ANNUAL REPORT 2019

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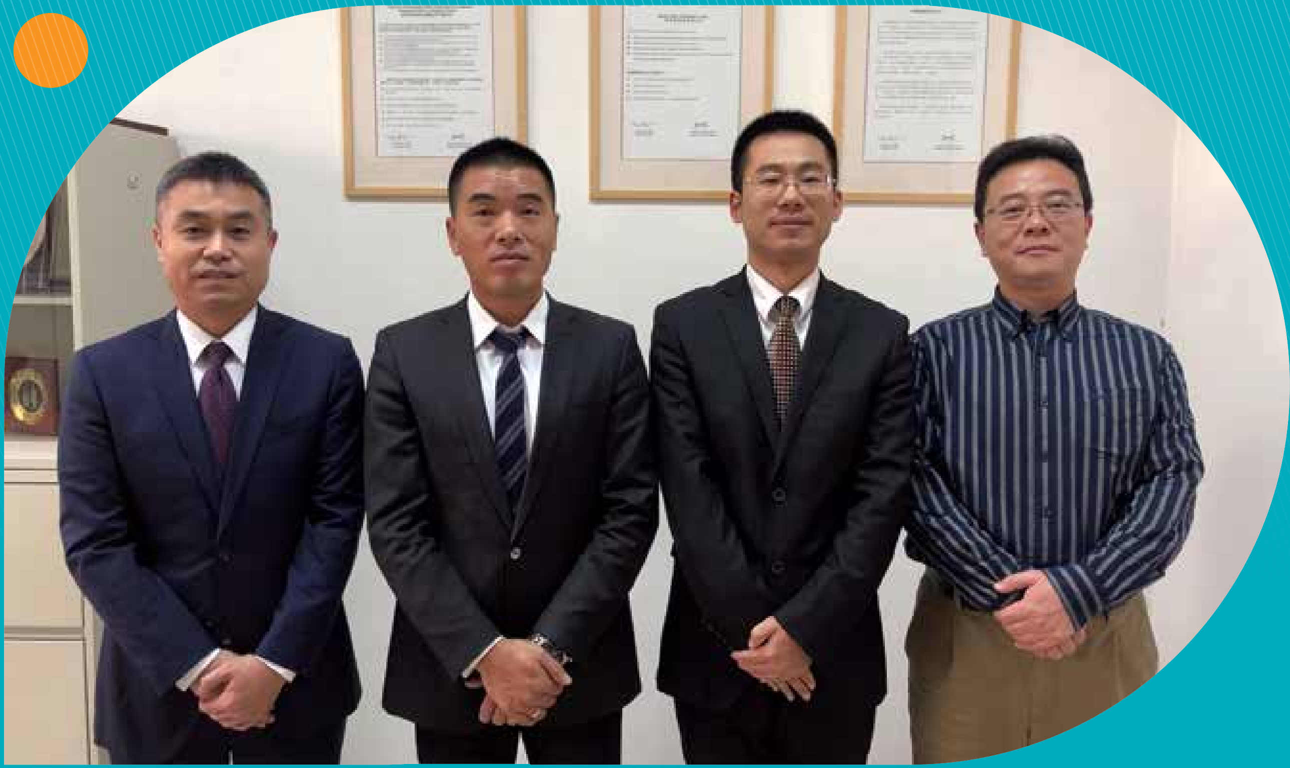
Authorisation:
Nicholas Andrews, Executive Chairman of Magontec Limited has authorised the release of this document to the ASX on 28 February 2020

A summary of the Company's corporate governance practices including the Corporate Governance Statement discussing adherence to the Australian Securities Exchange's Third Edition "Corporate Governance Principles and Recommendations" can be located at www.magontec.com under the Investor Centre section.



Magontec Xi'an Co Limited Executives

Global Locations and Activities

Executive Chairman's Letter

At the end of 2018 Magontec had recorded considerable progress with respect to operations and results. Principal among its achievements was the commencement of production at the new Magnesium Alloy Cast House (MACH) at Golmud in Qinghai province PRC.

In 2019 the new cast house has been the cause of a reversal in that forward momentum. Magontec's suppliers of liquid pure magnesium raw material, Qinghai Salt Lake Magnesium (QSLM), failed to achieve consistent and reliable production within its electrolytic magnesium facility and it is now idle. Compounding their production issues were growing financial problems associated with debt incurred by QSLM and its parent and the lack of production and sales sufficient to service that debt.

