# Appendix 4D

# Magontec Limited
# ASX Half-Year Report - 30 Jun 2014

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 twelve months ended 31 December 2013.

1 **Details of the reporting period and the previous corresponding period.**
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 2014:

| | | |
|---|---|---|
| **Statement of Financial Position:** | **This Report** | **Comparative Position** |
| At | 30-Jun-14 | 31-Dec-13 |
| **Statement of Comprehensive Income:** | | |
| 6 months ending | 30-Jun-14 | 30-Jun-13 |
| **Statement of Cash Flows:** | | |
| 6 months ending | 30-Jun-14 | 30-Jun-13 |
| **Statement of Changes in Equity:** | | |
| 6 months ending | 30-Jun-14 | 30-Jun-13 |

2 **Results for** Announcement to the Market

| | | | |
|---|---|---|---|
| | | **Percentage Change (against previous corresponding period)** | **Amount $** |
| 2.1 Revenue from ordinary activities. | Up | 9.48% | 66,889,746 |
| 2.2 Profit (loss) from ordinary activities after tax attributable to members[1]. | Down | (184.43%) | (1,213,748) |
| 2.3 Net profit (loss) for the period attributable to members[1]. | Down | (184.43%) | (1,213,748) |

*1. Including discontinued operations*

2.4 The amount per security and franked amount per security of final and interim dividends or a statement that it is not proposed to pay 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¢ |

2.5 The record date for determining entitlements to the dividends (if any). Not applicable

2.6 A brief explanation of any of the figures in 2.1 to 2.5 necessary to enable the figures to be understood.

The net loss after tax (including discontinued operations) of ($1,213,748) to 30 June 2014 includes an unrealised foreign exchange loss of ($698,246) - compared with a net profit after tax of $1,437,513 to 30 June 2013 and an unrealised foreign exchange gain of $1,989,231.

The financial statements for the 12 months ended 31 December 2013 have been re-stated in terms of AASB 101 . Full details are provided in the body of this report at page 19.

3 Net tangible assets per security with the comparative figure for the previous corresponding period.

| | | 30 Jun 2014 | 31 Dec 2013 |
|---|---|---|---|
| Gross Assets | | $77,427,061 | $81,167,950 |
| Less Gross Liabilities | | ($42,950,753) | ($47,935,620) |
| Net Assets as per balance sheet | | $34,476,308 | $33,232,331 |
| Less Intangible assets | | ($3,148,898) | ($3,254,560) |
| **Net Tangible Assets** | i | $31,327,409 | $29,977,771 |
| | | | |
| Number of ordinary shares on issue at reporting date | ii | 1,115,043,832 | 813,588,666 |
| | | | |
| Number of ordinary shares on issue at reporting date | | 1,115,043,832 | 813,588,666 |
| Plus vested options on issue at reporting date(1) | | 0 | 413,226,929 |
| Number of securities on issue at reporting date | iii | 1,115,043,832 | 1,226,815,595 |
| | | | |
| Net tangible assets per share based on ii (expressed in cents) | i ÷ ii × 100 | 2.81 cents | 3.68 cents |
| Net tangible assets per share based on iii (expressed in cents) | i ÷ iii × 100 | 2.81 cents | 2.44 cents |

*In the annual report at at 31 December 2013, options on issue were stated to be 414,187,930.*

4 Details of entities over which control has been gained or lost during the period

4.1 Name of the entity. Not applicable

4.2 The date of the gain or loss of control. Not applicable

4.3 The contribution to profit from ordinary activities during the period Not applicable
The contribution to profit from ordinary activities during the whole of the previous corresponding period. Not applicable

5 Details of individual and total dividends or distributions and dividend or distribution payments. No dividend distribution

6 Details of any dividend or distribution reinvestment plans. Not applicable

7 Details of associates and joint venture entities.
Refer NOTE 4.1 under the heading 'CORPORATE STRUCTURE AS AT 30 June 2014' on page 29 of this report.

| **Joint Venture** | **Magontec Ltd Ownership Interest(1)** | **Joint Venture Partner** |
|---|---|---|
| Magontec Shanxi Co. Ltd. | 70.00% | ShanXi DongFang Resources Development Co.,Ltd |

*Note 1. The joint venture arrangements provide that Magontec Limited has a 100% interest in the Profit & Loss performance of the joint venture.*

8 For foreign entities, which set of accounting standards is used in compiling the report. Not applicable

9 Modified opinion, emphasis of matter or other matter paragraph in independent audit report or review. None

10 The tables in the following report may indicate apparent errors to the extent of one unit (being $1,000) in -

- the addition of items comprising total and sub totals; and
- the balances of items from the comparative financial accounts.

Such differences arise from the process of -

- converting foreign currency amounts to two decimals in AUD;
- subsequent rounding of the AUD amounts to $1,000; and
- the process of summing amounts rounded up or down to the nearest $1,000.

**CONDENSED FINANCIAL REPORT**
**for the Half-Year Ended 30 June 2014**


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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 2014. 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 Nicholas Andrews (Executive Chairman)
Mr Kang Min Xie (Non-Executive Director)
Mr Yong Li (Alternate Director to Mr Kang Min Xie) - appointed 29 May 2014
Mr Zhong Jun Li (Non-Executive Director)
Mr Robert Shaw (Independent Director)
Mr Robert Kaye (Independent Director)
Mr Andre Labuschagne (Non-Executive Director) - appointed 22 January 2014

**Review of Operations**

For the six months ended 30 June 2014 the consolidated (loss) after tax from continuing operations was ($1,213,748)
- six months to 30 June 2013 profit was $1,447,520 from continuing operations.

**Corporate**

The thirty first annual general meeting of the Company was held on 29 May 2014.

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

**Remuneration and Appointments Committee**

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

**Finance, Audit & Compliance Committee**

Chairman: Robert Shaw (Independent Director)
Li Zhongjun (Non-Executive Director)
Xie Kangmin (Non-Executive Director)
Robert Kaye (Independent Director)

**ASX Second Edition "Corporate Governance Principles and Recommendations" (as amended on 30 June 2010 and applying to 30 June 2014).**

| Company Does Not Comply With:- | Company Complies With:- |
|---|---|
| **Recommendation 2.2**<br>The chair should be an independent director<br><br>**Recommendation 2.3**<br>The roles of chair and chief executive officer should not be exercised by the same individual.<br><br>**Recommendation 2.4**<br>The board should establish a nomination committee.<br><br>**Recommendation 3.2**<br>Companies should establish a policy concerning (employment) diversity.<br><br>**Recommendation 3.3**<br>Disclose measurable objectives for achieving gender diversity. | **Recommendation 4.2**<br>The audit committee should be structured so that it: -<br>• consists only of non-executive directors<br>• consists of a majority of independent directors<br>• is chaired by an independent chair, who is not chair of the board<br>• has at least three members<br><br>**Recommendation 8.2**<br>The remuneration committee should be structured so that it:<br>• consists of a majority of independent directors<br>• is chaired by an independent director<br>• has at least three members. |

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 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 15.

**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.

The tables in this report may indicate apparent errors to the extent of one unit (being $1,000) in -

- the addition of items comprising total and sub totals; and
- the balances of items from the comparative financial accounts.

Such differences arise from the process of -

- converting foreign currency amounts to two decimals in AUD; and
- subsequent rounding of the AUD amounts to $1,000.

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

Nicholas Andrews
Executive Chairman
29 August 2014

## About Magontec

**An Organisation with Expertise and Experience**

**Magnesium is a modern-day material with the potential to shape the future. Magontec is a pioneer in this field with vast experience in production and development of new alloy and anode applications. We have a reputation for delivering results for our customers. Our ambition is to develop innovative solutions that can help build that future.**

Magontec has built a reputation as a dependable business partner. Modern plants, a focus on quality and a global logistics network make Magontec a leading player in the magnesium alloy manufacturing and recycling industries in Europe and China as well as in international markets for anodes.

Our corporate strategy is to build a global solution for the magnesium alloy die cast industry providing supply stability and high quality products. In the anode market Magontec is developing new products in magnesium and titanium for a wide range of increasingly complex applications.

Over the last 12 months Magontec has entered into a series of new relationships and commitments that will ensure that the company continues to be a leading global supplier of magnesium alloy and anode products and services.

**Magontec locations:**

**Australia**
Sydney – Corporate Head Office
Melbourne, Research partnership with CAST

**Europe**
Germany, Bottrop – Head Office Europe, North America and Middle East
Romania, Santana, Arad Province

**Asia**
PR China, Xi'an – Head Office Asia
PR China, Suzhou, Jiangsu Province
PR China, Jishan, Shanxi Province.

**Currently under construction:**
PR China, Golmud, Qinghai Province.

## SIX MONTHS HIGHLIGHTS

- Conclusion of three key agreements with the Qinghai Salt Lake Magnesium Co. Ltd
- Company continued to generate positive cash flow
- Capital expenditure approved in Europe to expand production and increase efficiency
- Anode business underperforming in slower markets, but with potential to recover in the second half of 2014

### Magontec Qinghai project

- Part of largest magnesium project in the world
- Magontec will be the owner and operator of 56,000 tonne pa cast-house
- Magontec Qinghai project expected to deliver a competitive pricing advantage
- Commercial production targeted for late 2015

### Asian operations

- Difficult six months but improved NPAT
- Focus on cost control in alloys and anodes
- Accident free period across all PRC plants

### Europe and North American operations

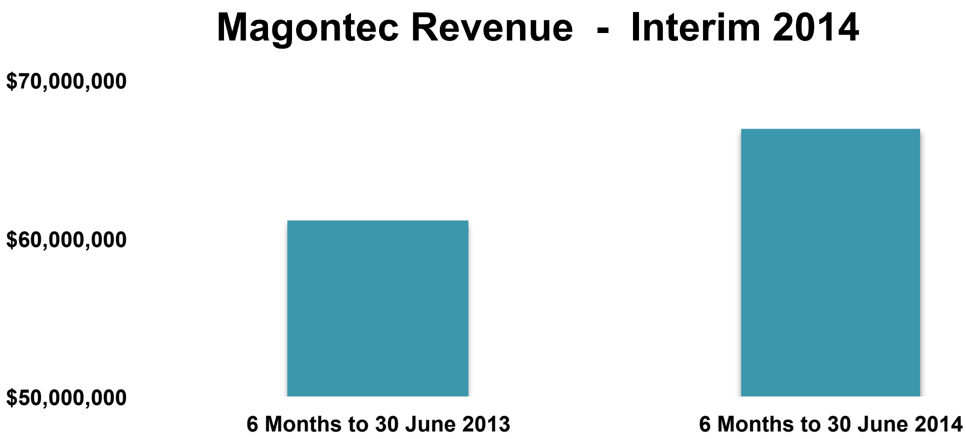
- Romania recycling production up 85%
- Germany recycling production up 25%
- Anode markets more subdued in first half

### Financial

- Cash and other cash resources secured for Qinghai capital expenditure
- $6 million received from options exercised
- Debt repayment and Loan Notes converted
- New PRC working capital facility secured with major European bank

In the period under review Magontec has achieved a number of important milestones. These include the conclusion of its three agreements with the Qinghai Salt Lake Magnesium Co Ltd (QSLM), full capacity at the new Romanian magnesium recycling facility and the finalisation of the shift of all magnesium Cathodic Corrosion Protection (anodes for water heater manufacturers) production from Germany to Romania.

