Magontec Limited

Half Year Report 2018

Corporate Information and Glossary

1. Corporate information

The consolidated financial statements of Magontec Limited and its controlled subsidiaries as listed in Note 4.1 herein (collectively, the Group) for the 6 months to 30 June 2018 were authorised for issue in accordance with a resolution of the directors on 23 August 2018. Magontec Limited is a company limited by shares incorporated in Australia. The shares are publicly traded on the Australian Securities Exchange (ASX) under the code “MGL”.

2. Glossary of terms referred to in this report

Formal Name of Entity	Description of Entity	Referred to as
Head office entities		
Magontec Limited	The ultimate parent/holding company of the Group.	**Parent Company or MGL**
Advanced Magnesium Technologies Pty Limited	Wholly owned subsidiary of Magontec Limited that acts as the administrative operating entity.	**Advanced Magnesium Technologies Pty Limited**
Varomet Holdings Limited	The holding company that owns the Group’s operating businesses at Bottrop (Germany), Xi’an (PRC) and Suzhou (PRC). In turn, Magontec Limited owns all of the ordinary shares issued by Varomet Holdings Limited.	**VHL**
Operating entities		
Magontec GmbH	The wholly owned entity that owns the Group’s operations in Bottrop, Germany.	**MAB**
Magontec SRL	The wholly owned entity that owns the Group’s operations in Santana, Romania.	**MAR**
Magontec Xi’an Co Ltd.	The wholly owned entity that owns the Group’s operations in Xi’an, PRC.	**MAX**
Magontec Qinghai Co. Ltd.	The wholly owned entity that owns the Group’s operations in Qinghai, PRC.	**MAQ**
Magontec Shanxi Co. Ltd.	The joint venture operations in Jishan, Shanxi Province PRC.	**MAY**
Magontec Suzhou Co. Ltd.	The wholly owned entity that owns the Group’s operations in Suzhou, PRC.	**MAS**
Magontec US LLC	The wholly owned entity that acts as the group’s distributor located in the United States of America.	**MAU**
Major related shareholders and other terms		
Qinghai Salt Lake Magnesium Co. Limited	A subsidiary of Qinghai Salt Lake Industry Co. Limited (a company listed on the Shenzhen Stock Exchange) and a shareholder in MGL to the extent of 28.99% at the date of this report.	**QSLM**
Straits Mine Management Pty Limited	The company from which MGL acquired the Magontec group of companies on 4 July 2011. SMM remains a 13.06% substantial shareholder of Magontec at the date of this report.	**SMM**
KWE (HK) Investment Development Co Ltd	Shareholder in Magontec Limited to the extent of 4.93% at the date of this report. Mr Zhong Jun Li, a director of Magontec Limited is also a director of KWE (HK) Investment Development Co Ltd.	**KWE (HK)**
People’s Republic of China		**PRC**

3. Rounding errors

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 comparative balances of items from the financial accounts.

Such differences arise from the process of:

– converting foreign currency amounts to two decimal places in AUD; and
– subsequent rounding of the AUD amounts to one thousand dollars.

Contents

Image: Aerial view of salt lake retention ponds - Golmud China 23 July 2018. An abundant source of minerals such as Potassium, Magnesium and Lithium. Photo by Qilai Shen.

Financial Highlights

	1H 2018	1H 2017
Gross Profit	**$7.30m**	$7.28m
Gross Profit Margin	**11.1%**	10.5%
Profit before Tax, unrealised FX and significant items	**$1.13m**	$1.24m
Reported Net Profit After Tax	**$0.180m**	$(0.384)m
Underlying NPAT* excluding foreign exchange	**$(0.145)m**	$0.353m
Cash Flow from operations	**$1.6m**	$1.8m
Net Debt to Net Debt + Equity	**21.3%**	29.0%

* Underlying NPAT is defined here as reported net profit after tax excluding unrealised foreign exchange gains and losses.

Reporting Highlights

Magontec Qinghai

- Cast house now qualified by major PRC customers, global qualification progressing
- $1m including depreciation and G&A costs at Qinghai cast house charged to 1H18 EBIT
- Continuous Refinery Furnace (CRF) now operating for 11 months
- 1,400 mt of Mg alloys produced for China and EU customers in 2018 (to 31 August)
- Line B to commence production when Lines A & C at capacity

Other Operations

- Global Mg anode production volumes +18% on contracts recovered & new business
- Rising volumes and automation further reducing Mg anode conversion costs
- Primary Mg alloy transition to Qinghai well progressed, Shanxi closure delayed to 4Q 2018
- Romanian Mg alloys operation returns to operating profit

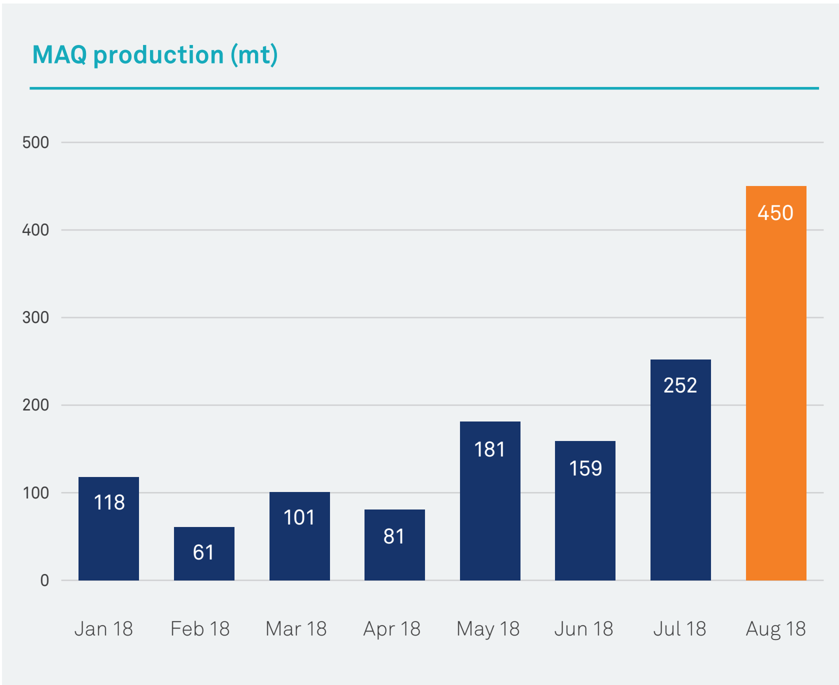
Magontec Qinghai

Modern complex

Proprietary technology

Automated production

The electrolytic magnesium facility owned and operated by Magontec's partner company, QSLM, continues to operate at levels below expectations, but on an improving trend.



There have been a number of small commissioning issues across all the QSLM facility production units, all of which might be expected in a newly commissioned plant of the size and scope of this magnesium facility. The critical issue for Magontec remains delivery, by metal truck, of sufficient volume of liquid pure magnesium from the QSLM reduction cells to the Mg Alloy Cast House furnaces.

The QSLM reduction plant is now producing over 50 metric tonnes a day (around 18% of final capacity) from one of two dehydration units and 16 electrolytic cells. This is expected to rise to 100mt a day by the end of the year and the second dehydration unit (an additional 50,000mt of annual Mg capacity) is expected to come on stream in the next few months. Technical and supply issues with delivery of liquid pure Mg via the "metal trucks" is being addressed by the European manufacturer and QSLM management expect to resolve this in the next few weeks.

In the Magontec Qinghai Magnesium Alloy Cast House, production has been steadily rising in line with increasing QSLM deliveries of pure magnesium raw material.

The process of qualifying customers at the new cast house has added costs and impeded a shift to higher volumes as this has required many different samples to be manufactured in a start-stop process. We expect production volumes to continue to rise over the coming months and for the facility to be at or through break even volumes by 31 December 2018.