In the Financial Summary Report we show that Net Profit Before Tax, unrealised FX and significant items for the whole group fell from \$2.3 million in 2018 to \$0.44 million in 2019. That decline is largely due to the change in profitability of Magontec's Chinese primary magnesium alloy business. In 2018 Magontec operated a plant in Shanxi province that produced over 12,000 metric tonnes of primary magnesium alloys in the first 10 months of the year. As part of the agreement with QSLM the profitable Shanxi plant was closed in October 2018 and all activities moved to the new Qinghai plant.

In April 2019, the parent company of QSLM, the Qinghai Salt Lake Industry Co Ltd (QSLIC) announced that they would enter a restructuring phase. This caused QSLM itself to suspend all activities in the magnesium project ending direct supply of raw material to the Magontec plant.In the 9 months since that time the Magontec Qinghai plant has operated at a level considerably below production targets and has been forced to acquire raw material from Chinese suppliers located outside of Qinghai province in order to fulfil commitments to customers. This has been a costly exercise.

The Magontec Qinghai project has been a focus for the group since 2013 when it was first announced. Magontec completed its MACH in 2016 and began trials in 2017. In October 2018 production commenced, albeit at low levels, and our expectations were for supply volumes to grow significantly through 2019. The failure of our partner and key supplier impacts not just the financial performance of the Magontec Qinghai business, but also activity levels in Europe where sales of primary magnesium alloys from China were expected to make a contribution to earnings.

In a separate note I have outlined in more detail the issues at the Qinghai Salt Lake companies. At this time, we have been encouraged to expect QSLM to restart production in 2020. The corporate restructuring process has caused QSLM to be sold by its original parent, QSLIC, and its debts to both its parent and other creditors have been reduced considerably. It now appears to be in a stronger position to carry on the production of magnesium for supply to Magontec's MACH and to its own pure magnesium cast house.

At the time of this report we have no definitive schedule for the re-start of the magnesium plant. We have spoken to officers of the new owner, Qinghai Huixin Asset Management Co Ltd and to party officials in Qinghai province (all these companies are state owned). In these conversations we have been assured that the role of Magontec in the Qinghai magnesium project has widespread support from all parties and that the wider magnesium and associated chemical projects, an investment by the state of Qinghai of some ¥45 billion, will be funded and resume operation as soon as the restructuring process is completed.

Elsewhere, particularly in the anode businesses (CCP), there has been much progress. In China, our magnesium anode sales volumes rose 43.5% in 2019 over the pcp and we anticipate those volumes to rise again in 2020. This was driven by new orders from Chinese and US customers responding to Magontec prices and quality. In September 2019 Magontec Xi'an switched on its new magnesium anode processing line that has automated a large number of previously manual functions and has doubled output capacity in the last 12 months.

Despite growing volumes and efficiencies and a strong platform for growth in 2020, the profitability of the global CCP product was down 10.5% at the Gross Profit line in 2019. While this is disappointing it represents a period of consolidation and follows on from a very strong increase in 2018 when Gross Profit rose by 23% over the previous corresponding period.

In Romania, where we have suffered adversely from labour issues in recent years, the new management team have combined a strong focus on production detail with a new reporting structure and largely overcome this problem. Production volumes as well as profitability metrics have improved considerably in Romania for both magnesium alloy recycling and magnesium anode production.

In Germany the magnesium alloy recycling business has experienced lower margins in a competitive market and currently suffers from an inability to enhance its offerings with meaningful volumes of primary magnesium alloys from China. However, higher volumes of specialist magnesium products have made a significant contribution in 2019 and the outlook for these businesses in 2020 is for further growth.

Overall the profitability of the European metals businesses (magnesium alloy recycling and specialist metals) at the Gross Profit line rose more than 40% compared with the previous corresponding period.

In every year there is a measure of volatility in a business that has the geographic and business spread of a company such as Magontec. In 2019 we have experienced consolidation in the global CCP business, a restoration of profitability and a stable process at the Romanian plant and the emergence of new growth opportunities in the Germany-based special metals business.