Despite a strong improvement in revenue, up 9.48% to $66.89m from $61.10m, the Company's underlying financial and operating results over the period under review were below expectations. This reflects weakness in markets for anode products, price discounting of primary magnesium alloys in China and export markets and production timing issues negatively impacting the result for the first half in Europe. The effects of these timing issues are likely to be at least partially reversed in the second half of the 2014 financial year.




In March 2014 management commissioned a special audit of the December 2013 accounts of Magontec's Romanian operation following the departure of the financial accountant. The results of that special audit, coupled with the review by the auditor of the accounts at 30 June 2014, revealed the need to decrease by $464,068 the Group's previously reported net profit after tax of $756,189 for the 12 month period to 31 December 2013. Details of the results of the restatement of the financial statement for 31 of December 2013 appear under the heading 'Retrospective Restatement of Financial Accounts for Year Ended 31 December 2013' on page 19.

In April and May 2014 the Board approved capital expenditure in Europe to expand production capacity. This investment will be made over the next 9 months and is part of an on-going program to upgrade Magontec's global operating base, preparing the company for higher production volumes from Qinghai and improving competitiveness in both the recycling and anode businesses.

**Qinghai magnesium alloy cast-house**

The development of the Magontec Qinghai magnesium alloy cast-house is the central theme for the Company. The first stage of the project is now underway and the Company expects the initial equipment installation in the purpose built cast-house to be completed by the end of this year.

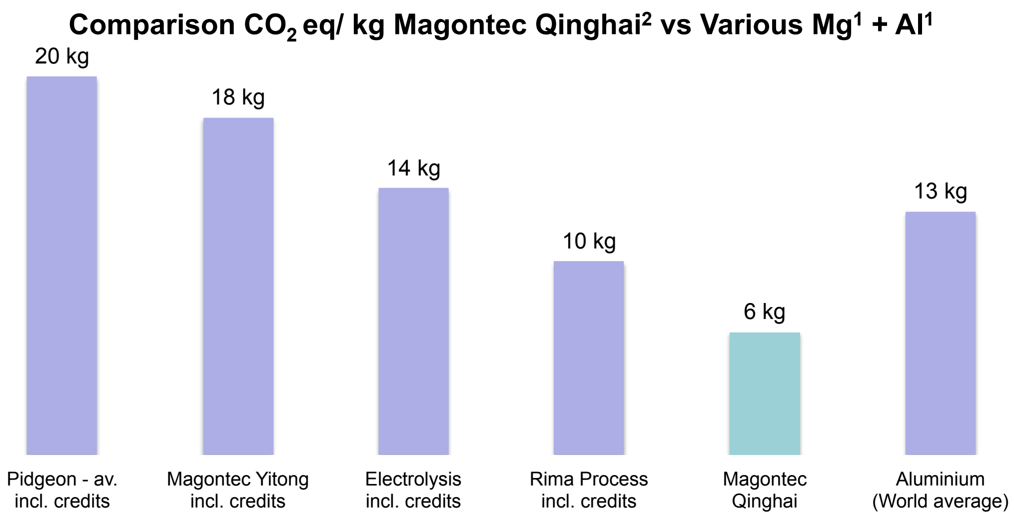
The Qinghai facility will have a capacity of 56,000 metric tonnes per annum of primary magnesium alloy when it is completed and the associated electrolytic magnesium smelter is fully commissioned.

The Qinghai Salt Lake Magnesium Co Ltd (QSLM) is constructing a 100,000 metric tonne per annum (mtpa) electrolytic magnesium smelter at Golmud in Qinghai Province and expects to increase that capacity to 450,000 mtpa in stages over the coming years. The Qinghai company has elected to partner with Magontec as the owner and operator of the magnesium alloy cast house at this site.

The Company's investment in Qinghai will provide Magontec with exclusive access to high volumes of liquid pure magnesium. Under the terms of the agreement with QSLM the Company expects to be able to generate significant improvement in competitiveness and profitability in the major volume product category of primary magnesium alloys.

It will also position Magontec as a company with a significant environmental edge. The Qinghai project will produce magnesium using an electrolytic process and most of its power will come from renewable resources. The Magontec Qinghai $CO_2$ footprint will be considerably more modest than those of current Chinese competitors and manufacturers in other parts of the World. It will also be lower than the average for aluminium production.

The nature of the Company's undertaking at Qinghai is long-term. Magontec's first agreement with QSLM was in June 2012. Three subsequent agreements were finalised in June 2014 covering the operation of the cast house, the price at which pure magnesium will be acquired from the Qinghai smelter and the terms of the lease over the land and buildings in which the cast house is situated. The contracts have a term of 10 years with an option to extend for a further 10 years. Information on the arrangements between Magontec and QSLM was released to the Australian Securities Exchange (ASX) in May 2014



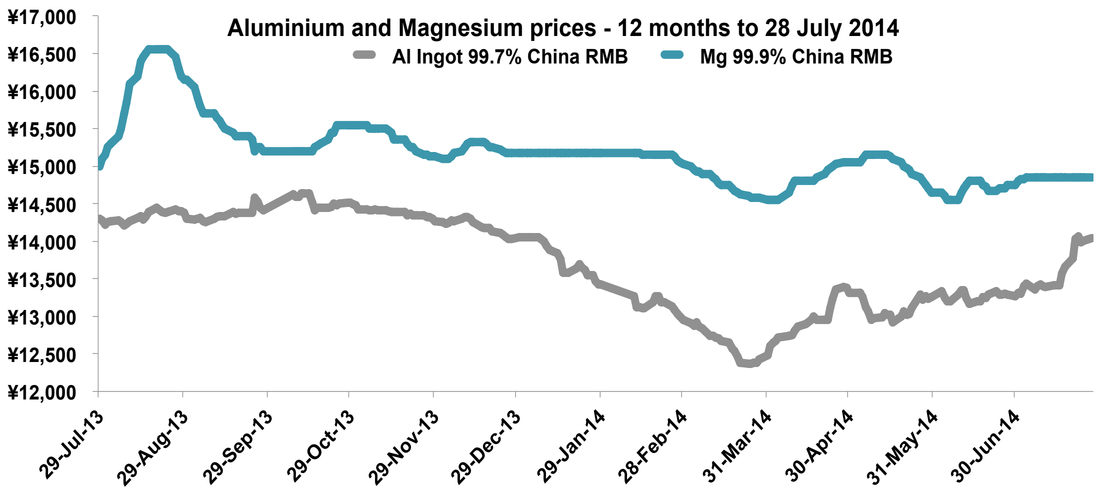

*1 Source IMA LCA study 2013*
*2 Source Hatch/Qinghai project*

Currently Magontec expects the commencement of commercial production from the Qinghai smelter to occur in late 2015. The Company expects to have made an initial installation of casting and ancillary equipment by the end of 2014 in preparation for the first commissioning phase. Further installation phases are likely to occur throughout 2015.

**Operations – Asia**

In China, Magontec operates three businesses: primary magnesium alloy production, magnesium alloy scrap recycling and magnesium anode manufacturing.

Chinese primary magnesium alloy producers supply around 80% of the total world consumption, of which about 40% goes into export markets. In the domestic Chinese markets in the last 6 months demand has been more modest, in part reflecting a shift in material usage by some electronics groups.




*Source: Asianmetal*

Magnesium alloy scrap acquired by Magontec is sourced principally from the electronics industry. A shift to aluminium, which offers certain surface coating alternatives, has had a marked impact on volumes for the Company's Suzhou recycling factory in the first half.

The electronics industry produces new models and changes materials and styles with great frequency. While there is no indication that the shift back to magnesium will occur in the immediate future the lighter metal is again more attractively priced following a sharp rise in the price of aluminium in the last few months.

The decline in primary magnesium alloy export volumes from Magontec factories to international customers combined with a challenging local market has seen a decrease in output from the Company's main production unit in Shanxi Province. At the same time there have been considerable productivity and efficiency improvements in the last two years since Magontec moved its primary alloy manufacturing business from Xian to Shanxi.

Refurbishment work on the largest furnace at Shanxi, undertaken in the first half, will improve the overall economics of the facility and restore competitiveness in export markets. Nonetheless, the competitive situation in international markets is likely to remain challenging and sales expectations remain subdued for the immediate future.

Total PRC volumes of primary magnesium alloys and magnesium scrap recycling fell 15% compared with the previous corresponding period with the effect of lower volumes impacting cost recovery, particularly at Shanxi.

Importantly, Magontec has recorded an accident free first half at Shanxi, Suzhou and Xian. The Company continues in its efforts to raise safety awareness and safe working practices at all of its operations in China and Europe. In the first half of 2014 the company conducted a safety review in China and is in the process of implementing a number of operational changes.

Magontec's anode business at Xi'an recorded much improved volumes in the six months to 30 June 2014 compared with the second half of 2013, rising over 23% following the recovery of contracts lost in early 2013. Although the recovered contracts have been won at lower prices the Chinese anode business recorded a positive contribution in the first half, emphasising its sensitivity to volume throughput.

Magontec's anode units in China and Europe supply the water heater manufacturing industry and are sensitive to housing starts. Chinese home building, which has experienced historical strong price and volume growth, has in recent months experienced a period of uncertainty and some volume decline. Caution among builders in the apartment construction industry in the first half of 2014 has been a partial contributor to a generally softer anode market.

**Operations – Europe and North America**

Over the last 12 months Magontec's Romanian and German recycling facilities have operated at increasing levels of production. In Romania in the six months to 30 June 2014 production volumes were up 85% on the previous corresponding period. This included the start up phase for the new facility. In Germany recycling volumes were up 25% on the previous corresponding period while sales of primary magnesium alloys into Europe from our Chinese factories were flat.

Over the last 12 months the European teams have worked hard to improve efficiencies and manage rising volumes at both facilities. In a market that has experienced little growth in the period Magontec has increased output and won market share.

There are two themes in the European market that our efforts of the last 12 months have sought to exploit: the shift to Eastern European factories of production capacity for standard magnesium applications, such as steering wheels; and the development of new applications that use Magontec's proprietary aluminium and rare earth "AE" alloy, such as gearbox casings.

The sensitivity of recycling contracts to logistics costs has become a strategic strong point for Magontec with plants in the northwest and southeast of Europe. We expect this strategic advantage to become more pronounced as production from Qinghai begins to flow into European markets from 2016. This will provide Magontec with access to increased volumes at both locations.

As we have reported in previous commentaries, the market for primary magnesium alloys exported from China to Europe and North America is extremely competitive. Exports from some sources in China arrive in international markets at prices below the cost of production reflecting an uneven competitive environment and different tax treatments among Chinese-based magnesium alloy manufacturers. While Magontec has been able to maintain a foothold in this market segment, volumes of generic magnesium alloys are much reduced on previous periods. Until the commencement of production at Qinghai, this situation is unlikely to change.

The sale of pure magnesium into Europe has also seen extremely competitive pricing, which has enabled Magontec to acquire material to supplement scrap volumes. The benefits of a flexible and global production platform, unique to Magontec, underlies this opportunity and has allowed the company to expand overall European production capacity, delivering higher volumes today and preparing the European recycling base for higher volumes from China in the future.