Financial Report

for the 6 months ended 30 June 2018

Reconciliation of significant items in earnings	6 months to 30 June 2018 $'000	6 months to 30 June 2017 $'000
Net Profit Before Tax, unrealised FX and significant items	**1,133**	**1,239**
Significant Items Before Tax		
Less non-cash equity expense	(28)	(159)
Less impact of fraudulent inventory loss	–	(292)
Less MAQ pre-tax losses (excluding depreciation)	(522)	–
Less MAQ depreciation (non-cash)	(507)	–
Net Profit Before Tax excluding unrealised FX	**76**	**788**
Less tax expense	(221)	(435)
Net Profit After Tax before unrealised FX (underlying NPAT*)	**(145)**	**353**
Add/(subtract) unrealised FX gains/(losses)	325	(737)
Reported Net Profit After Tax	**180**	**(384)**

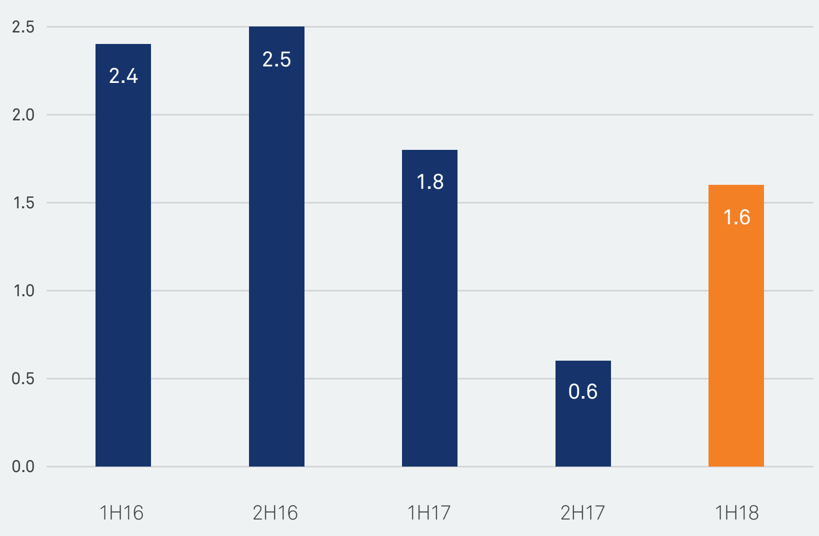
* Underlying NPAT is defined here as reported net profit after tax excluding unrealised foreign exchange gains and losses.

Cashflow

As noted in prior reports, underlying operating cash flow is one of the key metrics that management monitors internally, and is defined as operating cash flow before interest, tax payments and working capital movements. For Magontec, working capital movements can have a large impact on overall operating cash flow in any given period, but are generally only a reflection of timing differences in cash receipts and payments in the metals business, which is working capital intensive.

During the first half of 2018, Magontec generated underlying operating cash flow of $1.6 million, slightly down on the prior corresponding period ($1.8 million) but a significant improvement on the second half of 2017 ($0.6 million). This was driven by a stronger performance in the anodes business.

Cash flow from underlying operations (A$ million)



Financial Report

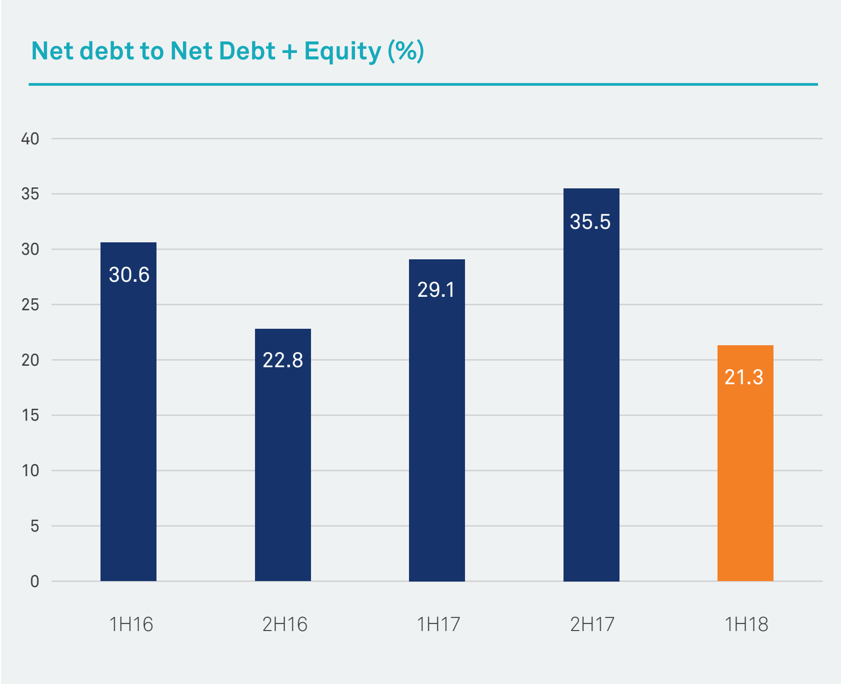
for the 6 months ended 30 June 2018 (continued)

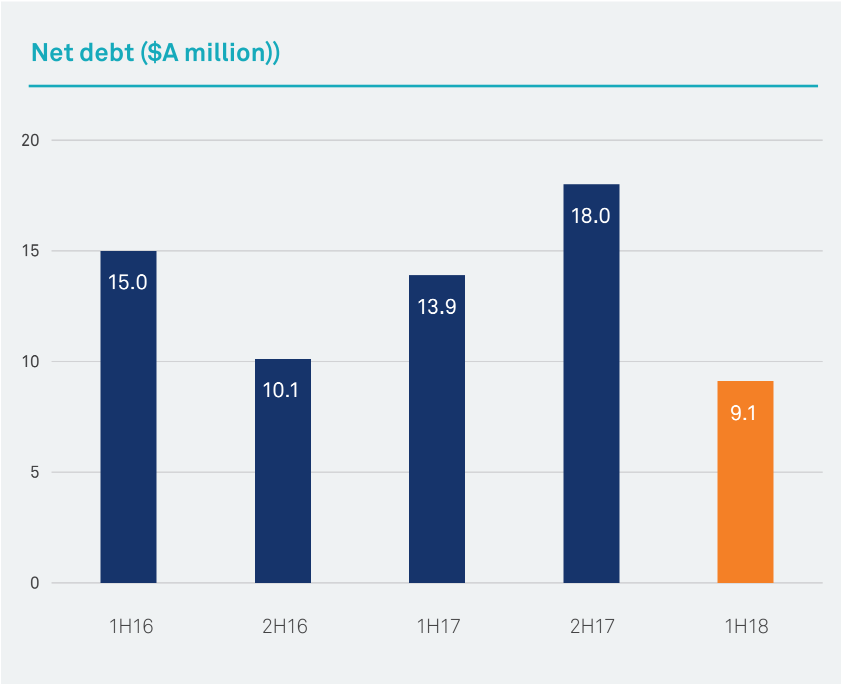
Reported operating cashflow was $10.1 million during the 6 months to June 2018. In addition to $1.6 million of underlying operating cash flow generated during the period, the company received large cash inflows of working capital (+$10.0 million) from a combination of cash collected from customers who were invoiced prior to 31 December 2017 and favourable timing on creditors and payments. We expect working capital amounts to revert to more normal levels in the second half of 2018.

Balance sheet and banking facilities

Net debt during the period fell to $9.1 million as at 30 June 2018 (compared with $18.0 million as at 31 December 2017). This reduced gearing to 21.3% on a net debt to net debt + equity basis (31 December 2017: 35.5%).