In the Magontec Qinghai primary magnesium alloys business we suffer from uncertainty and the requirement to carry on an enterprise that is loss-making under the current circumstances. When this business is running as planned, we know that it can make a strong profit contribution, potentially as much as all the other businesses put together. For this reason we have continued to work with QSLM and the Qinghai provincial authorities to assist them in achieving a positive outcome that will allow Magontec Qinghai to re-commence volume production with supply of qualified liquid pure magnesium from the adjacent electrolytic magnesium smelter.

I would like to close by acknowledging the Magontec administration and production teams. Our business is established at four sites across Europe and China that are all some distance from each other and from Head Office in Australia. Communications between production and administration staff often takes place at odd hours of the day and night and there is frequent travel required. In particular our Chinese metals team have done an extraordinary job of managing an exceptionally challenging set of circumstances as our partner company, QSLM, entered a restructuring phase with oversight from the provincial government, PRC courts and legal appointees.

Finally, I would like to thank the Board of Magontec for their advice and guidance through 2019. Magontec has a wide variety of talents on the board including legal, industrial and accounting expertise. All of these talents have been called on through a challenging year.

NICHOLAS ANDREWS
EXECUTIVE CHAIRMAN

26 February 2020

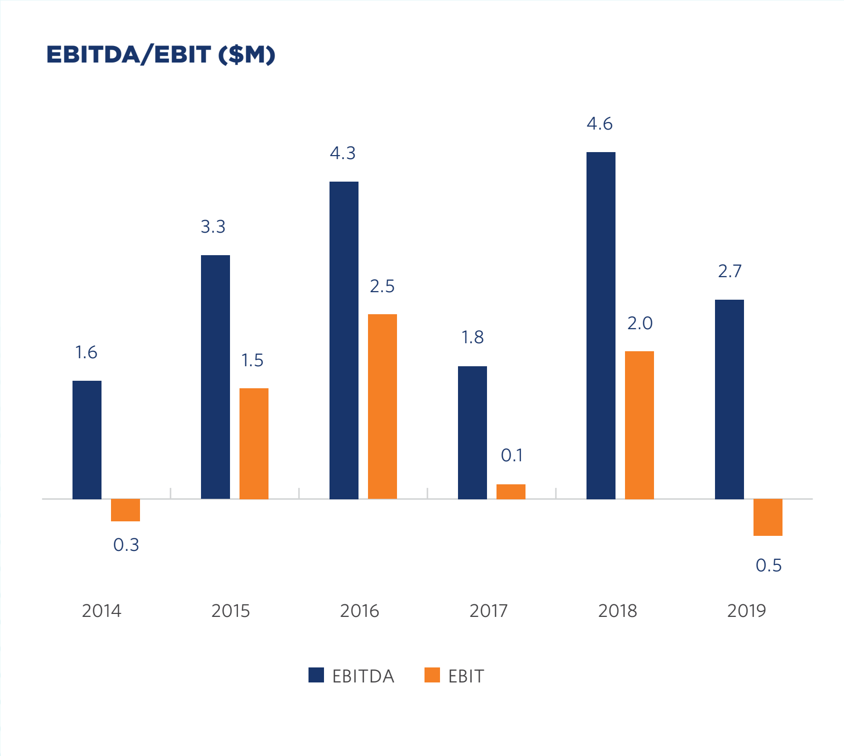
Financial Summary Report

The reported accounting net loss after tax for the year was $1.370 million for the 12 months to 31 December 2019. In addition to $1 million of non-cash depreciation at Magontec Qinghai and unforeseen levies of A$416k, the current year encountered significant difficulties in material supply at the Qinghai plant and lower demand in key EU markets during the period. Other significant items included in the result and comparison with the prior year are outlined in the table below.

These significant items are highlighted in order to aid shareholder understanding of the composition of the result.

ANALYSIS

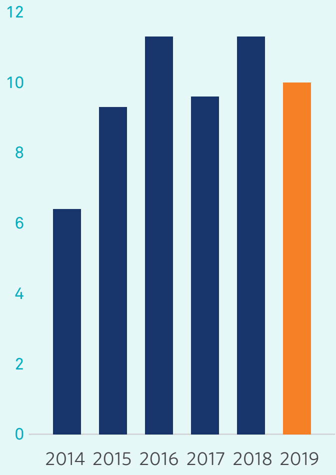
During 2019, gross margin for the consolidated entity decreased to 10.0% (2018: 11.3%) with weaker results across the PRC metals business in particular and unfavourable material pricing trends on pure Mg offset in part by the development of higher margin products.



