraction of magnesium versus aluminium.



In past commentaries we have discussed the complexities of dealing in a market in which all participants do not operate under the same pricing constraints. This remains the case for the broader magnesium market. A large proportion of magnesium alloy exports to Europe and North America have continued to discount pure magnesium prices *below* the price of pure magnesium. The termination of the 10% Chinese export tax in January 2013 and greater attention from Chinese and European authorities to the declared tax base of the most discounted magnesium alloy exports is beginning to engender a slow improvement in general market conditions.

The automotive market is the principal destination for magnesium alloys consuming around 80% of annual production. Global trends in automotive sales remain positive showing a continuing rebound from post-GFC lows (forecast to be up ~16% on 2010 by the end of this calendar year).

In 2013 total global vehicle sales are expected to rise to 67 – 68 million units, up from 65 million in 2012. This rising trend is driven by strong growth in the USA over the last 3 years and continuing growth in Asia where vehicle sales are expected to top 29 million this year. Only in Europe are sales expected to be lower in 2013 than in 2012 (down around 4.5%).



Source: Scotiabank. Global Auto Report. 2 August 2013

Strong and continuing growth in global automotive sales augurs well for the future of magnesium alloy consumption. The critical market for magnesium alloys to date have been the more expensive marques but as fuel efficiency and CO₂ emission targets increasingly come into focus we expect to see growing use of magnesium alloy applications in all sectors of the global vehicle fleet. We expect the secular trend towards lightweight materials will be at least as important as organic growth within global automotive markets.

While there has been much discussion over many years focussing on the shift to lighter weight materials, our experience over the last 6 months suggests that this trend is gathering momentum. A number of major automotive manufacturers have announced switches from aluminium and iron to generic magnesium alloys for a variety of applications. At the same time interest in Magontec's specialist alloys has continued to grow. Through the second quarter we conducted a number of promising trials with leading OEMs and Tier 1 manufacturers in Europe, focussing on powertrain and other high-temperature applications.

Conditions in the magnesium anodes market have been varied with Chinese customers continuing to favour lower quality products and northern European economies experiencing a small rebound. Magontec continues to invest in anode technologies and this has assisted in building shares in markets that are seeking improved and more comprehensive products in the water heater and water treatment markets. There are early signs that the higher-end water heater markets in Asia will begin to follow trends in European and North American markets towards more complex cathodic corrosion protection solutions, a market segment in which Magontec is uniquely well positioned.

Research & Development

In our last note to Magontec shareholders in April this year we discussed the re-structure of our research partner CAST. This is now taking shape under the leadership of Swinburne University's Research & Development department. Having access to an experienced group of scientists familiar with our company, markets and products is a great benefit for Magontec. In the last quarter Magontec, together with other institutions associated with CAST, were awarded a significant new Australian Research Council grant to undertake further research into high temperature alloys.

Since the acquisition of the Magontec assets (by the former Advanced Magnesium Limited in 2011, prior to its name change to Magontec Limited), the new combination of market reach (from Magontec) and research depth (from Australian universities), associated with our company's past Australian projects, has proved extremely fruitful and we look forward to further progress on this front over the coming years.

In addition to magnesium alloy research Magontec also employs a group of scientists and technologists in Germany. Their principal focus is on anodes and other products for the water heater industry. The water heater and water treatment industries are rapidly transforming sectors as consumers move to more sophisticated and efficient products. Magontec has a high global market share in this sector and is extremely well placed to provide technology solutions to companies seeking to exploit growing worldwide demand for water purity and water heater efficiency.

The water heater and water treatment markets, particularly Western markets, provide Magontec with a down-stream and value-adding opportunity for magnesium alloys produced by our own manufacturing facilities. Combined with an improved cost base, following the relocation of our manufacturing activities from Germany to Romania, we expect to see further improvements in profitability from this division.

Qinghai – magnesium alloy cast house project

Magontec's new project at Qinghai continues to move forward. The construction of the transformer and electrolytic cell housing is well under way. The Qinghai Salt Lake Magnesium Co Ltd (QSLM), Magontec's partner in the magnesium alloy cast house project and a 27% shareholder in Magontec Limited, expect the cast house to be completed by the end of this calendar year and ready for installation in the first quarter of 2014.