During the half, the company successfully renewed a RMB 20 million facility from the Bank of Communications in China and repaid RMB 10 million of loans outstanding to Commerzbank, also in China. As at 30 June 2018, the company's borrowing headroom was $3.2 million across its existing banking facilities in Germany, Romania and China.





Operations Summary

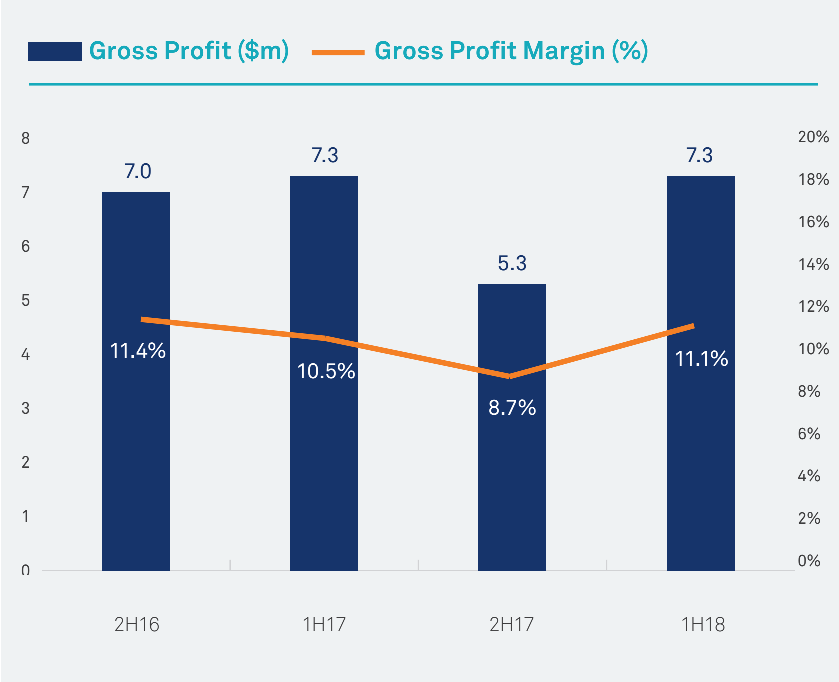
Given the challenges of bringing the new Magontec Qinghai Magnesium Alloy Cast House on stream, the first half result was better than might have been expected.

The anodes businesses made a very positive contribution, somewhat compensating for a lower metals result as start-up costs at Qinghai continue to weigh. We look forward to a similarly strong second half for the global anodes business where production teams in China and Romania have overseen some excellent cost improvements compared with the previous corresponding period (PCP). These are reflected in divisional EBIT line contributions.

Net Profit line is again heavily influenced by the impact of movements in foreign exchange. While the reported NPAT was $0.18m excluding unrealised foreign exchange gains of $0.33m, the underlying result was a net loss of ($0.15)m.

The metal business has been strong in China at the Shanxi facility, steady in Germany and better in Romania. At Qinghai we remain poised to commence mass production as sufficient volume of liquid pure magnesium raw material supply from the QSLM electrolytic smelter becomes available.

In Europe overall Gross Profit margins were steady on PCP and ahead of the second half of 2017, largely reflecting an improved performance from the anodes business, while in China Gross Profit margins were up strongly versus PCP and versus the second half of 2017. Both primary Mg alloys (excluding the new facility at Magontec Qinghai) and Mg anodes made significant gains as a result of higher volumes and lower conversion costs for anodes and lower raw material costs for Mg alloys.



A strong performance by the global Mg anodes business skews the result towards higher margin products and helped lift the overall Gross Profit margin from 10.5% in 1H17 to 11.1% in 1H18. This improvement in Gross Profit did not filter down to EBIT as G&A costs were up 14% on PCP and depreciation costs (following the commencement of production at Qinghai) rose 67% from $0.8m to $1.35m.

While the delays at Qinghai are frustrating and the labour issues in Romania continue to drag on profitability, cash generated by the underlying operations remains firmly positive. The group generated $1.6 million of cash from operations in the period under review, up from $0.6m in the second half of 2017 and slightly below the $1.8m recorded in the PCP, when Qinghai was not operational, and the Romanian issues had not fully emerged.

Working capital, which is a significant item for Magontec as a manufacturer of high volume internationally traded goods, declined from $33m at the end of 2017 to $25m as at 30 June 2018 reducing net debt to just $9.1m, some 50% below the balance as at 31 December 2017. Net debt is not expected to remain at these low levels and has been positively impacted by timing differences.

Low levels of debt and strong cash flows reflect a stable underlying business and an established platform for growth before the Qinghai primary Mg alloy facility fully comes on stream. Our business, while an international trading enterprise, has not been impacted by the new US tariffs and enjoys rising demand for its largest product, Mg alloys. In China, according to respected commodities analyst CM Group, global demand for Mg alloys is estimated to have risen by 16% during 2017, driven by growth in demand from high speed rail, automotive and other industries.

At the same time environmental controls in China have raised costs for Magontec's competitors who source product from Pidgeon process pure magnesium plants. It is estimated that environmental restrictions have lowered output in China by 15% in the first 6 months of 2018. While the commercial environment is and will remain competitive, Magontec is strongly positioned as an emerging volume producer of low CO_2 magnesium products at a low-cost production facility selling into a growing market.

Metals

Magnesium alloys

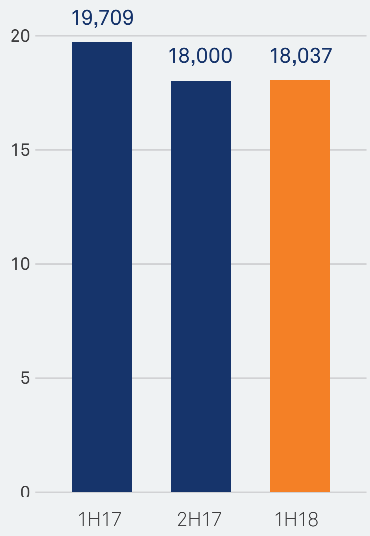
Image: Solar panels stand in a mega solar power farm, operated by the National Electric Group of the Yellow River Upstream Hydropower Development Co.,Ltd, seen on the outskirts of Golmud, China. Photo by Qilai Shen.

Aside from the Qinghai facility, the metals business has enjoyed a better half in the six months to 30 June 2018. While the labour issues that impacted volume and profitability at the Romanian Mg alloy recycling plant in the second half of 2017 are not entirely resolved, there has been an improvement in production metrics and the factory has returned to profit at the operating line over the last six months.

The key features of the global metals result have been the slow run-down of the current primary Mg alloy plant in Shanxi Province, the start of production at the new primary Mg alloy plant at Golmud in Qinghai Province and a recovery in overall volumes and profitability in Europe. The chart adjacent suffers by comparison with PCP (1H17) as the Chinese business enjoyed an unusually high level of demand in that half and the Shanxi primary Mg alloy plant is now running at lower volumes as it prepares for closure.

In China Magontec is in a transition in which the company is bearing significant additional costs. These include an inventory build-up to manage an extended handover period for some customers, expenses associated with an opening ceremony at Qinghai in April to present the new facility to customers, partner companies and local Government officials and costs associated with qualification of the new plant, both to ISO standards and for each customer. The qualification process involves the manufacture of multiple small loads and frequent changes to casting and packaging set up.