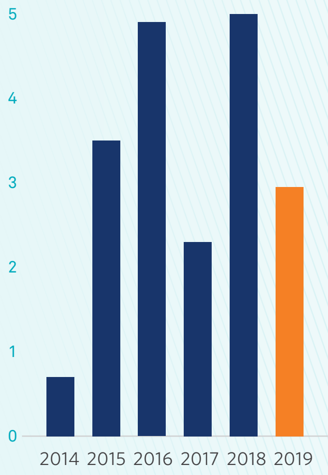
RECONCILIATION OF SIGNIFICANT ITEMS IN EARNINGS

	12 months to 31 Dec 2019 $'000	12 months to 31 Dec 2018 $'000
Net Profit Before Tax, unrealised FX and significant items	**440**	**2,266**
Significant Items Before Tax		
Less non-cash equity expense	(135)	(78)
Less MAQ depreciation (non cash)	(964)	(951)
Less MAQ levies and other start up costs	(416)	(101)
Less doubtful debts expense PRC	-	(32)
Net Profit/Loss Before Tax excluding unrealised FX	**(1,075)**	**1,104**
Less tax expense	(267)	(623)
Net Profit/Loss After Tax before unrealised FX	**(1,342)**	**480**
Add/(subtract) unrealised FX gains/(losses)	(28)	296
Reported Net Profit/Loss After Tax	**(1,370)**	**776**

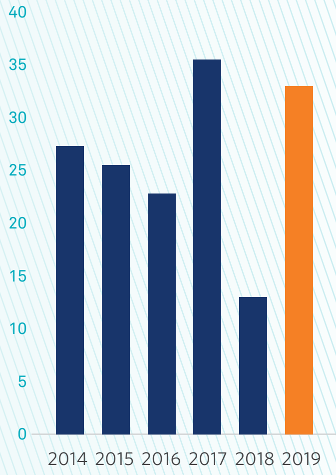
GROSS MARGIN (%)



CASH FLOW FROM UNDERLYING OPERATIONS (A$M)



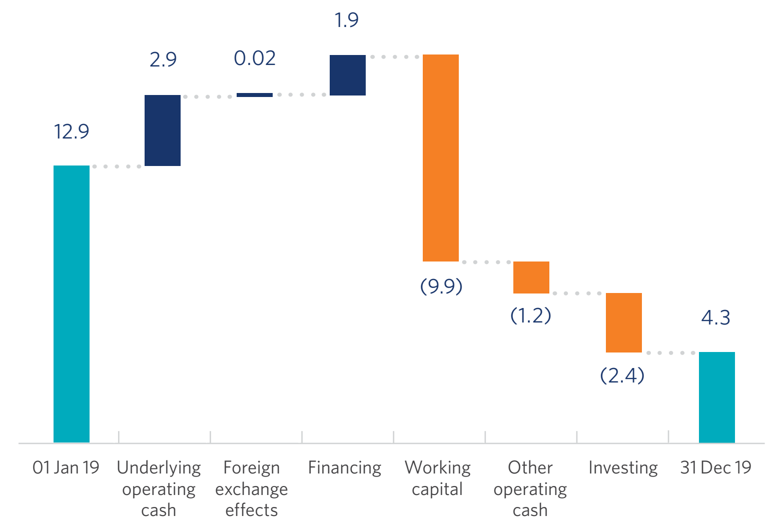
NET DEBT TO NET DEBT + EQUITY (%)



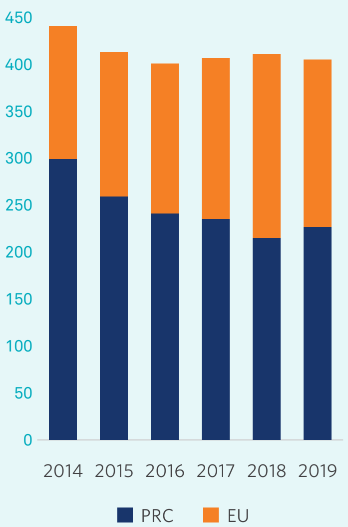
CASHFLOW, BALANCE SHEET AND BANKING FACILITIES

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 in particular can have a large impact on overall operating cash flow for any given period, but are generally only a reflection of timing differences in cash receipts and payments in the metals business which are working capital intensive.