In the period to March 2015 Magontec will invest A$1.9 million to further improve efficiency, capacity and production flexibility in Europe. This will be funded from cash flow and local finance facilities and have a payback period of less than 2 years on the investment required.

European magnesium anodes have had a disappointing start to 2014 with volumes below forecast. This is the result of weaker overall demand, competitive pricing and the loss of a major customer to bankruptcy. Current expectations are that this trend will at least partially reverse in the second half although the Company's full year forecasts have been revised down at this time.

Total European anode volumes, principally from Magontec's new Romanian plant, are 7% higher than the first half of 2013 when production was based in Germany. The run down of German inventory following the transfer to Romania is now almost complete, although progress made in production cost improvements and competitiveness has not yet translated into increased volume.

**Operations – Research & Development**

New variations of rare earth magnesium alloys offer an exciting development area for Magontec, particularly as the company holds a number of important patents over the most prospective rare earth alloy, AE44 (4% aluminium, 4% rare earths and 92% magnesium).

The growth of magnesium alloy consumption by automotive and power tool manufacturers has the potential to accelerate if alloys can be developed that address the critical performance attributes required for applications commonly found in the high temperature and high pressure areas.

The utility of magnesium applications rises with the size of the application targeted for replacement and the associated weight saving. Among the most prospective weight saving opportunities for magnesium are gearbox casings, engine cradles and engine covers. Magontec already supplies its first generation AE44 magnesium alloy to European high-end automobile manufacturers. Over the coming 12 months the Company will embark on projects with manufacturers in Europe and North America to trial this alloy and newer variations for volume automobile and power tool applications. Over the next three years we expect to see the development of mass production of applications in AE44 and derivative alloy products.

Over many years Magontec has made a significant commitment to developing new magnesium technologies. In addition to production trials of existing rare earth alloy formulations, in 2014 the Company will commence a major new project to further examine rare earth containing alloys in conjunction with three universities and the CSIRO in Australia and a university in Germany.

The project will be financially supported by a grant from the Australian Government through the Australian Research Council and by Magontec, whose contribution will be both cash and 'in-kind'.

In addition to the participation of these organisations the project will also examine specific applications using Magontec's proprietary alloys for two OEM customers in Europe. These customers will also provide significant financial support over a three-year period.

In total Magontec and its project partners will spend around $1.4 million in cash and in-kind contributions over the next three years.

The objective of the project is to advance our knowledge on rare earth containing magnesium alloys, identify and patent new alloy formulations and to promote the adoption of new magnesium alloy applications for the automotive and power tool industries.

**Financial position**

Adjusting for unrealised foreign exchange differences, and in spite of difficult market conditions through the first half, the financial result at the level of the operational units was positive and showed a significant improvement in the foreign exchanges adjusted net profit after tax over the comparative period (refer columns headed 'Operating Units' in table below).

Summary of Segment Comprehensive Income in NOTE 4.3 (page 30)

| | Consolidated Group | | Operating Units | | Admin Units | |
|---|---|---|---|---|---|---|
| | 6 months to 30 Jun 14 | 6 months to 30 Jun 13 | 6 months to 30 Jun 14 | 6 months to 30 Jun 13 | 6 months to 30 Jun 14 | 6 months to 30 Jun 13 |
| NPAT from continuing operations | ($1,213,748) | $1,447,520 | $762,000 | $519,000 | ($1,976,000) | $918,000 |
| Eliminate unrealised forex (losses)/gains | ($698,246) | $1,989,231 | ($82,427) | $344,353 | ($615,819) | $1,644,878 |
| Adjusted NPAT | **($515,502)** | **($541,711)** | **$844,427** | **$174,647** | **($1,360,181)** | **($726,878)** |

With the temporary closure of the Company's factory at Suzhou (refer Note 15) performance of our China operations is likely to suffer a downturn in the second half of 2013. While operating conditions in China are unlikely to improve dramatically prior to the move to Qinghai, our Chinese executives are controlling costs and successfully managing operations in a difficult market.

While the overall financial position of the company has not changed materially since 31 December 2013, the operational units in Europe and China have recorded improved profitability. In the period under review inventory levels have grown in China as discussed under the heading of Working Capital.

In January the Company received inflows of $5.6m from the exercise of options associated with the 2012 Rights Issue. This was applied to repayment of $2.1m of debt owing to Straits Resources contributing to an overall debt decline of $3.8m to $16.1m.

As at 30 June 2014 Net Tangible Assets per share (calculated on a fully diluted basis) were 2.81 cents, up from 2.44 cents at 31 December 2013.

In July Magontec secured a new working capital financing facility. Commerzbank Beijing has extended this facility to include operations in China providing Magontec with its first truly global financing package, reducing reliance on Chinese banks that are more limited in the scope of their lending.

**Working capital**

Significant time is devoted to the management of working capital because of the demand it places on Company finances.

On the funding side of the working capital formula the task is to -

- Locate adequate, reliable and flexible debt funding; and
- Have the working capital demand ($31.86m at 30 June 2014) funded as far as possible by borrowings ($16.11m at 30 June 2014) to preserve shareholders' funds for capital expenditure.

The recent RMB25m (AUD4.3m) additional debt facility funded by Commerzbank Beijing will bring us closer to satisfying the second objective.

On the demand side of the working capital formula the task is to -

- Carefully manage inventory and trade debtor/creditors;
- Within, the constraints of contractual arrangements, align raw materials purchases with alloy demand; and
- Within, the constraints of available funding, take advantage of price cycles.

The working capital situation at 30 June 2014 is summarised in the table below.

| Group Working Capital Demand | | | |
|---|---|---|---|
| | **Total Demand as at 30 Jun 14** AUD | **Movement Since 31 Dec 13** AUD | **Effect on Working Capital** |
| Inventory | 26,896,549 | 3,947,627 | Increase in working capital |
| Trade and Sundry Debtors | 24,179,793 | (1,736,047) | Decrease in working capital |
| Creditors & Accruals | (18,517,012) | 370,603 | Increase in working capital |
| Provisions | (280,147) | 931,095 | Increase in working capital |
| Other | (421,994) | 36,316 | Increase in working capital |
| Net working capital demand | 31,857,189 | 3,549,594 | |

As shown in the Consolidated Cashflow Statement on page 27, the operating cash outflow for the 6 months to 30 Jun 13 was $3.13m. Given that the funding of working capital net assets has consumed $3.55m it can be implied that net cash of $422,595 was generated by the underlying operations.

Inventory pressure is being experienced in all jurisdictions, particularly in the PRC where Magontec is bound to maintain a purchase rate of magnesium crowns from the Magontec Shanxi Co, Ltd joint venture that is unable to fluctuate with demand. It is a challenge to address this issue.

**Business strategies**

Over the last 24 months the Company has targeted operating improvements across its asset portfolio as it has prepared for the commencement of production at Qinghai. In the coming periods this will remain the Company's principal strategy.

In 2012 Magontec commissioned a new recycling plant in Romania and in 2013 began the process of moving anode manufacturing assets from Germany to Romania. Both recycling and anode manufacturing are now operating successfully.

Elsewhere in Europe the Company has sought to improve productivity through investment in, and changes to, metal handling processes and inventory management. This is an on-going process.

Over the next six months management will investigate automation options for its anode businesses in China and Europe, increase magnesium recycling capacity in Romania to meet the growing demands of regional customers and raise recycling capacity in Germany to lower average costs.

In China there has been a similar focus on improving competiveness. Anode manufacturing in China is operating at below optimal volumes despite an increase on the previous corresponding period. Further reducing costs, finding new markets in China and the Asia region and increasing volumes are the key strategic objectives for this business over the next six months.

Production of primary magnesium alloy in China is likely to continue to be a challenging business for Magontec until the Company moves its principal base of operation to Qinghai. A small investment program has been underway in Shanxi over the last few months to improve productivity. This is expected to deliver further decreases in production costs. Indeed the Shanxi plant management have done an excellent job since Magontec moved to this rented facility in 2012 and have already reduced production costs by some 12% over the period.

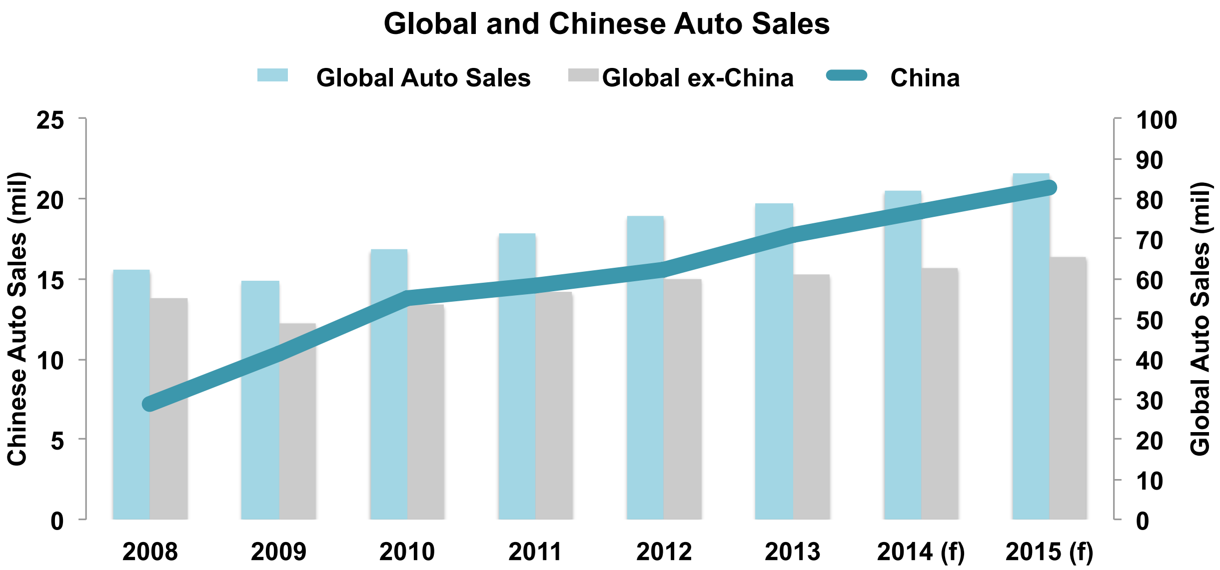
The Company has been successful at increasing revenues. A greater focus on costs and contract execution to drive more of the revenue to the net profit line is now required.

**Prospects for future financial years**

Magontec will continue to retain a focus on the global magnesium industry, as we believe that global magnesium demand will grow strongly in the years ahead.

The principal driver of Magontec revenues are sales to the global automotive sector where manufacturers are investing considerable time and capital developing new materials to produce lighter and more fuel-efficient automobiles in order to meet legally enforceable emissions targets.