Global Metals Sales Volumes (mt)



Metals

Magnesium alloys

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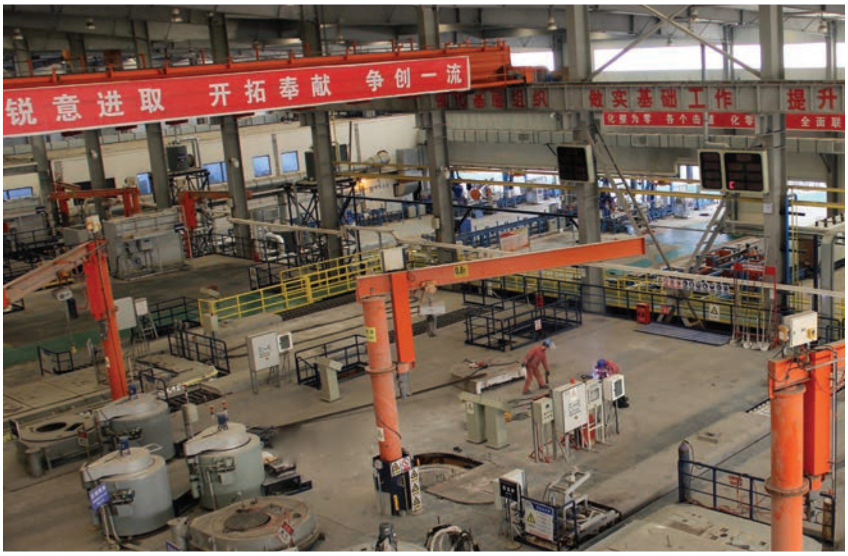


Losses associated with start-up costs at the Qinghai plant together with additional depreciation on assets, that are operating at very low output levels compared to rated capacity, amounted to over $1m. There will be additional qualification and other transition costs through the second half of 2018, although we expect these to be lower than in the first half.

The Shanxi primary Mg alloy plant performed very well through the first half of the year. It is now scheduled to close at the end of October, however the more efficient Lines 1 & 2 were closed at the end of July and just the smaller Line 3 will continue for another three months. Production through the third quarter of 2018 will be devoted in large part to inventory accumulation designed to assist our customers through the Qinghai qualification process. It is likely to mean higher conversion costs at Shanxi and, as a result of the inventory build-up, higher production but lower realised profit in the 3rd and 4th quarters of 2018.

The Shanxi factory was originally a pure Mg Pidgeon plant as well as an Mg alloy converter when Magontec commenced its lease there in 2013. In the last 5 years the pure Mg Pidgeon plant has been closed and dismantled and the Mg alloying facilities will be similarly shuttered and dismantled as Magontec fully vacates the premises in the fourth quarter of 2018. This reflects a general trend across the Chinese magnesium industry where environmental and cost pressures are rendering previously competitive plants less profitable. This appears serendipitous as Magontec production moves to the new plant at Qinghai, which suffers from none of these environmental or raw material supply chain challenges, particularly from the ferro-silicon and coal industries which are central to the Pidgeon production process.

In Germany the Mg alloy recycling business continued to perform in line with expectations although below PCP in terms of volumes and contribution to EBIT. The market in western Europe remains competitively bid and this is unlikely to change over the second half. There is excess recycling capacity in this part of Europe and regional competitors all seek to win additional volume, often at very low returns, for the impact this has on conversion costs.

Magontec in Germany has managed to maintain its position in this market by introducing new casting techniques that address key production costs. It will incrementally introduce other process technologies that are currently in development as they become proven.

In Romania Magontec's factory suffers, along with most other manufacturers in the region, from an extreme labour issue that has developed in the last 24 months. Over 20% of the Romanian working population has migrated to other countries in the EU while many western European factories have been built in western Romania over the last decade, seeking lower wage costs within the European Union and now on newly constructed European arterial road systems. Unemployment in the Arad region, where Magontec Romania is located, is now around 1.4% of the working population, wages are rising and demand for the available labour pool is high. While this is an issue that may take some time to resolve itself, our management team in Romania has restored operating stability and is moving the business steadily back to a more profitable condition.

Furthermore, Romania remains an excellent location for our recycling business; the three largest global Mg alloy diecasting Tier 1 customers have re-located to Romania in recent years and OEMs including Jaguar Land Rover and Volkswagen have built new factories in adjacent countries.

Across the three Mg alloy manufacturing operations the company recorded no major injuries. Given the number of new employees in Romania and Qinghai and the rundown of the operation in Shanxi this underlines the emphasis that Magontec places on employee safety and the effectiveness with which policies and regulations are enforced.

Profitability across the metals business was a little above break even at the EBIT line and well down on the previous period. The Qinghai and Romania metals businesses made a combined negative contribution at the EBIT line of $1.4m.

Cathodic Corrosion Protection (CCP)

Magnesium and Electronic Anodes

The anodes division has performed well over the first half of 2018, with Mg anodes and electronic anodes recording higher volumes and higher profits.

Across the global Mg anodes business production was up over 18% compared with the previous corresponding period, with most of that improvement coming from Magontec's PRC business in Xi'an. Reduced conversion costs over the last 12 months have led to the Chinese business unit recapturing volumes lost in 2018 and winning new business.

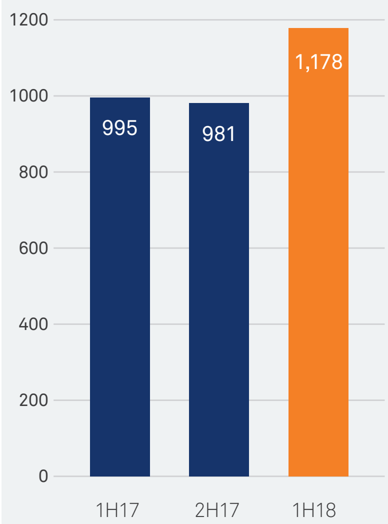
As a result of new investment and new processes the Xi'an plant has managed a significant reduction in the costs of production with more to come in the second half, and that has placed the company in a strong position to begin to sell into the more competitive export markets. It is perhaps unfortunate to reach this position in the time of Trump, as the hurdles to sales into the US market for this product have been raised considerably and to the evident detriment of business confidence among US manufacturers, particular in their dealings with suppliers of goods manufactured in China.

In Europe production volumes also rose, up 6% on the previous corresponding period. As we have discussed above there are particular problems with the production facility in Romania (this factory produces both Mg anodes and recycles Mg alloy ingots), and to a lesser degree these same labour issues have impacted Magontec's European Mg anode manufacturing and processing business. Again, the local management is making progress here and conversion costs have improved in the first half of 2018 compared with PCP, although prices are also under pressure in this market.

The electronic anodes business has enjoyed a strong start to the year. There has been growth in sales to European and US customers, much of this stemming from new products and product enhancements, offering manufacturers of higher-value water heaters better functionality and more attractive products.

Overall the global anode business made a much-improved contribution to profitability at the EBIT line in the half under review.