The Qinghai industry project is one of the largest construction sites in the China with over 10,000 workers on-site through this northern summer. The complexities of the project have encouraged Magontec to be cautious about the production date of first metal. The project management team within QSLM remain committed to a 2014 commencement date for the start-up of the electrolytic smelter. For planning purposes management has assumed that the cast house will be producing commercial quantities of magnesium alloy in the following year.

This project, on completion, is expected to transform the global markets for magnesium including magnesium alloys. Magontec has an exclusive agreement with QSLM under which we will be the only magnesium alloy manufacturer to be located on site next to the new electrolytic smelter and able to take liquid magnesium directly into its alloying furnaces.

Magontec and QSLM management teams are currently working together to finalise agreements foreshadowed in the Cooperation Agreement last year. These subsidiary agreements will detail the operational management of the magnesium alloy cast house, the off-take price under which Magontec will purchase raw material from QSLM and the basis upon which Magontec will lease land and buildings at the Golmud site. Each of these agreements was outlined in the Cooperation Agreement in June 2012.

Transformer building (adjacent to cell house)



Electrolytic cell housing



The size of the project (initially 100,000 mt per annum) and the environmental attributes of the magnesium alloy product (a CO₂ footprint well below the current global installed production base) are keenly anticipated by the worlds largest magnesium die cast application manufacturers in the automotive, powertool and electronics industries.

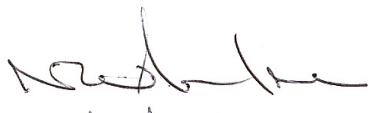
Outlook

With the bulk of our restructuring program now completed in Europe and China, on time and below budget, and a stable primary alloy production facility in Shanxi Province, we anticipate an improving underlying operating result through the second half of 2013. The market for magnesium alloy is relatively small and Chinese manufacturers, who dominate the international trade in these products, enjoy a very variable cost base. This makes forecasting a difficult task. Nonetheless Magontec has now re-established itself on a competitive cost base in Asia and Europe and has a number of opportunities to grow in the North American alloy and anodes markets.

In the coming period we can now concentrate on growing volumes and further improving efficiencies. In the 4th quarter of 2013 we expect to start delivering a new variant of Magontec's proprietary AE44 alloy, we will consider an expansion option for the Romanian recycling business and will commence production of our proprietary magnesium zirconium master alloy for customers in Europe and North America.

In the anodes business, in addition to transforming our European cost base, we are undertaking other initiatives to minimise supplier risk and develop new sales channels. Magontec is currently a supplier of anodes to OEMs and Tier 1 manufacturers. The replacement industry and wholesale channels offer an opportunity to further increase volumes and reduce dependence on new installation markets; an initiative that we will be pursuing over the next 12 months with a more competitively priced product.

Magontec is unique among magnesium industry participants in that it operates at all levels of the magnesium alloy production and distribution industry, in every market and in the downstream magnesium market of cathodic corrosion protection. Our company has significant technologies and growth opportunities in both of its core activities; magnesium alloys and the water heater and treatment industry. As the automotive industry accelerates a shift to magnesium applications and the water heating and treatment industry continues to look for solutions to purity and efficiency issues, Magontec is well positioned to supply both sectors with innovative and competitive products.

A handwritten signature in dark ink, appearing to read 'Nic Andrews', with a stylized flourish at the end.

Nic Andrews
Executive Chairman
21 August 2013



AUDITOR'S INDEPENDENCE DECLARATION

We hereby declare, that to the best of our knowledge and belief, during the half-year ended 30 June 2013 there have been:

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

Camphin Boston
Chartered Accountants

A handwritten signature in black ink that reads "J Woods".

Justin Woods
Partner

L9, 5 Elizabeth Street Sydney

28th August 2013



REVIEW REPORT TO THE MEMBERS OF MAGONTEC LIMITED

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Magontec Limited and Controlled Entities, which comprises the consolidated balance sheet as at 30 June 2013, consolidated comprehensive income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of Magontec Limited are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described below, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and its performance for the half-year on that date; and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Magontec Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of Magontec Limited would be in the same terms if provided to the directors as at the date of this auditor's review report.