2019 CASHFLOW ANALYSIS ($M)



EMPLOYEE NUMBERS BY REGION



During 2019, Magontec generated underlying operating cash flow of $2.9 million. Whilst still positive, this was below the prior corresponding period (2018: $5.0 million) as a result of the operational challenges experienced during the period. It should be noted that the $2.9 million of underlying operating cash included a $0.4 million positive adjustment due to the first-time adoption of AASB 16 Leases, as lease outgoings were reclassed into investing and finance activities in accordance with the standard.

BALANCE SHEET AND BANKING FACILITIES

Net debt increased to $15.3 million as at 31 December 2019, with balance sheet gearing of 33.0% on a net debt to net debt + equity basis (31 December 2018: 13.0%).

This was driven by favourable working capital timing during 2018, which reversed during 2019. Net debt was also higher than would have been anticipated due to building of inventory for customers before the earlier Chinese New Year holiday in 2020.

Magontec Qinghai

Primary Magnesium Alloy Cast House

In Golmud, Qinghai province, PRC, Magontec operates a primary magnesium alloy cast house, converting pure magnesium and alloying elements into magnesium alloys for sale to die casters and manufacturers of other magnesium products all over the World.

In 2019 this plant has operated at around 15% of its design capacity and largely without access to raw material from the adjacent pure magnesium plant, run by Magontec's largest shareholder, Qinghai Salt Lake Magnesium Co Limited (QSLM).

In the period to 31 December 2019 the plant produced 9,267 metric tonnes (mt) and sold 9,137mt. This compares with sales of 12,761mt from both the Qinghai and Shanxi plants in 2018. Operating costs at the Magontec Qinghai plant were above target due to lower production volumes, a direct result of the failure of QSLM to supply liquid pure magnesium for a large part of the year.

In October 2018 the new Qinghai electrolytic plant commenced operation and liquid pure magnesium began to flow to the Magontec Qinghai cast house. While available volumes increased through the fourth quarter of 2018 and into the first quarter of 2019, QSLM encountered a series of critical issues. These included excess nickel in the melt, non-performance of specialised liquid metal transfer trucks and intermittent downtime in the dehydration plant.

At the end of March 2019 supply became erratic and in May was suspended. Magontec has made a number of releases to inform shareholders of these events.

Since that time the Magontec Qinghai facility has continued to operate, sourcing pure magnesium ingots from suppliers elsewhere in China. The cost of this supply and the cost of processing raw material in solid form is considerably higher than the cost of the planned material supply arrangement and has caused the Magontec Qinghai primary magnesium alloy business to operate at a loss at the EBIT line over the nine months since QSLM supply was suspended.

The Magontec Qinghai factory has been an important part of the wider Magontec business strategy for some years. Our expectations were that output from this alloying facility would rise to around 20,000mt in 2019 and then to higher levels in 2020. Magontec has built its global metals strategy around this new magnesium facility and its non-performance impacts profitability across the business. In Europe, where many of the sales are expected to occur, Magontec has a comprehensive magnesium alloy recycling offering that requires returns from Magontec Qinghai primary magnesium alloy sales to achieve targeted volume throughputs.

RESTRUCTURING OF QSLM

In August of 2019 the parent company of QSLM, Qinghai Salt Lake Industry Co Ltd (QSLIC) announced that debts associated with its expansion into PVC and magnesium production (together the QSLM business) were no longer financially sustainable. The company sought court protection and a restructuring of its liabilities so that it could retain its listing on the Shenzhen Stock Exchange.