Global Mg Anodes Production (mt)

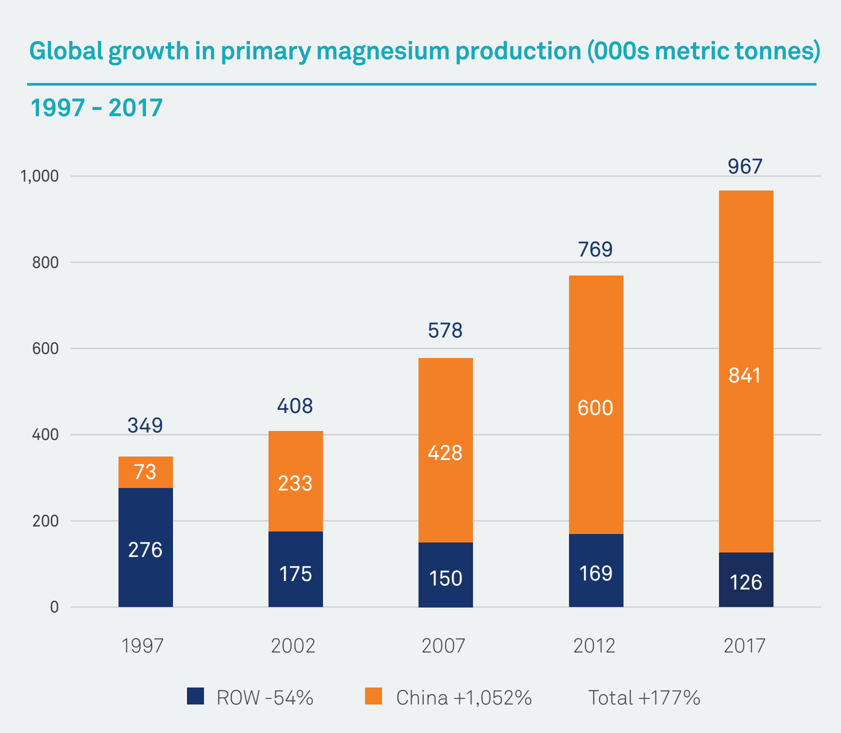


International trade and currency effects

Magontec trades material across a wide variety of jurisdictions and in many different currencies. The growing trade dispute between the USA and China, as well as those within NAFTA and with Japan and the EU, have, to date, had a limited impact on Magontec.

In 2005 global trade in magnesium was impacted by the imposition of a 141% tariff on Chinese imports of magnesium products into the USA. At the time the negative effect of this tariff was significant, although principally felt in the USA where many reputable and long-standing magnesium alloy die casting companies closed with an accompanying loss of jobs and skills. Since that time global trade in magnesium has risen 67% from less than 600,000mt in 2007 to nearly 1 million mt per annum in 2017. The industry has also re-oriented itself with die casting companies growing rapidly in Canada and Mexico as well as in Europe and, most significantly, in China. Notably growth has been muted in the USA where unit costs are around 20% higher than elsewhere.

While it is impossible to know how this current outbreak of trade conflict will develop, it is safe to say that the US is a now a much smaller player in global pure magnesium and magnesium alloy trade and the wider non-US industry is unlikely to be significantly impacted by any new trade edicts from Washington.



The same cannot be said for magnesium anode bar. Chinese origin anode bar has attracted a 25% tariff from the USA and the vast majority (very close to 100%) of magnesium anodes sold into the country are sourced from China. Clearly Chinese exporters, American wholesalers and US based hot water appliance manufacturers must re-consider their respective positions. While Mg anodes are a small part of the overall cost for water heater manufacturers, the combined input cost effects of tariffs on steel and other key materials from China and other countries will be substantial. Magontec has a limited exposure to this trade.

The currency situation is more complex. Because of the structure of Magontec's inter-company loan portfolio and the currencies in which those assets and liabilities are denominated, the USD - AUD exchange rate is the most impactful. We estimate that a 1c movement in this exchange rate would result in an unrealised A$100,000+ foreign exchange impact on the profit and loss statement.

Directors' Report

The Directors of Magontec Limited ('the Company' or 'MGL') submit herewith the financial report for the half-year ended 30 June 2018. 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)	Re-appointed 10 May 2018
– Mr Shun Li (Alternate Director to Mr Kang Min Xie)	Appointed 25 October 2017
– Mr Zhong Jun Li (Non-Executive Director)	Re-appointed 10 May 2018
– Mr Robert Shaw (Independent Director)	Re-appointed 17 May 2017
– Mr Robert Kaye (Independent Director)	Re-appointed 17 May 2017
– Mr Andre Labuschagne (Non-Executive Director)	Re-appointed 11 May 2016

Review of Operations

For the six months ended 30 June 2018 the consolidated profit after tax from continuing operations was -	$179,700
For the six months ended 30 June 2017 the consolidated (loss) after tax from continuing operations was -	($383,548)

Corporate

The 35th annual general meeting of the Company was held on 10 May 2018.
As at the date of this report, the composition of the committees of the Board are 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)
- Xie Kangmin (Non-Executive Director)
- Andre Labuschagne (Non-Executive Director)

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 12.

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

Nicholas Andrews
Executive Chairman

23 August 2018

Auditor’s Independence Declaration

CAMPHIN BOSTON
CHARTERED ACCOUNTANTS

AUDITOR’S INDEPENDENCE DECLARATION

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

Dear Board Members,

In accordance with the requirements of section 307C of the Corporations Act 2001, we hereby declare, that to the best of our knowledge and belief, during the half-year ended 30 June 2018 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

G S Boston

Greg Boston
Lead Audit Partner

Sydney

Dated this 23 August 2018

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Independent Auditor's Review Report

to the members of Magontec Limited

CAMPHIN BOSTON
CHARTERED ACCOUNTANTS

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

Report on the Half-Year Financial Report

Auditor's Opinion

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 2018, 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.

In our opinion:

The half-year financial report of Magontec Limited and its controlled entities is 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 2018 and of its performance for the half-year ended on that date; and

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

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 controls to enable the preparation of the half-year financial report that provides a true and fair view and 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 the 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, 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 2018 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.

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CAMPHIN BOSTON
CHARTERED ACCOUNTANTS

Independence

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

Camphin Boston
Chartered Accountants

Greg Boston
Partner

Level 5, 179 Elizabeth Street, Sydney NSW 2000

Dated: 23 August 2018

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Directors' Declaration

The Directors declare that:

a. in the Director's opinion, there are reasonable grounds 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.

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, 23 August 2018

Consolidated Comprehensive Income Statement

for the Half-Year Ended 30 June 2018

	Note	6 months to 30 Jun 2018 $'000	6 months to 30 Jun 2017 $'000
Sale of goods	4.3	65,483	69,405
Cost of sales	4.3	(58,183)	(62,129)
Gross profit		**7,300**	**7,276**
Other income	10	98	263
Interest expense		(327)	(577)
Impairment of inventory, receivables & other financial assets		27	(18)
Travel accommodation and meals		(529)	(358)
Research, development, licensing and patent costs		(156)	(205)
Promotional activity		(54)	(53)
Information technology		(136)	(150)
Personnel		(3,611)	(3,170)
Depreciation & amortisation		(293)	(181)
Office expenses		(326)	(170)
Corporate		(1,952)	(1,518)
Foreign exchange gain/(loss)		358	(796)
Other operating expenses		–	(292)
Profit/(Loss) before income tax expense/benefit from continuing operations		**400**	**51**
Income tax (expense)/benefit		(221)	(435)
Profit/(Loss) after income tax expense/benefit from continuing operations		**180**	**(384)**
Profit/(Loss) after income tax expense from discontinued operations		–	–
Profit/(Loss) after income tax expense/benefit including discontinued operations		**180**	**(384)**
Other Comprehensive Income - that may later emerge in the Profit and Loss Statement			
Exchange differences taken to reserves in equity – translation of overseas entities		756	(517)
Other Comprehensive Income - that will not emerge in the Profit and Loss Statement			
Movement in various actuarial assessments		0	158
Total Comprehensive Income		**935**	**(743)**

	Note	6 months to 30 Jun 2018	6 months to 30 Jun 2017
Earnings/(Loss) per share from continued and discontinued operations			
Basic (cents per share)	9	0.016 cents	(0.034) cents
Diluted (cents per share)	9	0.015 cents	(0.033) cents
Earnings/(Loss) per share from continuing operations			
Basic (cents per share)		0.016 cents	(0.034) cents
Diluted (cents per share)		0.015 cents	(0.033) cents

Notes to the financial statements are included on pages 20 to 27.