REVIEW REPORT TO THE MEMBERS OF MAGONTEC LIMITED (cont)

Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Future Capital Commitments

Without qualifying our opinion, we draw attention to Note 5 on page 26 of the financial report. The cash balances of the company and cash flow generated from operations over the past six months, assuming they are indicative of future cash flows from operations, indicate that funds may need to be raised through additional borrowings and/or additional capital within the next twelve months to meet expected future capital works disclosed in Note 5.

Camphin Boston
Chartered Accountants

Justin Woods
Partner

Level 9, 5 Elizabeth Street, Sydney NSW 2000

Dated: 28 August 2013

DIRECTORS' DECLARATION

The Directors declare that:

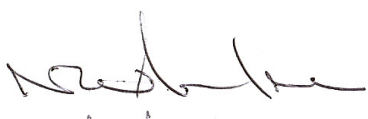
- a) in the Director's opinion, there are reasonable grounds, on the basis of, -
 - a. an improving NPAT;
 - b. after adjusting actual NPAT for re-structuring costs, foreign exchange gains and depreciation, the Company is showing an underlying positive operational cash flow;
 - c. forward estimates indicating continued improvement in NPAT;
 - d. availability of undrawn debt facilities of about \$1.4m;
 - e. likely further funding available on 4 Jan 14 from options conversions; and
 - f. plans and project opportunities currently in an advanced state of development

to believe that there is no intention or necessity to close the current operations or cease trading within twelve months from the date of this report;

- b) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- c) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.
- d) 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 pursuant to s. 303(5) of the Corporations Act 2001.

On behalf of the Directors



Nicholas Andrews
Executive Chairman

Sydney, 28 August 2013

CONDENSED CONSOLIDATED COMPREHENSIVE INCOME STATEMENT
for the Half-Year Ended 30 June 2013

	Note	6 months Ended 30 Jun 2013 \$'000	6 months Ended 30 Jun 2012 \$'000
Sale of goods	4a & b	61,100	63,666
Cost of sales	4a & c	(55,722)	(59,618)
Gross profit		5,378	4,048
Other Income	10	465	1,128
Interest Expense		(475)	(1,689)
Impairment of inventory, receivables & other financial assets		(144)	(3,392)
Travel accommodation and meals		(286)	(420)
Research, development, licensing and patent costs		(456)	(359)
Promotional activity		(36)	(89)
Information technology		(201)	0
Personnel		(2,393)	(3,120)
Depreciation & Amortisation		(760)	(781)
Office Expenses		(100)	(278)
Corporate		(1,297)	(1,709)
Foreign exchange gain/(loss)		2,172	(170)
Profit/(Loss) from continuing operations before tax		1,867	(6,833)
Income tax (expense)/benefit		(420)	1,401
Profit/(Loss) from continuing operations after tax		1,448	(5,432)
Loss after income tax expense from discontinued operations		(10)	(26)
Profit/(Loss) after income tax expense including discontinued operations		1,438	(5,458)
Other Comprehensive Income - that may later emerge in the Profit and Loss Statement			
Exchange differences taken to reserves in equity – translation of overseas entities		1,225	(510)
Other Comprehensive Income - that will not emerge in the Profit and Loss Statement			
Movement in various actuarial assessments		53	(262)
Total Comprehensive Income		2,716	(6,231)
Profit/(Loss) after income tax expense for the year (including discontinued operations) attributable to			
Minority interests		0	(1,220)
Members of the parent entity		1,438	(4,238)
Total Profit/(Loss) after income tax expense for the year (including discontinued operations)		1,438	(5,458)
Comprehensive Income for the year attributable to			
Minority interests		0	(1,162)
Members of the parent entity		2,716	(5,069)
Total Comprehensive Income for the year		2,716	(6,231)

		6 months Ended 30 Jun 2013	6 months Ended 30 Jun 2012
Earnings/(Loss) per share from continued and discontinued operations:			
Basic (cents per share)	9	0.223	(1.138)
Diluted (cents per share)	9	0.118	(1.138)
Earnings/(Loss) per share from continuing operations			
Basic (cents per share)		0.224	(1.188)
Diluted (cents per share)		0.119	(1.188)

Notes to the financial statements are included on pages 23 to 30.