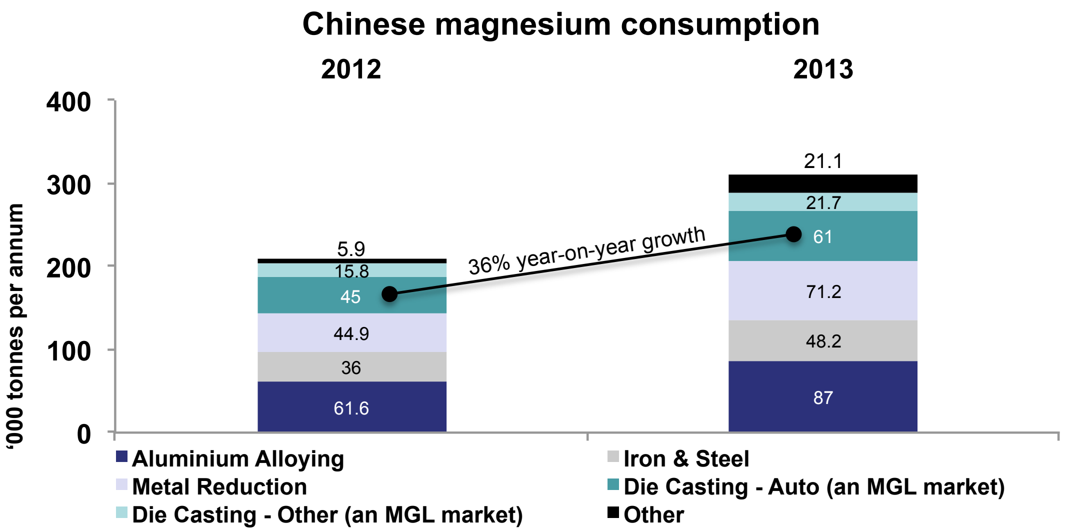
The general trend in the automotive industry is to replace steel with aluminium and in certain applications, aluminium with magnesium. The automotive sector remains the largest consumer of magnesium and the development of magnesium to replace steel and aluminium applications is a key driver of demand.




*Source: Morgan Stanley*

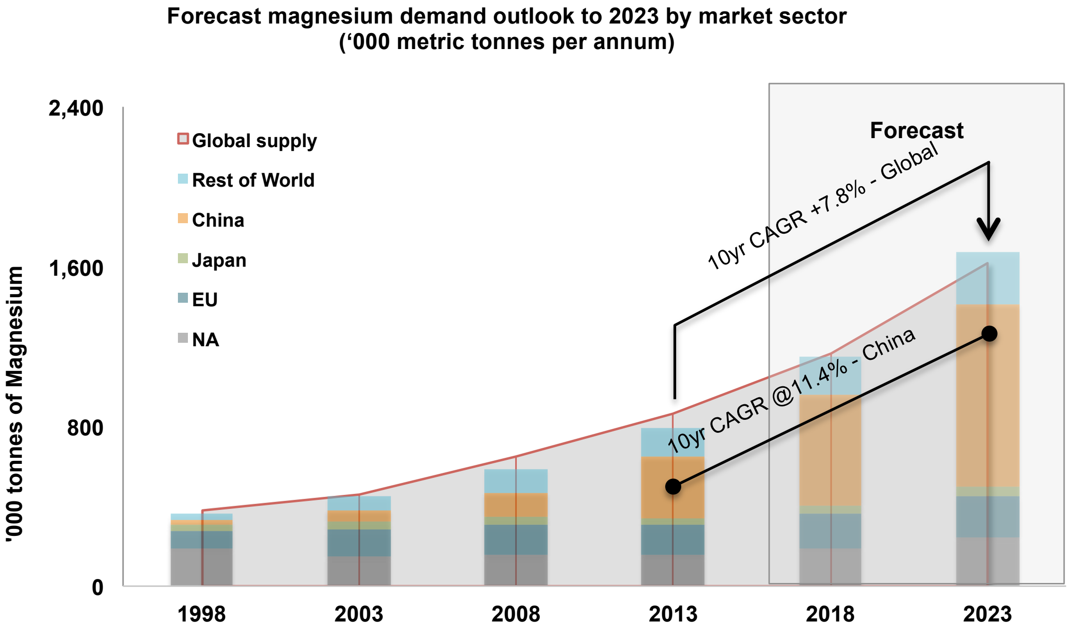
An important regional influence on magnesium consumption is the growth of the Chinese automotive industry. In 2013 China produced some 21 million units, about 22% of global sales. By 2015 the Chinese market is forecast to rise to 24% of total global sales.

A feature of the Chinese automotive market is that magnesium applications are not yet common. This is expected to change as the influence and dominance of first world automotive manufacturers in the Chinese market becomes more entrenched (over 75% of Chinese production is now foreign owned). European, Japanese and Korean manufacturers use magnesium in many applications and will introduce these to their growing Chinese operations.




*Source: CM Group*

Evidence of this growing trend can be seen in the 36% year-on-year increase in die-cast magnesium consumption in the Chinese automotive sector in 2013. Over the last 18 months other indications of increased interest in magnesium among Chinese enterprises includes the acquisition of Meridian (one of the World's largest Tier 1 die casting companies) by the Chinese company Wangfeng Auto Holdings and expansion by other Tier 1 die cast companies and OEM automotive manufacturers within China.




*Source CM Group*

A global analysis of magnesium usage in the automotive die cast sector reveals a similar trend. The requirement for automotive companies to reduce weight and increase fuel efficiency is expected to further promote magnesium alloys, which are lighter than competitor metals, such as aluminium and steel, and easily recyclable, unlike carbon fibre. In the chart above industry analysts CM Group project magnesium usage by sector to 2023 with the automotive die cast sector expected to be a major contributor to overall industry growth and global supply dipping below global demand.

**Summary**

Magontec has expended much effort on establishing itself as a leading independent magnesium alloy manufacturer and recycler. Magontec has also sought to increase exposure to value adding activities, such as magnesium and Ti anodes for the water heater industry.

The Company's investment in Qinghai is one of a number of activities that Magontec is undertaking to entrench its position and ensure that it is among the most competitive suppliers of primary magnesium alloys, recycled magnesium and other value-added magnesium products.

In the lead up to production from Qinghai the focus of management will remain on streamlining the existing asset base by improving production efficiencies, developing new market opportunities and introducing new products and processes.

The efforts of the last 18 months of reorganisation and investment have improved the underlying strengths of the business, reflected in a stronger contribution from Europe, where investment has been concentrated, and efficiency improvements and cost control in other parts of the business.

Managing market volatility and operating challenges in the first six months of 2014 has been difficult but does not detract from an industry that has solid expectations for strong growth rates in the years ahead driven by structural change in the automotive industry, new magnesium alloys and access to a competitive supply of raw material from Qinghai in the near future.

Nicholas Andrews
Executive Chairman & CEO
20 August 2014

CAMPHIN BOSTON
CHARTERED ACCOUNTANTS

## AUDITOR'S INDEPENDENCE DECLARATION

The Board of Directors
Magontec Limited
Suite 1.03, 46 Macleay St
Potts Point NSW 2011

Dear Board Members

We hereby declare, that to the best of our knowledge and belief, during the half-year ended 30 June 2014 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

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

**Name of Partner:**
Justin Woods

**Address:** Sydney

**Dated this 29th August 2014**

**Camphin Boston**
ABN 69 688 697 499
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
W camphinboston.com.au

CAMPHIN BOSTON

CHARTERED ACCOUNTANTS

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

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

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Magontec Limited and Controlled Entities, which compromises the consolidated balance sheet as at 30 June 2014, 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 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 controls 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 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 2014 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.

**Camphin Boston**
ABN 69 688 697 499
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
W camphinboston.com.au

CAMPHIN BOSTON

CHARTERED ACCOUNTANTS

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

*Independence Declaration*

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.

*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 2014 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standards AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

**Camphin Boston**
Chartered Accountants

**Justin Woods**
Partner

Level 9, 5 Elizabeth Street, Sydney NSW 2000

Dated: 29 August 2014

**Camphin Boston**
ABN 69 688 697 499
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
W camphinboston.com.au

COVER OF EXCELLENCE

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## DIRECTORS' DECLARATION

The Directors declare that:

a) in the Director's opinion, there are reasonable grounds, on the basis of, -

   a. an improving underlying NPAT;
   b. an underlying positive operational cash flow (see sub heading 'Working Capital' in Executive Chairman's report at page 11);
   c. forward estimates indicating continued improvement in NPAT;
   d. a further working capital facility of RMB25m (about $4.3m) executed with Commerzbank Beijing on 29 July 2014.
   e. 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;

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; and

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, 29 August 2014

## RETROSPECTIVE RESTATEMENT OF FINANCIAL ACCOUNTS FOR YEAR ENDED 31 DECEMBER 2013

Following the departure of the financial accountant from Magontec's Romanian operation in the first quarter of 2014, management commissioned a special audit of the balance sheet of that subsidiary as at 31 December 2013. The audit mandate was to principally test the value of inventory and secondarily the value of other working capital assets and liabilities at 31 December 2013.

The results of that special audit, coupled with the review by the auditor of the accounts at 30 June 2014, revealed the need to restate the financial statements for the 12 months ended 31 December 2013 in terms of AASB 101 to recognise the changes to the accounts of the Romanian subsidiary. At the same time the restatement also covers two balance sheet reclassifiacations. Borrowings in 'Current Liabilities' have been reduced by $1,354,007 and 'Trade and other receivables' in 'Current Assets' decreased by the same amount. The adjustment corrects the misclassification of a factoring facility as a borrowing.

The restatement effects previously published financial data as follows -

- the financial results published in the Company's annual report for the 12 month period ended 31 December 2013; and
- the cash flow statement for the quarter ended 30 June 2014 released to the market on 28 July 2014.

The broad effect on the Comprehensive Income Statement for the 12 month period ended 31 December 2013 is summarised in the table immediately below.

| | 12 Months to 31 Dec 2013 In 2013 Annual Report | 12 Months to 31 Dec 2013 Restated | Movement |
|---|---|---|---|
| Net Profit before tax from continuing operations | $791,677 | $239,187 | ($552,490) |
| Net Profit after tax including discontinued operations | $756,189 | $292,121 | ($464,068) |
| Exchange differences taken to reserves in equity – translation of overseas entities | $2,871,134 | $2,376,620 | ($494,514) |
| **Total Comprehensive Income** | **$3,627,323** | **$2,668,741** | **($958,582)** |

To maintain the clarity of this half year report, the disclosure requirments of paragraph 49 of AASB 101 in relation to the restatement of the accounts are centralised in this heading of the Report. The detailed disclosures are as follows.

**Restatement of Comprehensive Income for the 12 months ended 31 December 2013 - Refer ITEM 1 on page 20**
The decrease of $494,514 in 'Exchange differences taken to reserves in equity – translation of overseas entities' can clealry be ascribed to the 6 month period ending 31 December 2013. The balance of the decrease in Comprehensive Income of $464,068 cannot be pinpointed with similar precision but, given the nature and mandate of the special audit, it is highly likely that difference relates to the 6 months ended 31 December 2013. Therefore the total movement of $958,582 is ascribed to the 6 month period ended 31 December 2013.