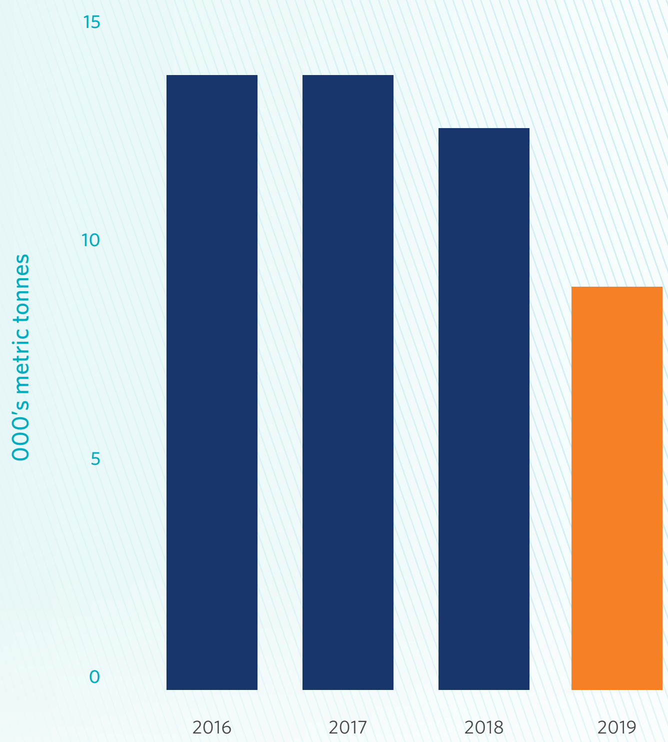
Under this arrangement QSLIC sold all its non potassium assets, including QSLM, to another Qinghai company, Qinghai Huixin Asset Management (QHAM) on 31 December 2019, and restructured its debt portfolio.

The new owner of QSLM and major shareholder of Magontec Limited is thus QHAM. At a meeting of QSLM creditors on 17th April 2020 the Chinese legal process is likely to allow QSLM to write off most of its debts to QSLIC and other creditors. It is then expected to commence the process of seeking new capital to restart the magnesium facility under a remediation plan developed in 2019 by an external engineering consultancy engaged for the purpose.

Through this process Magontec has sought to manage its liabilities and secure the validity of its contracts in China so that the key agreements that define the relationship between Magontec and QSLM remain in force. It remains management's anticipation that the magnesium facility will restart in 2020 and that supply of qualified liquid pure magnesium will again be available to the Magontec Qinghai Magnesium Alloy Cast House (MACH).

Throughout 2019 Magontec executives have spent a considerable amount of time in Qinghai discussing these unfolding events with executives of QSLIC and QSLM as well as meeting with the Restructuring Manager appointed by the Xining Court and party officials in both Qinghai Province and Haixi State. In all of these conversations we have been assured that Magontec has widespread and strong support and will continue to play a central role in the reformed magnesium business.

PRC PRIMARY MG ALLOY SALES



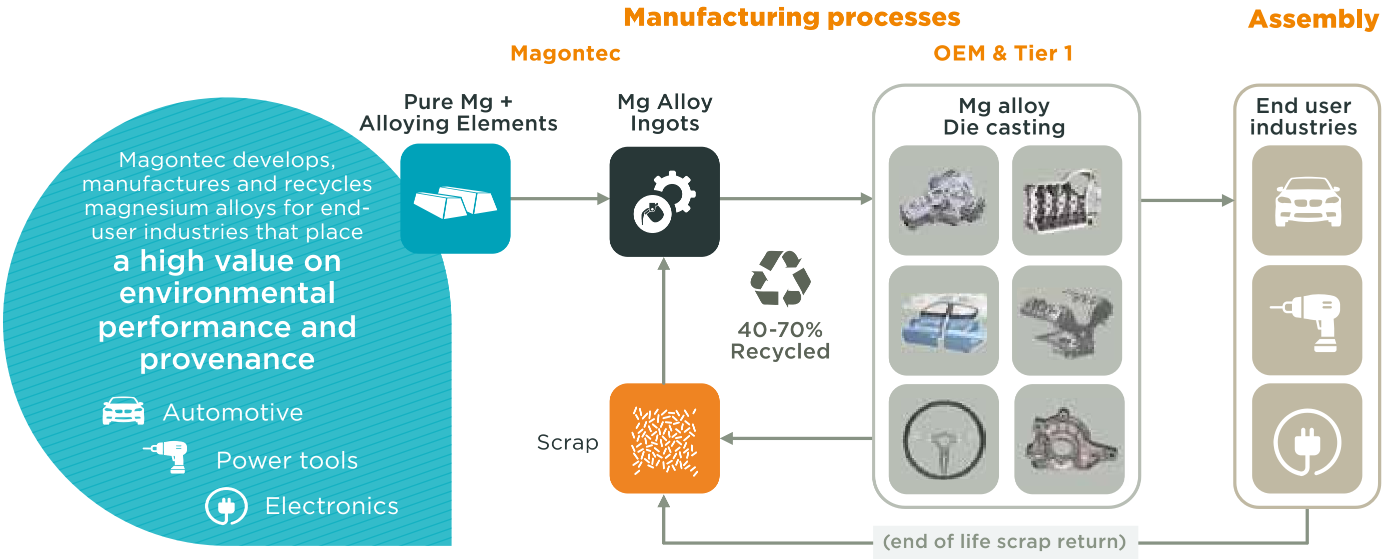
OUTLOOK

In the meantime, the company continues to operate the Magontec Qinghai facility, maintaining supplies to customers in China and in international markets. The business is operating at a small monthly cash loss before depreciation. Changes to the production process and operations at the factory are expected to reduce that loss through the early part of 2020.