CONDENSED CONSOLIDATED BALANCE SHEET
as at 30 June 2013

	Note	30-Jun-13 \$'000	31-Dec-12 \$'000
Current Assets			
Cash and cash equivalents	7	6,259	13,540
Trade and other receivables	11	23,752	22,991
Inventories		22,927	25,727
Other		425	125
Total Current Assets		53,362	62,382
Non-Current Assets			
Other Receivables		369	476
Property, plant and equipment		15,673	14,001
Future Income Tax Benefit		1,210	1,643
Intangibles ⁽¹⁾		3,182	3,187
Total Non-Current Assets		20,435	19,306
Total Assets		73,798	81,687
Current Liabilities			
Trade and other payables		17,302	19,804
Borrowings	14	15,144	21,030
Borrowings from/payables to related parties		-	49
Provisions		1,611	2,704
Total Current Liabilities		34,057	43,586
Non-Current Liabilities			
Provisions		7,740	6,826
Owing to Straits Mine Management Pty Ltd	14	8,968	10,968
Total Non-Current Liabilities		16,708	17,794
Total Liabilities		50,765	61,380
Net Assets		23,033	20,307
Equity attributable to members of MGL			
Issued capital	6	44,931	44,915
Reserves	12	4,228	2,950
Accumulated Losses		(26,587)	(28,023)
Equity attributable to minority interests			
Issued capital	6	463	455
Reserves	12	-	-
Accumulated Losses		(2)	2
Total Equity		23,033	20,307

(1) Includes patents in relation to "Correx" and AE44

Notes to the financial statements are included on pages 23 to 30.

STATEMENT OF CHANGES IN EQUITY
for the Half-Year Ended 30 June 2013

Consolidated Entity	Share Capital		Retained Earnings	Foreign Currency Translation Reserve	Capital Reserve	Actuarial Reserve	Expired Options Reserve	Minority Interests	Total Equity
	Ordinary	Options Valuation							
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 31 Dec 2011	31,792	26	(24,414)	(254)	2,756	(358)	1,611	1,675	12,834
HNKWE deconsolidation	-	-	(310)	316	(6)	-	-	(513)	(513)
Profit/(Loss) attributable to members of parent entity	-	-	(4,238)	-	-	-	-	(1,301)	(5,540)
Profit/(Loss) attributable to minority interests	-	-	-	-	-	-	-	81	81
Comprehensive income	-	-	-	(569)	-	(262)	-	59	(772)
Expired Options	-	(2)	-	-	-	-	2	-	-
Issue of shares	2,018	-	-	-	-	-	-	-	2,018
Minority share capital	-	-	-	-	-	-	-	2	2
Balance at 30 June 12	33,810	25	(28,962)	(506)	2,750	(621)	1,612	2	8,110
Balance at 31 Dec 2012	44,890	25	(28,023)	(186)	2,750	(1,226)	1,612	465	20,307
Profit/(Loss) current year	-	-	1,438	-	-	-	-	-	1,438
Adjustment for prior year Profit/(Loss)	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Comprehensive income	-	-	-	1,225	-	53	-	-	1,278
Expired options	-	-	-	-	-	-	-	-	-
Issue of shares	15	-	-	-	-	-	-	-	15
Transfer retained earnings to MGL members(1)	-	-	2	-	-	-	-	(2)	-
Adjustment to value of minority interest equity	-	-	-	-	-	-	-	(2)	(1)
Adjustment to opening balance	-	-	(3)	-	-	-	-	-	(3)
Minority share capital	-	-	-	-	-	-	-	-	-
Balance at 30-Jun-13	44,906	25	(26,587)	1,040	2,750	(1,173)	1,612	461	23,033

Notes

1. Transfer minority Interest in retained earnings of Magontec Shanxi Company Limited to MGL members following capital re-organisation. Refer Executive Chairman's Report under heading "Operations – China".

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
for the Half-Year Ended 30 June 2013