**Restatement of Balance Sheet as at 31 December 2013 - Refer ITEM 2 on page 21.**

**Restatement of Statement of Changes in Equity as at 31 December 2013 - Refer ITEM 3 on page 22.**

**Restatement of Earnings/(Loss) per share for the 12 months ended 31 December 2013 - Refer ITEM 4 on page 23.**

ITEM 1

**CONSOLIDATED COMPREHENSIVE INCOME STATEMENT - EFFECTS OF RESTATEMENT**

**for the Year Ended 31 December 2013**

| | Before | After | |
|---|---|---|---|
| | **12 Months to 31 Dec 2013 Annual Report $'000** | **12 Months to 31 Dec 2013 Restated $'000** | **Movement $'000** |
| Sale of goods | 128,631 | 128,960 | $329 |
| Cost of sales | (118,773) | (119,622) | ($849) |
| Gross profit | **9,858** | **9,338** | **(520)** |
| Other income | 1,086 | 1,089 | $2 |
| Travel accommodation and meals | (645) | (646) | ($1) |
| Personnel | (4,732) | (4,550) | $183 |
| Depreciation & Amortisation | (1,717) | (1,559) | $158 |
| Corporate | (2,622) | (2,912) | ($289) |
| Foreign exchange gain/(loss) | 2,252 | 2,167 | ($85) |
| Other items that have not altered | (2,688) | (2,688) | $0 |
| **Profit/(Loss) before income tax expense/benefit from continuing operations** | **792** | **239** | **(552)** |
| Income tax (expense)/benefit | (25) | 63 | $88 |
| **Profit/(Loss) after income tax expense/benefit from continuing operations** | **766** | **303** | **(464)** |
| Loss after income tax expense from discontinued operations | (10) | (10) | $0 |
| **Profit/(Loss) after income tax expense/benefit including discontinued operations** | **756** | **292** | **(464)** |
| | | | |
| **Other Comprehensive Income - that may later emerge in the Profit and Loss Statement** | | | |
| Exchange differences taken to reserves in equity – translation of overseas entities | 2,652 | 2,158 | ($495) |
| **Other Comprehensive Income - that will not emerge in the Profit and Loss Statement** | | | |
| Movement in various actuarial assessments | 219 | 219 | $0 |
| **Total Comprehensive Income** | **3,627** | **2,669** | **(958)** |

**ITEM 2**

**CONSOLIDATED BALANCE SHEET- EFFECTS OF RESTATEMENT**

| | Before<br>As at<br>31 Dec 2013<br>Annual Report<br>$'000 | After<br>As at<br>31 Dec 2013<br>Restated<br>$'000 | Movement<br>$'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents | 7,375 | 7,375 | $0 |
| Trade & other receivables | 28,402 | 27,027 | ($1,376) |
| Inventory | 24,466 | 24,688 | $222 |
| Other | 773 | 226 | ($548) |
| **Total current assets** | **61,017** | **59,316** | **($1,701)** |
| **Non-current assets** | | | |
| Future income tax benefit | 1,586 | 1,674 | $88 |
| Other items that have not altered | 20,178 | 20,178 | $0 |
| **Total non-current assets** | **21,763** | **21,852** | **$88** |
| **TOTAL ASSETS** | **82,781** | **81,168** | **($1,613)** |
| **Current liabilities** | | | |
| Trade & other payables | 17,358 | 18,057 | $700 |
| Borrowings | 21,225 | 19,871 | ($1,354) |
| Other items that have not altered | 22,917 | 22,917 | $0 |
| **Total current liabilities** | **40,275** | **40,974** | **($654)** |
| **Non-current liabilities** | | | |
| Provisions | 8,315 | 8,315 | $0 |
| **Total non-current liabilities** | **8,315** | **8,315** | **$0** |
| **TOTAL LIABILITIES** | **48,590** | **49,290** | **($654)** |
| **NET ASSETS** | **34,191** | **31,878** | **($959)** |
| **Equity attributable to members of MGL** | | | |
| Share capital | 55,145 | 55,145 | $0 |
| Reserves | 5,853 | 5,358 | ($495) |
| Accumulated (losses)/profits | (27,268) | (27,732) | ($464) |
| **Equity attributable to minority interests** | | | |
| Other items that have not altered | 462 | 462 | $0 |
| **Total equity** | **34,191** | **33,232** | **($959)** |

| Balance Sheet Category | Movement $'000 | Effect on Category | Reason (MAR = Magontec's Romanian subsidiary) |
|---|---|---|---|
| **Current Assets** | | | |
| Cash and cash equivalents | $0 | Increase | |
| Trade & other receivables | ($1,376) | Decrease | |
| Inventory | $222 | Increase | Adjusted following special audit of MAR |
| Other | ($548) | Decrease | Part of intercompany borrowing of $567,865 in MAR reclassified as 'Trade & other payables' |
| **Non-Current Assets** | | | |
| Future income tax benefit | $88 | Increase | Tax benefit of increased loss in MAR |
| **Current Liabilities** | | | |
| Trade & other payables | $700 | Increase | Adjusted following special audit of MAR |
| **Net Assets** | **($2,313)** | Decrease | |
| **Shareholder's Funds** | | | |
| Reserves | ($495) | Decrease | Mostly reclassification of intercompany borrowing of $567,865 in MAR |
| Accumulated (losses)/profits | ($464) | Decrease | |
| | **($959)** | Decrease | |

**ITEM 3**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY - EFFECTS OF RESTATEMENT**

**Before Restatement**

| | 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 1-Jan-13** | **44,890** | **25** | **(28,023)** | **(179)** | **2,750** | **(1,226)** | **1,612** | **458** | **20,307** |
| Profit/(Loss) attributable to members of parent entity | - | - | 756 | - | - | - | - | - | 756 |
| Other | - | - | (1) | - | - | - | - | 4 | 2 |
| Comprehensive income | - | - | - | 2,652 | - | 219 | - | - | 2,871 |
| Expired Options | - | (25) | - | - | - | - | 25 | - | - |
| Issue of shares | 10,254 | - | - | - | - | - | - | - | 10,254 |
| **Balance 31-Dec-13** | **55,145** | **-** | **(27,268)** | **2,473** | **2,750** | **(1,007)** | **1,637** | **462** | **34,191** |

**After Restatement**

| | 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 1-Jan-13** | **44,890** | **25** | **(28,023)** | **(179)** | **2,750** | **(1,226)** | **1,612** | **458** | **20,307** |
| Profit/(Loss) attributable to members of parent entity | - | - | 292 | - | - | - | - | - | 292 |
| Other | - | - | (1) | - | - | - | - | 4 | 2 |
| Comprehensive income | - | - | - | 2,158 | - | 219 | - | - | 2,377 |
| Expired Options | - | (25) | - | - | - | - | 25 | - | - |
| Issue of shares | 10,254 | - | - | - | - | - | - | - | 10,254 |
| **Balance 31-Dec-13** | **55,145** | **-** | **(27,732)** | **1,979** | **2,750** | **(1,007)** | **1,637** | **462** | **33,232** |

ITEM 4

EARNINGS/(LOSS/PER SHARE FROM CONTINUED AND DISCONTINUED OPERATIONS - EFFECTS OF RESTATEMENT

| Continued and Discontinued Operations | | Before | After |
|---|---|---|---|
| | | 12 months to | 12 months to |
| **Earning/(Loss) per share** | | **31-Dec-13** | **31-Dec-13** |
| Profit/(Loss) attributable to members of the parent entity | 1 | $756,025 | $292,292 |
| Average shares on issue for the period | 2 | 659,044,011 | 659,044,011 |
| Total vested options | 3 | 413,226,929 | 413,226,929 |
| **Basic** Earnings/(Loss) per share (cents per share) | 1 ÷ 2 x 100 | 0.115 | 0.044 |
| **Diluted** Earnings/(Loss) per share (cents per share) | 1 ÷ (2 +3)x 100 | 0.071 | 0.027 |

| Continued Operations | | Before | After |
|---|---|---|---|
| | | 12 months to | 12 months to |
| **Earning/(Loss) per share** | | **31-Dec-13** | **31-Dec-13** |
| Profit/(Loss) attributable to members of the parent entity | 1 | $766,413 | $302,680 |
| Average shares on issue for the period | 2 | 659,044,011 | 659,044,011 |
| Total vested options | 3 | 413,226,929 | 413,226,929 |
| **Basic** Earnings/(Loss) per share (cents per share) | 1 ÷ 2 x 100 | 0.116 | 0.046 |
| **Diluted** Earnings/(Loss) per share (cents per share) | 1 ÷ (2 +3)x 100 | 0.071 | 0.028 |

## **CONSOLIDATED** COMPREHENSIVE INCOME STATEMENT

**for the Half-Year Ended 30 June 2014**

| | NOTE | 6 months to 30 Jun 2014 $'000 | 6 Months to 30 Jun 2013 $'000 |
|---|---|---|---|
| Sale of goods | 4.3 | 66,890 | 61,100 |
| Cost of sales | 4.3 | (62,594) | (56,108) |
| Gross profit | | **4,296** | **4,992** |
| | | | |
| Other income(1) | 10 | 1,117 | 481 |
| Interest expense(1) | | (606) | (490) |
| Impairment of inventory, receivables & other financial assets | | (221) | (144) |
| Travel accommodation and meals | | (349) | (286) |
| Research, development, licensing and patent costs | | (158) | (456) |
| Promotional activity | | (37) | (36) |
| Information technology | | (241) | (201) |
| Personnel | | (2,707) | (2,393) |
| Depreciation & Amortisation(2) | | (234) | (375) |
| Office expenses | | (218) | (100) |
| Corporate | | (1,538) | (1,297) |
| Foreign exchange gain/(loss) | | (606) | 2,172 |
| **Profit/(Loss) before income tax expense/benefit from continuing operations** | | **(1,501)** | **1,867** |
| Income tax (expense)/benefit | | 287 | (420) |
| **Profit/(Loss) after income tax expense/benefit from continuing operations** | | **(1,214)** | **1,448** |
| Loss after income tax expense from discontinued operations | | - | (10) |
| **Profit/(Loss) after income tax expense/benefit including discontinued operations** | | **(1,214)** | **1,438** |
| | | | |
| **Other Comprehensive Income - that may later emerge in the Profit and Loss Statement** | | | |
| Exchange differences taken to reserves in equity – translation of overseas entities | | (951) | 1,225 |
| **Other Comprehensive Income - that will not emerge in the Profit and Loss Statement** | | | |
| Movement in various actuarial assessments | | 308 | 53 |
| **Total Comprehensive Income** | | **(1,857)** | **2,716** |

*Notes*

*1. The 2013 income for 'Other Income' reported in the 2013 annual report has been increased by $15,681 and 'Interest expense' increased by the same amount.*

*2. The 2013 expense for 'Depreciation and Amortisation' reported in the 2013 annual report has been reduced by $385,597 and 'Cost of sales' increased by the same amount. The adjustment has been made to reflect depreciation on manufacturing assets in the calculation of gross profit consistent with International Accounting Standards.*

| | NOTE | 6 months to 30 Jun 2014 | 6 Months to 30 Jun 2013 |
|---|---|---|---|
| **Earnings/(Loss) per share from continued and discontinued operations:** | | | |
| Basic (cents per share) | 9 | (0.109) cents | 0.223 cents |
| Diluted (cents per share) | 9 | (0.109) cents | 0.118 cents |
| **Earnings/(Loss) per share from continuing operations** | | | |
| Basic (cents per share) | | (0.109) cents | 0.224 cents |
| Diluted (cents per share) | | (0.109) cents | 0.119 cents |