Consolidated Balance Sheet

as at 30 June 2018

	Note	30 Jun 2018 $'000	31 Dec 2017 $'000
Current assets			
Cash and cash equivalents	7	9,155	2,309
Trade & other receivables	11.1	21,795	26,704
Inventory		26,146	24,372
Other		393	191
Total current assets		**57,488**	**53,576**
Non-current assets			
Other receivables		912	1,037
Property, plant & equipment		22,784	22,831
Deferred Tax Asset		1,755	1,521
Intangibles		3,341	3,109
Total non-current assets		**28,792**	**28,499**
TOTAL ASSETS		**86,280**	**82,074**
Current liabilities			
Trade & other payables	11.2	21,511	15,873
Bank Borrowings	13	6,940	9,200
Provisions		958	1,677
Total current liabilities		**29,409**	**26,750**
Non-current liabilities			
Bank Borrowings	13	11,343	11,135
Provisions		11,782	11,408
Total non-current liabilities		**23,126**	**22,543**
TOTAL LIABILITIES		**52,535**	**49,293**
NET ASSETS		**33,745**	**32,782**
Equity attributable to members of MGL			
Share capital	6	58,907	58,907
Reserves	12	5,681	4,897
Accumulated (losses)/profits		(31,306)	(31,485)
Equity attributable to minority interests			
Share capital	6	463	463
Reserves	12	–	–
Accumulated (losses)/profits		–	–
Total equity		**33,745**	**32,782**

Notes to the financial statements are included on pages 20 to 27.

Consolidated Statement of Changes in Equity

for the Half-Year Ended 30 June 2018

	Share Capital										
	Ordinary	Options Valuation	Retained Earnings	FCTR [1]	Capital Reserve	Actuarial Reserve	Expired Options Reserve	Share Issue Reserve	Minority Interests	Total Equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance 1-Jan-18	58,907	–	(31,485)	2,814	2,750	(2,346)	1,637	41	463	32,782
Profit/(Loss) attributable to members of parent entity	–	–	180	–	–	–	–	–	–	180
Profit/(Loss) attributable to minority interests	–	–	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–	–	–
Comprehensive income	–	–	–	756	–	–	–	–	–	756
Expired Options	–	–	–	–	–	–	–	–	–	–
Issue of shares	–	–	–	–	–	–	–	28	–	28
Minority share capital	–	–	–	–	–	–	–	–	–	–
Balance 30-Jun-18	58,907	–	(31,306)	3,570	2,750	(2,346)	1,637	70	463	33,745
for the Half-Year Ended 30 June 2017										
Balance 1-Jan-17	58,616	–	(29,871)	3,042	2,750	(2,405)	1,637	141	463	34,373
Profit/(Loss) attributable to members of parent entity	–	–	(384)	–	–	–	–	–	–	(384)
Profit/(Loss) attributable to minority interests	–	–	–	–	–	–	–	–	–	–
Other	–	–	–	–	–	–	–	–	–	–
Comprehensive income	–	–	–	(517)	–	158	–	–	–	(359)
Expired Options	–	–	–	–	–	–	–	–	–	–
Issue of shares	291	–	–	–	–	–	–	(131)	–	159
Minority share capital	–	–	–	–	–	–	–	–	–	–
Balance 30-Jun-17	58,907	–	(30,255)	2,526	2,750	(2,247)	1,637	10	463	33,791

(1) FCTR = Foreign Currency Translation Reserve

Notes to the financial statements are included on pages 20 to 27.

Consolidated Cash Flow Statement

for the Half-Year Ended 30 June 2018

	6 months to 30 Jun 2018 $'000	6 months to 30 Jun 2017 $'000
Cash flows from operating activities		
Profit before taxation	400	51
Adjustments for:		
– Non-cash equity expense	28	159
– Depreciation & amortisation	1,348	807
– Foreign currency effects	(325)	737
– Other non-cash items	165	26
Cash generated from/(utilised in) underlying operating activities	1,617	1,780
Movement in working capital balance sheet accounts		
– Trade and Other Receivables	5,260	(3,881)
– Inventory	(943)	(2,138)
– Trade and Other Payables	5,730	3,668
– Other	(97)	–
Cash generated from/(utilised in) working capital accounts	9,950	(2,351)
Cash generated from/(utilised in) underlying operational cash flow and net working capital assets	11,567	(571)
– Net Interest paid	(299)	(549)
– Income tax paid (1)	(1,119)	(118)
Cash generated from/(utilised in) other operating activities	10,148	(1,239)
Cash flows from investing activities		
Net cash out on purchase/disposal of property, plant & equipment	(661)	(2,238)
Group Information Technology software	(245)	(2)
Security Deposit	(19)	(2)
Other	141	–
Net cash provided by / (used in) investing activities	(785)	(2,241)
Cash flows from financing activities		
Proceeds from borrowings	5,725	20,433
Repayment of borrowings	(8,420)	(16,966)
Net cash provided by financing activities	(2,696)	3,467
Net increase / (decrease) in cash and cash equivalents	6,668	(14)
Foreign exchange effects on total cash flow movement	178	(161)
Cash and cash equivalents at the beginning of the reporting period	2,309	4,593
Cash and cash equivalents at the end of the reporting period	9,155	4,419

Notes to the financial statements are included on pages 20 to 27.

(1) The 2018 number includes catch up tax payments from prior years to the German tax office.

Notes to the Condensed Financial Statements

for the Half-Year Ended 30 June 2018

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 the year ended 31 December 2017.

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.

This report sees the first effective application of IFRS 15 Revenue and IFRS 9 Financial Instruments, the impact of which has been reviewed by management. Based on this review, no material differences were identified. Aside from these, the accounting policies and methods of computation adopted in the preparation of the 30 June 2018 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 2017.

The adoption of IFRS 16 Leases will be required from 1 January 2019. The company is assessing the financial statement impact and will make future disclosures at the appropriate time.

2. SIGNIFICANT TRANSACTIONS AND MATERIAL ITEMS

Aside from those referred to in this report and the relevant comparative period reports, there were no 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

There are no call options on issue as at the reporting date. As at 30 June 2018, there were 58,552,640 unvested performance rights outstanding as approved by shareholders at the 2017 and 2018 Annual General Meetings.

2.2 Income Tax Expense/Benefit

Tax losses previously disclosed in the 31 December 2017 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.