		6 months Ended 30 June 2013	6 months Ended 30 June 2012
	Note	Inflows/ (Outflows) \$'000	Inflows/ (Outflows) \$,000
Cash Flows from Operating Activities			
Receipts from customers		62,679	59,885
Payments to suppliers and employees		(61,330)	(64,782)
Interest received		219	137
Interest expense		(475)	(1,654)
Taxation		(211)	-
Net cash (used)/generated in operating activities	13	882	(6,414)
Cash Flows From Investing Activities			
Cash given up on disposal of HNKWE		-	(5,942)
Loan to KWE(HK)		-	(91)
Movement in security deposits		106	(25)
Payment for property, plant & equipment		(342)	(175)
Group Information Technology software		(9)	(390)
Other		-	-
Net Cash provided by/(used in) Investing Activities	13	(245)	(6,623)
Cash Flows from Financing Activities			
Loans from/ (repayments to) related parties		(49)	1,800
Principal reduction on debt owing to Straits Mine Management Pty Ltd		(2,000)	-
Bank Loans to Magontec wholly owned subsidiaries		(5,886)	6,765
Bank Loans to HNKWE disposed subsidiary		-	48
Net capital raised from issue of the Company's shares		16	1,962
New equity in Magontec Shanxi Company Limited joint venture		-	2
Net Cash provided by Financing Activities	13	(7,919)	10,577
Net Decrease in Cash and cash equivalents		(7,281)	(2,462)
Cash and cash equivalents at the beginning of the half-year		13,540	7,237
Cash and cash equivalents at the end of the half-year	7	6,259	4,775

Notes to the financial statements are included on pages 23 to 30.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS for the Half-Year Ended 30 June 2013

1. Summary of Accounting Policies

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. The half-year financial report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the annual report for 31 December 2012.

Basis of preparation

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

The accounting policies and methods of computation adopted in the preparation of the 30 June 2013 half-year financial report are consistent with those adopted and disclosed in the Company's 2012 annual financial report for the financial year ended 31 December 2012..

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

2. Significant Transactions and Material Items

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

2.1 Call Options for the Issue of the Company's Shares

The options on issue as at the reporting date are as follows.

	No. of Options	Expiry Date
Unlisted employee options ⁽²⁾	1,300,000	16 Aug 2013
Listed Options	440,232,652	3 January 2014
Unlisted options in Con Loan Note No. 1 issued to SMM ⁽¹⁾	61,237,218	1 July 2014
Unlisted options in Con Loan Note No. 2 issued to SMM ⁽¹⁾	<u>70,418,833</u>	28 November 2015
	573,188,703	

Notes

1. Straits Mine Management Pty Limited

2. All expired on 16 August 2013 unexercised

2.2 Income Tax Expense/Benefit

Tax losses previously disclosed in the 31 December 2012 Annual Report encompass Magontec Limited and its Australian controlled entities. The tax benefit corresponding to these losses is not recognised as an asset in the accounts. Income taxes incurred in foreign jurisdictions are not sheltered by these Australian tax losses and are governed by relevant tax legislation as applicable.

3. Dividends

No dividend was declared or recommended during the 6 months ended 30 June 2013 (6 months ended 30 June 2012: no dividend declared or recommended). The balance of the franking account at 30 June 2013 is \$nil (30 June 2012: \$nil).

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont)
for the Half-Year Ended 30 June 2013

4a Segment Information

The consolidated entity's activities are focused on operating activities in the Company's wholly owned subsidiaries.

	6 months ended 30 Jun 2013 \$'000 CORPORATE / HEAD OFFICE	6 months ended 30 Jun 2013 \$'000 OPERATING UNITS	6 months ended 30 Jun 2013 \$'000 TOTAL	6 months ended 30 Jun 2012 \$'000 CORPORATE/ HEAD OFFICE	6 months ended 30 Jun 2012 \$'000 OPERATING UNITS	6 months ended 30 Jun 2012 \$'000 TOTAL
Sale of goods (Refer reconciliation at 4b)	1,934	83,689	85,623	35	75,348	75,383
Cost of sales (Refer reconciliation at 4c)	(1,510)	(78,736)	(80,245)	-	(71,327)	(71,327)
Other Income	94	371	465	(198)	1,328	1,129
Unrealised foreign exchange gain/loss	1,722	450	2,172	399	(554)	(155)
Operating expenses excluding interest, taxation, depreciation and amortisation	(776)	(4,147)	(4,923)	(984)	(8,434)	(9,419)
EBITDA⁽¹⁾	1,465	1,627	3,092	(748)	(3,639)	(4,387)
Interest Expense		(475)	(475)	(431)	(1,258)	(1,689)
Depreciation and amortisation	(1)	(759)	(760)	(10)	(773)	(783)
Profit/(Loss) before income tax expense	1,464	393	1,857	(1,190)	(5,669)	(6,859)
Income tax expense/reimbursement	(112)	(307)	(420)	-	1,401	1,401
Profit/(Loss) after income tax expense including discontinued operations	1,352	85	1,438	(1,190)	(4,269)	(5,458)
Other Comprehensive Income						
Movement in various actuarial assessments	-	53	53	-	(262)	(262)
Exchange differences taken to reserves in equity – translation of overseas entities	37	1,188	1,225	-	(510)	(510)
Total Comprehensive Income/(Loss) for the year	1,389	1,326	2,716	(1,190)	(5,041)	(6,231)