*Notes to the financial statements are included on pages 28 to 38.*

## CONSOLIDATED BALANCE SHEET
**as at 30 June 2014**

| | NOTE | 30-Jun 2014 $'000 | 31-Dec 2013 $'000 | 1-Jan 2013 $'000 |
|---|---|---|---|---|
| **Current assets** | | | | |
| Cash and cash equivalents | **7** | 4,910 | 7,375 | 13,540 |
| Trade & other receivables | **11.1** | 24,853 | 27,027 | 22,991 |
| Future income tax benefit | | - | - | - |
| Inventory | | 26,891 | 24,688 | 25,727 |
| Other | | 424 | 226 | 125 |
| **Total current assets** | | **57,079** | **59,316** | **62,382** |
| **Non-current assets** | | | | |
| Other receivables | | 418 | 444 | 476 |
| Other financial assets | | - | - | - |
| Property, plant & equipment | | 15,174 | 16,479 | 14,001 |
| Future income tax benefit | | 1,607 | 1,674 | 1,642 |
| Intangibles | | 3,149 | 3,255 | 3,186 |
| Other | | - | - | - |
| **Total non-current assets** | | **20,348** | **21,852** | **19,305** |
| **TOTAL ASSETS** | | **77,427** | **81,168** | **81,687** |
| **Current liabilities** | | | | |
| Trade & other payables | **11.2** | 18,580 | 18,057 | 19,804 |
| Borrowings | **14** | 3,473 | 19,871 | 21,030 |
| Borrowings from/payables to related parties | | - | - | 49 |
| Provisions | | 369 | 1,692 | 2,704 |
| **Total current liabilities** | | **22,422** | **39,620** | **43,586** |
| **Non-current liabilities** | | | | |
| Other payables | | - | - | - |
| Borrowings | **14** | 12,633 | - | - |
| Borrowings from/payables to related parties | | - | - | - |
| Owing to Straits Mine Management Pty Ltd | **14** | - | - | 10,968 |
| Provisions | | 7,895 | 8,315 | 6,826 |
| Other | | - | - | - |
| **Total non-current liabilities** | | **20,528** | **8,315** | **17,794** |
| **TOTAL LIABILITIES** | | **42,951** | **47,936** | **61,380** |
| **NET ASSETS** | | **34,476** | **33,232** | **20,307** |
| **Equity attributable to members of MGL** | | | | |
| Share capital | **6** | 58,246 | 55,145 | 44,915 |
| Reserves | **12** | 4,715 | 5,358 | 2,955 |
| Accumulated (losses)/profits | | (28,948) | (27,732) | (28,023) |
| **Equity attributable to minority interests** | | | | |
| Share capital | **6** | 463 | 463 | 456 |
| Reserves | **12** | - | - | 2 |
| Accumulated (losses)/profits | | - | (2) | 2 |
| **Total equity** | | **34,476** | **33,232** | **20,307** |

Compared with the balance sheet published in the 2013 annual report, the categories 'Trade & other receivables' and 'Current Borrowings'for 31 December 2013 above have been reduced by $1,354,007.This adjustment results from offsetting a receivables factoring facility incorrectly recorded in the balance sheet at 31 December 2013 annual report as a 'Current Borrowing'.

As the Company is restating its financial accounts for the 12 months ended 31 December 2013, AASB 101 paragraph10(f), requires the addition of the column showing the balance sheet at 1 January 2013.

*Notes to the financial statements are included on pages 28 to 38.*

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**for the Half-Year Ended 30 June 2014**

| | Share Capital | | Retained Earnings | FCTR[1] | Capital Reserve | Actuarial Reserve | Expired Options Reserve | Minority Interests | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| | Ordinary | Options Valuation | | | | | | | |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Balance at 1 Jan 2013** | **44,890** | **25** | **(28,023)** | **(186)** | **2,750** | **(1,226)** | **1,612** | **465** | **20,307** |
| Profit/(Loss) current year | - | - | 1,438 | - | - | - | - | - | 1,438 |
| Other | - | - | - | - | - | - | - | - | - |
| Comprehensive income | - | - | - | 1,225 | - | 53 | - | - | 1,278 |
| Expired options | - | - | - | - | - | - | - | - | - |
| Issue of shares | 16 | - | - | - | - | - | - | - | 16 |
| Transfer retained earnings to MGL members | - | - | 2 | - | - | - | - | (2) | - |
| Adjustment to value of minority interest equity | - | - | - | - | - | - | - | (2) | (2) |
| 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** | **462** | **23,033** |

| | Share Capital | | Retained Earnings | FCTR[1] | Capital Reserve | Actuarial Reserve | Expired Options Reserve | Minority Interests | Total Equity |
|---|---|---|---|---|---|---|---|---|---|
| | Ordinary | Options Valuation | | | | | | | |
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Balance 1-Jan-14** | **55,145** | **-** | **(27,732)** | **1,979** | **2,750** | **(1,007)** | **1,637** | **462** | **33,232** |
| Profit/(Loss) attributable to members of parent entity | - | - | (1,214) | - | - | - | - | - | (1,214) |
| Profit/(Loss) attributable to minority interests | - | - | - | - | - | - | - | - | - |
| Other | - | - | (2) | - | - | - | - | 2 | - |
| Comprehensive income | - | - | - | (951) | - | 308 | - | - | (644) |
| Expired Options | - | - | - | - | - | - | - | - | - |
| Issue of shares | 3,101 | - | - | - | - | - | - | - | 3,101 |
| Minority share capital | - | - | - | - | - | - | - | - | - |
| **Balance 30-Jun-14** | **58,246** | **-** | **(28,948)** | **1,028** | **2,750** | **(700)** | **1,637** | **463** | **34,476** |

## CONSOLIDATED CASHFLOW STATEMENT
**for the Half-Year Ended 30 June 2014**

| | NOTE | 6 months to 30-Jun-14 $'000 Inflows/ (Outflows) | 6 Months to 30-Jun-13 $'000 Inflows/ (Outflows) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 66,228 | 62,679 |
| Payments to suppliers and employees | | (68,334) | (61,330) |
| Interest received | | 64 | 219 |
| Interest expense | | (606) | (475) |
| Taxation | | (480) | (211) |
| **Net cash (used)/generated in operating activities** | **13** | **(3,127)** | **882** |
| | | | |
| **Cash flows from investing activities** | | | |
| Movement in security deposits | | - | 106 |
| Net cash out on purchase/disposal of fixed assets | | (228) | (342) |
| Group Information Technology software | | (35) | (9) |
| **Net cash provided by/(used in) investing activities** | **13** | **(263)** | **(245)** |
| | | | |
| **Cash flows from financing activities** | | | |
| Loans from/ (repayments to) related parties | | - | (49) |
| Principal reduction on debt owing to Straits Mine Management Pty Ltd | | (2,100) | (2,000) |
| Bank Debt | | (2,014) | (5,886) |
| Net capital raised from issue of the Company's shares | | 5,039 | 16 |
| **Net cash provided by financing activities** | **13** | **924** | **(7,919)** |
| | | | |
| **Net increase/(decrease) in cash and cash equivalents** | | **(2,465)** | **(7,281)** |
| **Cash and cash equivalents at the beginning of the reporting period** | | **7,375** | **13,540** |
| **Cash and cash equivalents at the end of the reporting period** | **13** | **4,910** | **6,259** |

*Notes to the financial statements are included on pages 28 to 38.*

## NOTE 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 should be read in conjunction with the annual report for 31 December 2013.

**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 2014 half-year financial report are consistent with those adopted and disclosed in the Company's annual financial report for the financial year ended 31 December 2013.

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

## NOTE 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.

## NOTE 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 30-Jun-14 | No. of Options 30-Jun-13 | Expiry Date |
|---|---|---|---|
| Unlisted employee options[1] | - | 1,300,000 | 16-Aug-13 |
| Listed Options | - | 440,232,652 | 3-Jan-14 |
| Unlisted options in Con Loan Note No. 1 issued to SMM[2] | - | 61,237,218 | 1-Jul-14 |
| Unlisted options in Con Loan Note No. 2 issued to SMM[2] | - | 70,418,833 | 28-Nov-15 |
| **Total** | - | 573,188,703 | |

*Notes*

*1. All expired on 16 August 2013 unexercised*

*2. Straits Mine Management Pty Limited*

## NOTE 2.2 INCOME TAX EXPENSE/BENEFIT

Tax losses previously disclosed in the 31 December 2013 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 in the various foreign jurisdictions in which the Group operates.

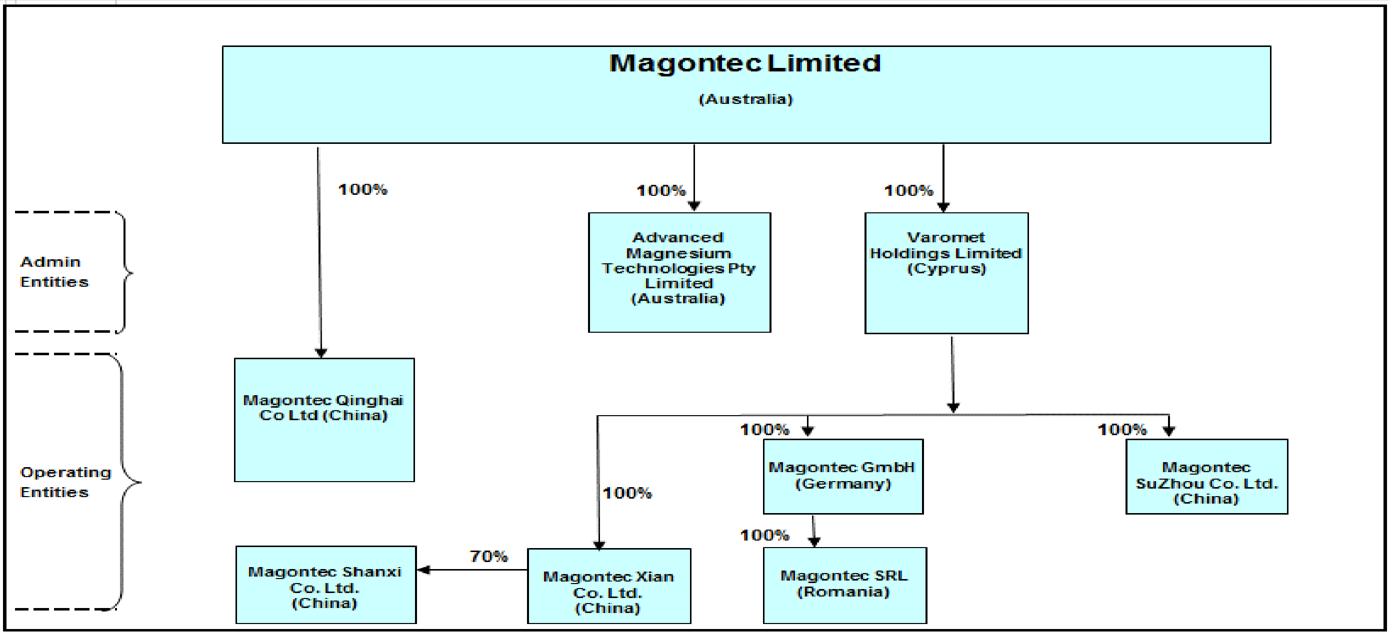
## NOTE 3 DIVIDENDS

No dividend was declared or recommended during the 6 months ended 30 June 2014. (6 months ended 30 June 2013: no dividend declared or recommended). The balance of the franking account at 30 June 2014 is $nil (30 June 2013: $nil).