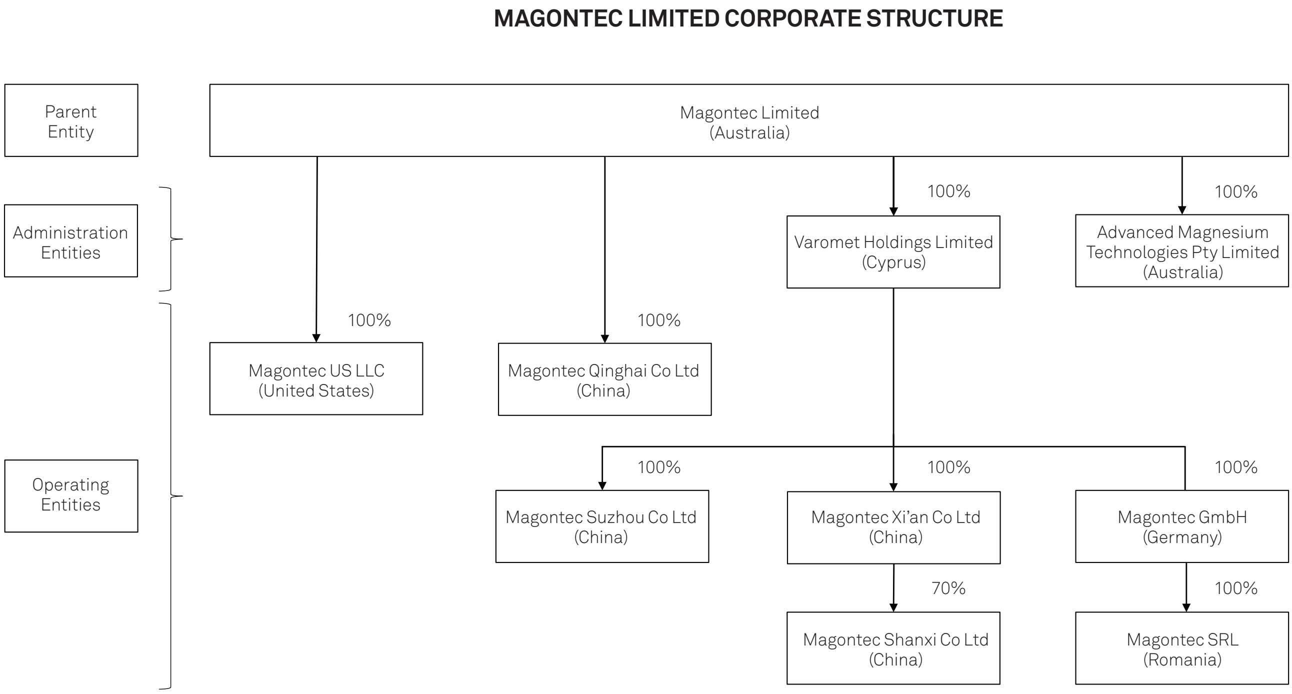
3. DIVIDENDS

No dividend was declared or recommended during the 6 months ended 30 June 2018 (6 months ended 30 June 2017: no dividend declared or recommended). The balance of the franking account at 30 June 2018 was $nil (30 June 2017: $nil).

Notes to the Condensed Financial Statements
continued

4. SEGMENT REPORTING

4.1 Corporate Structure as at 30 June 2018



4.2 Identificaton of Reportable Segments

The consolidated entity comprises the entities as described in Note 4.1.

In respect of the period to 30 June 2018, segment information is presented in respect of the three main departments within the company as described in the chart at Note 4.1 above.

– 'Admin Units' = Magontec administrative entities performing a Head Office function comprising -
  Magontec Limited (Australia);
  Advanced Magnesium Technologies Pty Limited (Australia); and
  Varomet Holdings Limited (Cyprus).

– 'EUR' = Magontec operating entities in Europe and North America comprising -
  Magontec GmbH (Germany); and
  Magontec SRL (Romania).
  Magontec LLC (United States)

– 'PRC' = Magontec operating entities in People's Republic of China comprising -
  Magontec Shanxi Co. Ltd. (China);
  Magontec Xi'an Co. Ltd. (China);
  Magontec Suzhou Co. Ltd. (China); and
  Magontec Qinghai Co. Ltd. (China).

Notes to the Condensed Financial Statements
continued

4. SEGMENT REPORTING (continued)
4.3 Segment Information - Comprehensive Income

	6 months to 30 June 2018				6 months to 30 June 2017			
	$'000 Admin	$'000 EUR	$'000 PRC	$'000 TOTAL	$'000 Admin	$'000 EUR	$'000 PRC	$'000 TOTAL
Sale of goods	–	40,911	25,476	66,387	–	45,743	27,250	72,993
Less Inter-company sales				(904)				(3,588)
Net Sales	**–**	**40,911**	**25,476**	**65,483**	**–**	**45,743**	**27,250**	**69,405**
Cost of sales	–	(35,812)	(23,275)	(59,087)	–	(40,116)	(25,601)	(65,717)
Less Inter-company sales				904				3,588
Net Cost of Sales	–	**(35,812)**	**(23,275)**	**(58,183)**	**–**	**(40,116)**	**(25,601)**	**(62,129)**
Gross Profit	–	**5,099**	**2,201**	**7,300**	**–**	**5,627**	**1,649**	**7,276**
Other income	16	55	27	98	9	124	130	263
Interest expense	–	(139)	(188)	(327)	–	(374)	(203)	(577)
Impairment of inventory, receivables & other financial assets	–	–	27	27	–	(18)	–	(18)
Travel accommodation and meals	(42)	(239)	(248)	(529)	(67)	(242)	(48)	(358)
Research, development, licensing and patent costs	(12)	(49)	(95)	(156)	(78)	(50)	(78)	(205)
Promotional activity	(2)	(53)	–	(54)	(2)	(52)	–	(53)
Information technology	(16)	(94)	(26)	(136)	(24)	(116)	(10)	(150)
Personnel	(512)	(2,144)	(955)	(3,611)	(665)	(2,038)	(467)	(3,170)
Depreciation & Amortisation	–	(172)	(121)	(293)	–	(161)	(19)	(181)
Office expenses	(47)	(226)	(53)	(326)	(27)	(110)	(33)	(170)
Corporate	(339)	(1,001)	(612)	(1,952)	(380)	(771)	(367)	(1,518)
Foreign exchange gain/(loss)	493	48	(182)	358	(544)	(261)	9	(796)
Other operating expenses	–	–	–	–	–	(292)	–	(292)
Profit/(Loss) before income tax expense	**(460)**	**1,085**	**(225)**	**400**	**(1,777)**	**1,266**	**562**	**51**
Income tax expense	–	(270)	50	(221)	–	(355)	(80)	(435)
Profit/(Loss) after income tax expense/benefit including discontinued operations	**(460)**	**815**	**(175)**	**180**	**(1,777)**	**911**	**482**	**(384)**
Other Comprehensive Income								
Movement in various actuarial assessments	–	–	–	–	–	158	–	158
Exchange differences taken to reserves in equity – translation of overseas entities	1	183	571	756	(35)	76	(558)	(517)
Total Comprehensive Income	**(459)**	**998**	**396**	**935**	**(1,812)**	**1,145**	**(76)**	**(743)**

Notes to the Condensed Financial Statements

continued

4. SEGMENT REPORTING (continued)

4.4 Segment Information - Balance Sheet

	30 Jun 2018 $'000 Admin	30 Jun 2018 $'000 EUR	30 Jun 2018 $'000 PRC	30 Jun 2018 $'000 TOTAL	31 Dec 2017 $'000 Admin	31 Dec 2017 $'000 EUR	31 Dec 2017 $'000 PRC	31 Dec 2017 $'000 TOTAL
Segment Assets								
Gross Segment assets	56,146	43,355	43,040	142,541	54,907	43,263	38,252	136,422
Adjustments								
Eliminations								
– Inter-Coy Loans	(40,887)	(1,935)	(959)	(43,781)	(40,078)	(1,588)	(418)	(42,084)
– Investment in subsidiaries	(15,392)	–	–	(15,392)	(15,392)	–	–	(15,392)
– Other	3,140	11	(238)	2,913	3,511	(45)	(339)	3,128
As per Consolidated Balance Sheet	**3,008**	**41,430**	**41,842**	**86,280**	**2,949**	**41,631**	**37,495**	**82,074**
Segment Liabilities								
Gross Segment liabilities	31,889	36,918	27,337	96,144	30,586	37,762	22,971	91,318
Eliminations								
– Inter-Coy Loans	(31,720)	(1,748)	(10,255)	(43,724)	(30,422)	(1,950)	(9,654)	(42,026)
– Other	–	(4)	119	115	–	–	–	–
As per Consolidated Balance Sheet	**168**	**35,166**	**17,201**	**52,535**	**164**	**35,811**	**13,317**	**49,293**
Net assets	**2,840**	**6,264**	**24,641**	**33,745**	**2,785**	**5,820**	**24,178**	**32,782**

5. CONTINGENT ASSETS & LIABILITIES

With respect to contingent asset and liabilities, the company provides the following updates in addition to the disclosures in the Annual Report at 31 December 2017:

1. In June 2018, Magontec Romania won a preliminary decision in court against the fiscal authorities with respect to a disputed input VAT claim of RON 853,000 (A$289,000). At the date of this report, the company is awaiting confirmation of a final decision and as such has not recorded a gain on this transaction.
2. In June 2018, Magontec Suzhou lost a ruling in the Wujiang District Court with respect to make good provisions alleged by the formed landlord of the property which the company had previously leased. The company disputes this and intends to commence appeal proceedings with the Jiangsu Provincial Court.