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(cont) for the Half-Year Ended 30 June 2013

4b Segment Sales Revenue reconciliation to the statement of comprehensive income

	6 months to 30-Jun-2013 \$'000	6 months to 30-Jun-2012 \$'000
Corporate/ Head Office	1,934	35
Other Operating Units	83,689	75,333
Total segment sales revenue	85,623	75,383
Less Inter-company sales eliminated in comprehensive income statement	(24,523)	(11,717)
Total external sales revenue	61,100	63,666

4c Segment Cost of Sales reconciliation to the statement of comprehensive income

	6 months to 30-Jun- 2013 \$'000	6 months to 30-Jun-2012 \$'000
Corporate/ Head Office	(1,510)	-
Other Operating Units	(78,736)	(71,327)
Total Segment Cost of Sales	(80,245)	(71,327)
Add Inter-company Purchases eliminated in comprehensive income statement	24,523	11,709
Total external Cost of Sales	(55,722)	(59,618)

5. Contingent Asset and Liabilities

Contingent assets and liabilities remain unchanged from those disclosed in the Annual Report at 31 December 2012.

The Company is contractually committed to install plant and equipment at the proposed alloy cast house in Golmud Qinghai province PRC at an estimated cost of USD10.5m. The capital expenditure is expected to be funded from a combination of –

- cash on hand;
- cash generated from operations;
- existing undrawn debt facilities;
- new debt facilities currently under negotiation; and
- proceeds of options conversion falling due on 3 January 2014.

The only expenditure incurred to date is initial development costs of about \$150,000

6. Share Capital

	30 June 2013 \$,000	31 Dec 2012 \$,000
Opening balance	33,971	33,810
Capital subscribed to Nov 2012 rights issue ⁽¹⁾	11,025	-
Capital subscribed under conversion of options connected with Nov 2012 rights issue	16	-
Balance of amount due from Qinghai Salt Lake Magnesium Limited	-	53
Transaction costs on issue of shares	(358)	-
Ordinary shares issued to employees	65	106
Share capital on issued ordinary shares 652,486,669 (2012: 428,097,560)	44,718	33,971
Plus value of shares yet to be issued to Mr Guenter Franke ⁽²⁾	188	252
Plus net amount (ie after costs) subscribed to rights/options issue for which shares are to be issued	-	10,667
Plus ESOP options expiring 16 August 2013 ⁽³⁾	25	24
Share capital attributable to members of MGL	44,931	44,915
Share capital attributable to minority interest	463	463
Total share capital	45,394	45,378

(1) Capital subscribed to the Nov 2012 rights issue for which shares were issued post balance sheet date.

(2) Balance of shares to be issued to Guenter Franke upon his retirement (28 February 2013) in terms of entitlement under Resolution 8(b) of the Company's 2011 AGM held 22 Nov 2011

(3) Options issued on 16 August 2010 under the Employee Share Option Plan. The options vested on 16 February 2012 and expire on 16 August 2013.

7. Reconciliation of Cash

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

	30 June 2013 \$'000	31 Dec 2012 \$'000
Cash on hand and at bank	6,259	13,540
Total cash at end of period	6,259	13,540

8. Events subsequent to balance date

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

9. Calculation of Earnings/(Loss) Per Share Including Discontinued Operations

		Half-Year Ended 30 Jun 2013	Half-Year Ended 30 Jun 2012
Earning/(Loss) per share:			
Profit/(Loss) attributable to members of the parent entity including discontinued operations	1	1,437,513	(4,238,432)
Average shares on issue for the period	2	644,933,399	372,313,220
Total vested options (Refer Note 2.1)	3	573,188,703	1,380,000
Basic Earnings/(Loss) per share (cents per share)	$1 \div 2 \times 100$	0.223	(1.138)
Diluted Earnings/(Loss) per share (cents per share)	$1 \div (2 + 3) \times 100$	0.118	(1.138)