Notes to CONDENSED Consolidated Financial Statements (cont)
for the Half-Year Ended 30 June 2014

## NOTE 4 SEGMENT REPORTING

### NOTE 4.1 CORPORATE STRUCTURE AS AT 30 June 2014




### NOTE 4.2 IDENTIFICATON OF REPORTABLE SEGMENTS

The consolidated entity comprises the entities as described in NOTE 4.

In respect of the period to 30 June 2014, segment information is presented in respect of the three main departments within the company.

- 'Admin Units' = Magontec administrative entities performing a Head Office funtion comprising -
  Magontec Limited (Australia) as described in the chart at NOTE 4;
  Advanced Magnesium Technologies Pty Limited (Australia) as described in the chart at NOTE 4; and
  Varomet Holdings Limited (Cyprus) as described in the chart at NOTE 4.

- 'EUR' = Magontec operating entities in Europe comprising -
  Magontec GmbH (Germany) as described in the chart at NOTE 4; and
  Magontec SRL (Romania) as described in the chart at NOTE 4.

- 'PRC' = Magontec operating entities in Peoples' Republic of China comprising -
  Magontec Shanxi Co. Ltd. (China) as described in the chart at NOTE 4;
  Magontec Xian Co. Ltd. (China) as described in the chart at NOTE 4;
  Magontec Suzhou Co. Ltd. (China) as described in the chart at NOTE 4; and
  Magontec Qinghai Co. Ltd. (China) as described in the chart at NOTE 4.

**NOTE 4.3** SEGMENT INFORMATION - COMPREHENSIVE INCOME

| | 6 months to 30 June 2014 | | | | 6 Months to 30 June 2013 | | | |
|---|---|---|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 | $'000 |
| | Admin Units | EUR | PRC | TOTAL | Admin Units | EUR | PRC | TOTAL |
| Sale of goods(1) | 4 | 42,316 | 29,649 | 71,970 | - | 41,006 | 28,511 | 69,517 |
| Less Inter-company sales | | | | (5,080) | | | | (8,418) |
| **Net Sales** | **4** | **42,316** | **29,649** | **66,890** | **-** | **41,006** | **28,511** | **61,100** |
| Cost of sales(1) | - | (39,381) | (28,293) | (67,674) | - | (37,146) | (27,380) | (64,525) |
| Less Inter-company sales | | | | 5,080 | | | | 8,418 |
| **Net Cost of Sales** | **-** | **(39,381)** | **(28,293)** | **(62,594)** | **-** | **(37,146)** | **(27,380)** | **(56,108)** |
| Gross Profit | **4** | **2,935** | **1,356** | **4,296** | **-** | **3,861** | **1,131** | **4,992** |
| Other income | 31 | 839 | 247 | 1,117 | 94 | 214 | 142 | 450 |
| Interest expense | (58) | (402) | (145) | (606) | - | (312) | (147) | (459) |
| Impairment of inventory, receivables & other financial assets | (218) | (2) | - | (221) | (1) | (143) | - | (144) |
| Travel accommodation and meals | (96) | (147) | (105) | (349) | (88) | (102) | (105) | (296) |
| Research, development, licensing and patent costs | (41) | (42) | (75) | (158) | (67) | (324) | (66) | (456) |
| Promotional activity | - | (35) | (2) | (37) | (1) | (33) | (2) | (36) |
| Information technology | (8) | (200) | (33) | (241) | (16) | (160) | (25) | (201) |
| Personnel | (428) | (1,657) | (622) | (2,707) | (327) | (1,529) | (537) | (2,393) |
| Depreciation & Amortisation | (10) | (200) | (24) | (234) | (1) | (594) | 220 | (375) |
| Office expenses | (19) | (150) | (49) | (218) | (17) | (45) | (37) | (100) |
| Corporate | (321) | (900) | (317) | (1,538) | (257) | (534) | (111) | (902) |
| Foreign exchange gain/(loss) | (811) | 285 | (80) | (606) | 1,722 | 511 | (62) | 2,172 |
| Other operating costs | - | - | - | - | (11) | (140) | (244) | (395) |
| **Profit/(Loss) before income tax expense** | **(1,976)** | **323** | **152** | **(1,501)** | **1,030** | **670** | **157** | **1,857** |
| Income tax expense/reimbursement | - | 287 | - | 287 | (112) | (299) | (9) | (420) |
| **Profit/(Loss) after income tax expense/benefit including discontinued operations** | **(1,976)** | **610** | **152** | **(1,214)** | **917** | **371** | **149** | **1,438** |
| **Other Comprehensive Income** | | | | | | | | |
| Movement in various actuarial assessments | - | 308 | - | 308 | - | 53 | - | 53 |
| Exchange differences taken to reserves in equity – translation of overseas entities | 38 | (323) | (666) | (951) | 41 | 200 | 985 | 1,225 |
| **Total Comprehensive Income** | **(1,938)** | **594** | **(514)** | **(1,857)** | **958** | **624** | **1,134** | **2,716** |

*Note 1*

*In the report for the 6 months ended 30 June 2013, metal sales of $1.934m and cost of sale of $1.510m had been attributed to 'Corporate/Head Office' (the equivalent of 'Admin Units' in NOTE 4.3 above). This activity has been reallocated to PRC reflecting the point of origination of the metal being sold.*

## NOTE 4.4 SEGMENT INFORMATION - BALANCE SHEET

| Segment Assets | 30-Jun-14 $'000 Admin Units | 30-Jun-14 $'000 EUR | 30-Jun-14 $'000 PRC | 30-Jun-14 $'000 TOTAL | 31-Dec-13 $'000 Admin Units | 31-Dec-13 $'000 EUR | 31-Dec-13 $'000 PRC | 31-Dec-13 $'000 TOTAL |
|---|---|---|---|---|---|---|---|---|
| Gross Segment assets | 47,128 | 45,893 | 26,139 | 119,161 | 45,246 | 58,342 | 31,520 | 135,107 |
| Adjustment(1) | - | - | - | - | - | (1,354) | - | (1,354) |
| Eliminations | | | | | | | | |
| - Inter-Coy Loans | (32,090) | (2,497) | 815 | (33,772) | (29,049) | (11,498) | (2,968) | (43,515) |
| - Investment in subsidiaries | (15,392) | - | - | (15,392) | (15,392) | (63) | - | (15,455) |
| - Other | 7,341 | 197 | (107) | 7,430 | 6,401 | 213 | (230) | 6,385 |
| **As per Consolidated Balance Sheet** | **6,987** | **43,593** | **26,848** | **77,427** | **7,206** | **45,640** | **28,321** | **81,168** |

| Segment Liabilities | 30-Jun-14 Admin Units | 30-Jun-14 EUR | 30-Jun-14 PRC | 30-Jun-14 TOTAL | 31-Dec-13 Admin Units | 31-Dec-13 EUR | 31-Dec-13 PRC | 31-Dec-13 TOTAL |
|---|---|---|---|---|---|---|---|---|
| Gross Segment liabilities | 17,974 | 40,821 | 18,032 | 76,827 | 19,111 | 50,819 | 22,776 | 92,705 |
| Adjustment(1) | - | - | - | - | - | (1,354) | - | (1,354) |
| Eliminations | | | | | | | | |
| - Inter-Coy Loans | (17,824) | (9,184) | (6,869) | (33,877) | (15,597) | (20,763) | (7,147) | (43,508) |
| - Other | - | - | - | - | 167 | - | - | 167 |
| **As per Consolidated Balance Sheet** | **151** | **31,638** | **11,163** | **42,951** | **3,680** | **28,701** | **15,628** | **48,010** |

*Note 1. Adjustment to 2013 Gross Asssets and Liabilities for set off of factoring debt (refer note at the foot of the balance sheet on page 25.)*

## NOTE 5 CONTINGENT ASSETS & LIABILITIES

Contingent assets and liabilities remain unchanged from those disclosed in the Annual Report at 31 December 2013.

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 USD12.45m (about AUD13.21m). The capital expenditure is expected to be funded from a combination of –

- cash on hand;
- cash generated from operations;
- existing undrawn debt facilities;
- release of cash tied up in working capital assets; and
- new RMB25m (about AUD4.3m) debt facilty signed with Commerzbank Beijing on 29 July 2014.

The only expenditure incurred to date is initial development costs of about $232,432. However, as at the date of this report the Company has has lodged orders for USD0.803m (about AUD0.85m) plant and equipment.

## NOTE 6 SHARE CAPITAL

| | 30-Jun 2014 $'000 | 31-Dec 2013 $'000 |
|---|---|---|
| **Opening balance** | **51,597** | **33,970** |
| Shares issued to staff (Guenter Franke)(1) | - | 64 |
| Issue of shares to Executives of Magontec Limited(2) | - | 35 |
| Capital subscribed (net of costs) to Nov 2012 rights issue | - | 11,026 |
| Issue of securities in repect of conversion of listed options | 5,596 | 962 |
| Issue of securities to SMM in respect of conversion of Convertible Loan Notes | 1,063 | 5,908 |
| Various costs associated with above issues | (9) | (371) |
| **Share capital on issued ordinary shares 1,115,043,832 (2013: 813,588,666)** | **58,246** | **51,596** |
| | | |
| QSLM monies received for conversion of options in respect of shares issued post 31 December 2013 | - | 3,000 |
| Subscriptions in respect of conversion of listed options for which securities are to be issued | - | 548 |
| Share capital attributable to members of MGL | **58,246** | **55,145** |
| Share capital attributable to minority interest | **463** | **463** |
| **Total share capital** | **58,709** | **55,608** |

*(1) At 31-Dec-13 this was the 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*

*(2) Shares issued in terms of entitlement under Resolution 8(b) of the Company's 2011 AGM held 22 Nov 2011*

## NOTE 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.

| | 6 months to 30-Jun-14 $'000 | 6 Months to 30-Jun-13 $'000 |
|---|---|---|
| **Cash and cash equivalents at the beginning of the reporting period** | **7,375** | **13,540** |
| Net cash (used)/generated in operating activities | (3,127) | 882 |
| Net cash provided by/(used in) investing activities | (263) | (245) |
| Net cash provided by financing activities | 924 | (7,919) |
| **Cash and cash equivalents at the end of the reporting period** | **4,910** | **6,259** |
| | | |
| Cash on hand and at bank | **4,910** | **6,259** |

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## NOTE 8 EVENTS SUBSEQUENT TO BALANCE DATE

On 27 August 2014 the Company announced to the Australian Securities Exchange (refer NOTE 15 on page 38) the temporary closure of the Company's factory at Suzhou. Apart from this development, there are no matters subsequent to the end of the financial half year that have, or may, significantly affect the Group's operations, the results of those operations, or the state of the Group's affairs.