6. SHARE CAPITAL

	30 Jun 2018 $'000	31 Dec 2017 $'000
Opening balance of share capital attributable to members of MGL	**58,907**	**58,616**
Issue of shares to Executives of Magontec Limited (1)	–	291
Various costs associated with above issues	–	–
Share capital on issued ordinary shares 1,140,073,483 (2017: 1,140,073,483)	**58,907**	**58,907**
Share capital attributable to members of MGL	58,907	58,907
Share capital attributable to minority interest	463	463
Total share capital	**59,370**	**59,370**

(1) Shares in 2017 issued pursuant to Resolutions 5, 6 and 7 of the Company's 2017 AGM held 17 May 2017.

Notes to the Condensed Financial Statements
continued

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 2018 $'000	6 months to 30 Jun 2017 $'000
Cash and cash equivalents at the beginning of the reporting period	2,309	4,593
Net cash (used)/generated in operating activities	10,148	(1,239)
Net cash provided by / (used in) investing activities	(785)	(2,241)
Net cash provided by / (used in) financing activities	(2,696)	3,467
Foreign exchange effects on total cash flow movement	178	(161)
Cash and cash equivalents at the end of the reporting period	9,155	4,419

8. EVENTS SUBSEQUENT TO BALANCE DATE

There are no matters subsequent to the end of the financial half year that have, or may, materially affect the Group's operations, the results of those operations, or the state of the Groups affairs, apart from this disclosed elsewhere in this report where relevant.

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

		Half-Year Ended 30 Jun 2018	Half-Year Ended 30 Jun 2017
Earning/(Loss) per share:			
Profit/(Loss) attributable to members of the parent entity including discontinued operations	1	$179,700	($383,548)
Average shares on issue for the period	2	1,140,073,483	1,134,034,131
Total average vested options (Refer Note 2.1)	3	61,573,312	20,970,890
Basic Earnings/(Loss) per share (cents per share)	1 ÷ 2 × 100	0.016	(0.034)
Diluted Earnings/(Loss) per share (cents per share)	1 ÷ (2 + 3) × 100	0.015	(0.033)

10. OTHER INCOME IN COMPREHENSIVE INCOME STATEMENT

	6 months to 30 Jun 2018 $'000	6 months to 30 Jun 2017 $'000
Interest revenue	28	29
Government Grants	–	83
Receipt for insurance claims	–	48
Derivative market re-valuation	–	37
Gain/(Loss) on disposal of fixed assets	–	16
Write back of provisions and other adjustments	14	41
Other	56	9
	98	263

Notes to the Condensed Financial Statements

continued

11. TRADE RECEIVABLES AND PAYABLES

11.1 Current Trade and Other Receivables

	30 Jun 2018 $'000	31 Dec 2017 $'000
Trade receivables (1)	17,869	19,999
Allowance for doubtful debts	(323)	(335)
	17,546	19,664
Net GST/VAT recoverable	1,647	2,127
Security deposits	56	73
Derivatives fair value adjustment	–	–
Other receivables due to operating entities	2,546	4,840
Other	–	–
	4,249	7,040
Total receivables	21,795	26,704

(1) Trade receivables represent 49.4 days sales at 30 Jun 18 (52.8 days sales at 30 Jun 17)

11.2 Current Trade and Other Payables

	30 Jun 2018 $'000	31 Dec 2017 $'000
Trade creditors (1)	12,723	12,278
Other creditors and accruals	8,789	3,595
	21,511	15,873

(1) Trade creditors represent 39.6 days cost of goods sold at 30 Jun 18 (40.1 days cost of goods sold at 30 Jun 17)

11.3 Related Party Disclosure

During the 6 months ended 30 June 2018, the Group made purchases to the extent of $5.7m of raw material from its substantial shareholder Qinghai Salt Lake Magnesium Co Limited. This amount was outstanding and contained within other creditors and accruals as at 30 June 2018.

Outstanding balances are on an interest free basis, unsecured and settlement will occur in cash. No guarantees have been provided or received with respect to related party balances.

Notes to the Condensed Financial Statements

continued

12. RESERVES

	30 Jun 2018 $'000	31 Dec 2017 $'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	2,814	3,042
Movement in VHL Consolidated accounts	756	(228)
Balance at end of financial year	**3,570**	**2,814**
Actuarial Reserves		
Balance at beginning of financial year	(2,346)	(2,405)
Derivatives	–	–
Deferred tax assets	–	(20)
Employee pensions	–	80
Other	–	–
Balance at end of financial year	**(2,346)**	**(2,346)**
Expired Options Reserve		
Balance at beginning of financial year	1,637	1,637
ESOP options expiry	–	–
Balance at end of financial year	**1,637**	**1,637**
Share Issue Reserve		
Balance at beginning of financial year	41	141
Fair value of performance rights 2014-16 Plan	–	149
Issue of ordinary shares on conversion of rights	–	(291)
Fair value of performance rights issued for future periods	28	41
Balance at end of financial year	**70**	**41**
Total reserves	**5,681**	**4,897**
Other Comprehensive Income - that may later emerge in the Profit and Loss Statement		
Exchange differences taken to reserves in equity – translation of overseas entities	756	(228)
Movement in various actuarial assessments	–	60
Total Other Comprehensive Income	**756**	**(168)**

Notes

(1) 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 as well as movements in deferred tax assets and financial instruments that need to be recognised in "Other comprehensive income" (OCI).

Notes to the Condensed Financial Statements

continued

13. BORROWINGS

	30 Jun 2018 $'000	30 Jun 2018 Maturity Date	30 Jun 2018 Interest pa [1]	31 Dec 2017 $'000	31 Dec 2017 Maturity Date	31 Dec 2017 Interest pa [1]
Bank & Institutional Borrowings						
Magontec GmbH (Bank Loan) [2]	11,343	30-Sep-20	1.55%	11,135	30-Sep-20	1.55%
Magontec GmbH (Hire Purchase Facility)	160	31-Dec-18	2.50%	270	31-Dec-18	2.50%
Magontec GmbH (Factoring Facility) [4]	1,174	30-Nov-18	1.34%	781	30-Nov-18	1.34%
Magontec SRL (Working Capital Facility) [3]	2,699	Open	5.18%	3,015	Open	3.15%
Magontec Xi'an Limited (Bank Loan)	–	–	–	1,981	14-Feb-18	5.78%
Magontec Xi'an Limited (Bank Loan)	4,081	1-Apr-19	5.22%	3,934	12-May-18	4.70%
Total Bank Borrowings	19,457			21,116		
Current Borrowings						
Bank borrowings as above (excluding factoring facility)	6,940	Various	Various	9,200	Various	Various
Bank borrowings as above (excluding factoring facility)	6,940			9,200		
Non-Current Borrowings						
Bank borrowings as above	11,343	–	–	11,135	–	–
Total Non-Current borrowings	11,343			11,135		

(1) Interest rate is the rate that applied 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 to the extent of €2,044,000 ($3,227,000) and inventory of €3,295,000 ($5,202,000).
(3) These borrowings are secured by a charge over MAR's trade debtors and inventory to the extent of RON 9,662,000 ($3,269,000).
(4) This facility is set off against trade debtors, and thus is not shown in 'Borrowings' on the balance sheet.

MAGONTEC

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