10. Other income

	Half-Year Ended 30 Jun 2013 \$'000	Half-Year Ended 30 Jun 2012 \$'000
Interest revenue	219	137
Government grant to HNKWE	-	478
Profit on sale of HNKWE	-	6
Unclaimed overpayment taken to income beyond statute of limitations	-	287
Reversal of provisions	-	120
Prior year income	40	-
Gain on disposal of fixed asset	38	-
Other	168	100
Total	465	1,128

11. TRADE AND OTHER RECEIVABLES

	30 June 2013 \$'000	31 Dec 2012 \$'000
Trade receivables	20,660	20,071
Allowance for doubtful debts	-	-
	20,660	20,071
Net GST/VAT recoverable	7	539
Security deposits	579	598
Derivatives fair value adjustment	65	34
Owing by KWE(HK)	1,612	1,612
Other receivables due to operating entities	736	-
Other	94	136
	3,093	2,919
Total	23,752	22,991

12. Reserves

	30 June 2013 \$'000	31 Dec 2012 \$,000
Capital reserve		
Balance at beginning of financial year	2,750	2,750
Balance at end of period	2,750	2,750
Foreign currency translation reserve		
Balance at beginning of financial year	(186)	(506)
Movement in VHL Consolidated accounts	1,217	320
Translation of foreign operations - other than VHL	9	-
Balance at end of period	1,040	(186)
Actuarial reserve		
Balance at beginning of financial year	(1,226)	(621)
Deferred tax assets	(26)	298
Employee pensions	-	(904)
Derivatives	79	-
Balance at end of period	(1,173)	(1,227)
Expired Options Reserve		
Balance at beginning of financial year	1,612	1,612
ESOP options expiry		
Balance at end of period	1,612	1,612
Total reserves	4,228	2,950
Reserves attributable to minority interests	-	-
Reserves attributable to members of MGL	4,228	2,950
Total reserves	4,228	2,950

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

	Year To Date As Per Appendix 4C 30 June 2013 \$'000	Year To Date As Per This Report \$'000	Difference \$'000
Opening cash 1 January 2013	13,540	13,540	Nil
Net Cash used in Operating Activities	882	882	Nil
Net Cash provided by/(used in) Investing	(245)	(245)	Nil
Net Cash provided by Financing Activities	(7,919)	(7,919)	Nil
Ending cash 30 June 2013	6,259	6,259	Nil

14. Borrowings

Borrower	Due Date For Repayment/ Repayment Arrangements	Drawn	Facility Amount
Magontec Xian Limited	1 November 2013	\$2,709,093	\$2,709,093
Magontec GmbH	30 June 2014	\$12,434,910	\$13,840,353
Current Borrowings		\$15,144,003	\$16,549,446
Magontec Limited	Convertible Loan No.1 issued to Straits Mine Management Pty Ltd. Unless converted earlier, repayment is due no later than 1 July 2014.	\$3,368,047	\$3,368,047
Magontec Limited	Convertible Loan No.2 issued to Straits Mine Management Pty Ltd. Unless converted earlier, repayment is due no later than 29 November 2015.	\$3,500,000	\$3,500,000
Varomet Holdings Limited (VHL)	Loan owing to Straits Mine Management Pty Ltd. Repayment due 31 December 2014.	\$2,100,046	\$2,100,046
Non-Current Borrowings		\$8,968,093	\$8,968,093
Total Borrowings		\$24,112,096	\$25,517,539

SUPPLEMENTARY APPENDIX 4D INFORMATION

A. Further Details Relating to Dividends

Dividend		Date dividend Paid /payable	Amount per share ¢	Amount per share of foreign sourced dividend
				¢
Interim	FY 2013 Fully paid	Not Applicable	0.00	0.00
Final	FY 2013 Fully paid	Not Applicable	0.00	0.00

B. Net Tangible Assets Per Share

Net Tangible Assets Per Share⁽¹⁾

	30 June 2013 cents	31 Dec 2012 cents
Net tangible assets per share	3.043	3.999

Note (1) Net assets less intangible asset divided by the actual number of shares on issue at the reporting date multiplied by 100

C. Information on Audit or Review

This half-year report is based on accounts that have been subject to review by Camphin Boston. Their audit review is included in the financial statements.