## NOTE 9 CALCULATION OF EARNINGS/(LOSS) PER SHARE INCLUDING DISCONTINUED OPERATIONS

| **Earning/(Loss) per share:** | | Half-Year Ended 30-Jun-14 | Half-Year Ended 30-Jun-13 |
|---|---|---|---|
| Profit/(Loss) attributable to members of the parent entity including discontinued operations | 1 | ($1,213,748) | $1,437,513 |
| Average shares on issue for the period | 2 | 1,110,014,752 | 644,933,399 |
| Total vested options (Refer NOTE 2.1) | 3 | - | 573,188,703 |
| **Basic** Earnings/(Loss) per share (cents per share) | 1 ÷ 2 × 100 | (0.109) | 0.223 |
| **Diluted** Earnings/(Loss) per share (cents per share) | 1 ÷ (2 +3)× 100 | (0.109) | 0.118 |

## NOTE 10 Other Income in Comprehensive Income Statement

| | 6 months to 30-Jun-14 $'000 | 6 Months to 30-Jun-13 $'000 |
|---|---|---|
| Interest revenue | 64 | 219 |
| Prior year income | - | 40 |
| Gain/(Loss) on disposal of fixed asset | - | 39 |
| Gain on termination of interest rate swap contract | 331 | - |
| Receivables recovery following insolvency liquidation | 103 | - |
| PRC Government subsidy for finance costs | 2 | - |
| PRC Government subsidy for transport costs | 167 | - |
| Other | 450 | 183 |
| | **1,117** | **481** |

## NOTE 11.1 CURRENT TRADE AND OTHER RECEIVABLES

| | 30-Jun 2014 $'000 | 31-Dec 2013 $'000 |
|---|---|---|
| Trade receivables(1) | 23,397 | 25,996 |
| Allowance for doubtful debts | (451) | (755) |
| | **22,946** | **25,241** |
| Net GST/VAT recoverable | 185 | - |
| Security deposits | 542 | 597 |
| Derivatives fair value adjustment | 31 | 11 |
| Other receivables due to operating entities | 1,150 | 1,084 |
| Other | - | 94 |
| | **1,907** | **1,786** |
| **Total receivables** | **24,853** | **27,027** |

*(1) Trade receivables represent 63.31 days sales at 30 Jun 14 (61.20 days sales at 30 Jun 13)*

*Trade receivables, as quoted in the annual report for 31 December 2013, have been reduced by $1,354,007 as a result of offsetting a factoring facility incorrectly recorded in 'Borrowings' (refer NOTE 14).*

## NOTE 11.2 CURRENT TRADE AND OTHER PAYABLES

| | 30-Jun 2014 $'000 | 31-Dec 2013 $'000 |
|---|---|---|
| Trade creditors(1) | 15,948 | 14,813 |
| Net GST/VAT payable | - | 279 |
| Amount due to QSLM | 450 | 53 |
| Other creditors and accruals | 2,183 | 2,893 |
| Accrued audit fees | - | 19 |
| | **18,580** | **18,057** |

*(1) Trade creditors represent 46.11 days cost of goods sold (38.74 days cost of goods sold at 30 Jun 13)*

## NOTE 12 RESERVES

| | 30-Jun 2014 $'000 | 31-Dec 2013 $'000 |
|---|---|---|
| **Capital reserve** | | |
| Balance at beginning of financial year(1) | 2,750 | 2,750 |
| Balance at end of financial year | **2,750** | **2,750** |
| **Foreign currency translation reserve** | | |
| Balance at beginning of financial year | 1,979 | (179) |
| Movement in VHL Consolidated accounts | (951) | 2,158 |
| Balance at end of financial year | **1,028** | **1,979** |
| **Actuarial Reserves** | | |
| Balance at beginning of financial year | (1,007) | (1,226) |
| Derivatives | (151) | (108) |
| Deferred tax assets | - | 176 |
| Employee pensions | 459 | 150 |
| Balance at end of financial year | **(700)** | **(1,008)** |
| **Expired Options Reserve** | | |
| Balance at beginning of financial year | 1,637 | 1,612 |
| ESOP options expiry | - | 24 |
| Balance at end of financial year | **1,637** | **1,637** |
| **Total reserves** | **4,715** | **5,358** |
| | | |
| Reserves attributable to minority interests | - | - |
| Reserves attributable to members of MGL | 4,715 | 5,358 |
| **Total reserves** | **4,715** | **5,358** |
| | | |
| **Other Comprehensive Income - that may later emerge in the Profit and Loss Statement** | - | - |
| Exchange differences taken to reserves in equity – translation of overseas entities | (951) | 2,158 |
| Movement in various actuarial assessments | 308 | 219 |
| **Total Other Comprehensive Income** | **(644)** | **2,377** |
| | | |
| **Represented By-** | | |
| Movement in Foreign currency translation reserve | (951) | 2,158 |
| Movement in Actuarial Reserves | 308 | 219 |
| | **(644)** | **2,377** |

**Notes**

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 Group's unfunded defined benefit pension obligation that needs to be recognised in “Other comprehensive income” (OCI).

## NOTE 13 CASH FLOW STATEMENT – RECONCILIATION WITH QUARTERLY CASH FLOW REPORT (APPENDIX 4C)

| | Cash Flow to 30-Jun-14 This Report $'000 | Cash Flow to 30-Jun-14 Appendix 4C $'000 | Variations $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | 66,228 | 67,057 | (829) |
| Payments to suppliers and employees | (68,334) | (71,093) | 2,759 |
| Interest received | 64 | (150) | 214 |
| Interest expense | (606) | (61) | (545) |
| Taxation | (480) | (12) | (468) |
| **Net cash (used)/generated in operating activities** | **(3,128)** | **(4,259)** | **1,131** |
| **Cash flows from investing activities** | | | |
| Movement in security deposits | - | - | - |
| Payment for property, plant & equipment | (228) | (217) | (11) |
| Group Information Technology software | (35) | (35) | - |
| Other | - | - | - |
| **Net cash provided by/(used in) investing activities** | **(263)** | **(252)** | **(11)** |
| **Cash flows from financing activities** | | | |
| Loans from/ (repayments to) related parties | - | - | - |
| Debt reduction to Straits Mine Management Pty Ltd | (2,100) | (2,100) | - |
| Bank Loans | (2,014) | (820) | (1,194) |
| Net capital raised from issue of the Company's shares | 5,039 | 5,039 | - |
| **Net cash provided by financing activities** | **925** | **2,119** | **(1,194)** |
| **Net increase (decrease) in cash held** | **(2,465)** | **(2,392)** | (73) |
| Cash at beginning of quarter /year to date | 7,375 | 7,375 | - |
| **Cash at end of quarter /year to date** | **4,910** | **4,983** | **(73)** |

At the time the Company's quarterly cash flow report as at 30 June 2014 (Appendix 4C) was lodged with the ASX, the audit of the financial accounts had not been completed and the re-statement of the accounts for the 12 month period to 31 December 2013 not effected.

The amounts under the 'Variations' column in Note 13 reflect the variations between the unaudited cash flow statement in Appendix 4C and the audited financial accounts at 30 June 2014. Of the reduction of $1,194,000 in the 'Variations' column against the line 'Net cash provided by financing activities', and the increase of $1,131,000 against the line 'Net cash (used)/generated in operating activities', $1,203,000 is attributable the altered accounting treatment of the factoring debt at 31 December 2013 and 31 December 2014 (refer description at the foot of the Consolidated Balance Sheet appearing on page 25).

**NOTE 14** BORROWINGS

| | 30-Jun 2014 $'000 | 30-Jun 2014 Maturity Date | 30-Jun 2014 Interest pa(1) | 31-Dec 2013 $'000 | 31-Dec 2013 Maturity Date | 31-Dec 2013 Interest pa(1) |
|---|---|---|---|---|---|---|
| **Bank & Institutional Borrowings** | | | | | | |
| Magontec GmbH (Bank Loan)(2) | 8,713 | 30-Jun-17 | 2.30% | 9,258 | 30-Jun-14 | 3.24% |
| Magontec GmbH (Bank Loan)(2) | 3,920 | 30-Jun-17 | 2.74% | 3,270 | 30-Jun-14 | 3.01% |
| Magontec GmbH (Factoring Facility)(3) | 1,203 | 30-Nov-14 | 1.99% | 1,354 | 30-Nov-14 | 1.99% |
| Magontec Xian Limited (Bank Loan -Current Borrowing) | 3,465 | 22-Apr-14 | 6.40% | 4,224 | 1-Apr-14 | 6.50% |
| Magontec SRL (Finance Lease - Current Borrowing) | 6 | 30-Jun-15 | 8.79% | 16 | 30-Jun-15 | 8.79% |
| **Total Bank Borrowings** | **17,307** | | | **18,121** | | |

| | 30-Jun 2014 $'000 | 30-Jun 2014 Maturity Date | 30-Jun 2014 Interest pa(1) | 31-Dec 2013 $'000 | 31-Dec 2013 Maturity Date | 31-Dec 2013 Interest pa(1) |
|---|---|---|---|---|---|---|
| **Current Borrowings** | | | | | | |
| Bank borrowings as above (excluding factoring facility) | 3,471 | - | - | 16,767 | - | - |
| Owing to Straits Mine Management Pty Ltd(4) | - | - | - | 2,100 | 3-Jan-14 | - |
| Convertible Loan Note 2 - Straits Mine Management Pty Ltd(5) | - | - | - | 1,004 | 3-Jan-14 | - |
| Other Current Borrowings | - | - | - | - | - | - |
| **Total Current Borrowings** | **3,471** | | | **19,871** | | |
| | | | | | | |
| **Non Current Borrowings** | | | | | | |
| Bank borrowings as above | 12,633 | - | - | - | - | - |
| **Total Non Current borrowings** | **12,633** | | | **-** | | |

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

*(2) These borrowings are secured by a charge over MAB's trade debtors and inventory. Trade debtors are charged to the extent of €10,466,797 ($15,200,112).*

*(3) This facility is set off against trade debtors.*

*(4) This debt was repaid on 3 January 2014 from proceeds of conversion of listed options.*

*(5) This debt was converted to ordinary shares in Magontec Limited on 3 January 2014.*

MAGONTEC MAGONTEC Magnesium

**Magontec Limited – Temporary factory closure in China**

27 August 2014

Magontec Limited has been required by the Wujian Industry Zone Safety Supervising Office in Suzhou City to temporarily close the operations of its Suzhou magnesium recycling factory in Jiangsu Province.

The Company is currently uncertain of the date on which the factory will be allowed to re-start operations.

In early August an accident at an aluminium factory in Kunshun, Jiangsu Province, PRC, resulted in the death of around 70 employees and injured many others. This factory is NOT connected to Magontec in any way.

The Suzhou Safety Supervising Bureau immediately requested the closure of over 200 aluminium and magnesium processing factories in the Suzhou City area, pending its investigation of safety standards and conditions.

Magontec manufactures primary magnesium alloys at a factory in Shanxi Province and has contracts to receive scrap returns at its Suzhou plant for recycling. As a result the temporary closure of the Suzhou plant impacts the volumes that can be supplied from the Shanxi factory.

Management and Directors in China are working with the local authorities so that the Suzhou recycling plant can recommence operations as soon as possible. The major impediment to an immediate re-start is a requirement imposed on the Suzhou factory to seek a new and higher-level fire safety rating. The Company will keep shareholders informed of progress.

Nic Andrews
Executive Chairmen & CEO