The 2019 result included a number of positive and negative factors; in the first half inventory built up in 2018 was slowly released into international markets generating a profit brought to account in the 2019 financial year. On the negative side the Magontec Qinghai business was fined $416,000 by the Qinghai authorities for 2 breaches of operating conditions.

European Metals

Magnesium alloy production and recycling



The European magnesium alloy recycling businesses have performed well in a complex and changing environment. Trade, technology and labour issues all present challenges for metals manufacturing industries in Europe, particularly for businesses that are so closely aligned to the rapidly changing automotive sector.

Magontec has two European magnesium alloy recycling facilities; in Germany, at Bottrop NRW, and in Romania at Santana near the city of Arad. These factories acquire scrap magnesium alloys from die casting plants across Europe and produce recycled ingots on a tolling basis or for sale into the wider market.

Pleasingly Magontec's Romanian magnesium alloy recycling plant, which struggled to be profitable in 2017 and 2018, has largely overcome significant productivity issues. In 2019 the Romanian business exceeded production metrics in most areas and enjoyed a more consistent and harmonious year.

Profitability, while increasingly positive, is not yet at targeted levels. However, the business has stabilized and looks forward to another rise in production efficiency in 2020.

In Germany Magontec's magnesium alloy recycling business saw overall volumes down marginally, reflecting, in part, a rapidly changing automotive industry. The customer base, Tier 1 and OEM magnesium die casters, has been volatile with a major die caster leaving the European market and others gaining volumes. The impact of these changes is felt in the recycling industry as volumes are switched from one location to another. It is also the fact that over the last two years margins in the volume recycling business have been falling.

Highlights in 2019 were the growth of markets outside of Europe for both recycled magnesium alloys and for low volume/ high specification magnesium products. Rising sales into these markets has allowed Magontec's European metals business to diversify its geographical base and to pursue non-automotive customers in higher margin sectors. In 2020 we expect these markets to grow again and to become a larger part of the business mix in the years ahead.

The European metals business recorded a strong increase in overall Gross Profit, driven by higher margin products, higher volume of sales into non-European markets and a recovery in the Romanian business. These trends are expected to continue into 2020 and would be further improved by the resumption of primary magnesium alloy supply from China for which additional overheads are minimal.

Both the German and Romanian recycling businesses suffer, in the Magontec context, from the current absence of supply of primary magnesium alloys from the Magontec Qinghai plant. In 2019 supply was intermittent and will remain so until Magontec's Chinese operation is again receiving material from the adjacent QSLM electrolytic plant (see Magontec Qinghai comment).

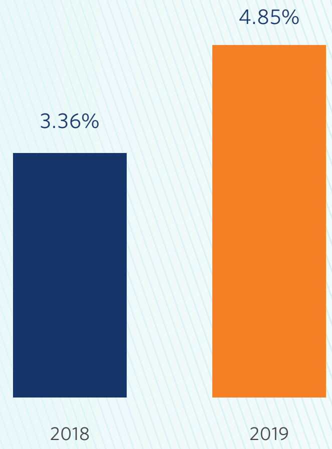
Without supply from China, where over 80% of global primary magnesium alloy is manufactured, Magontec's European metals business strategy cannot properly leverage its regional strength. As we have discussed elsewhere in this report, Magontec's Chinese magnesium facility now awaits the outcome of the restructuring at its key raw material supplier.

Over the last couple of years, the automotive industry, which consumes the vast majority of magnesium alloy production, has experienced a high level of technological disruption as well as a slowing consumer market. The key challenges for conventional automotive manufacturers in all countries still lie ahead. Consumer demand and government diktat are increasingly the drivers for technology change and the automotive manufacturers are struggling to determine a comprehensive strategy and a timetable for that strategy.

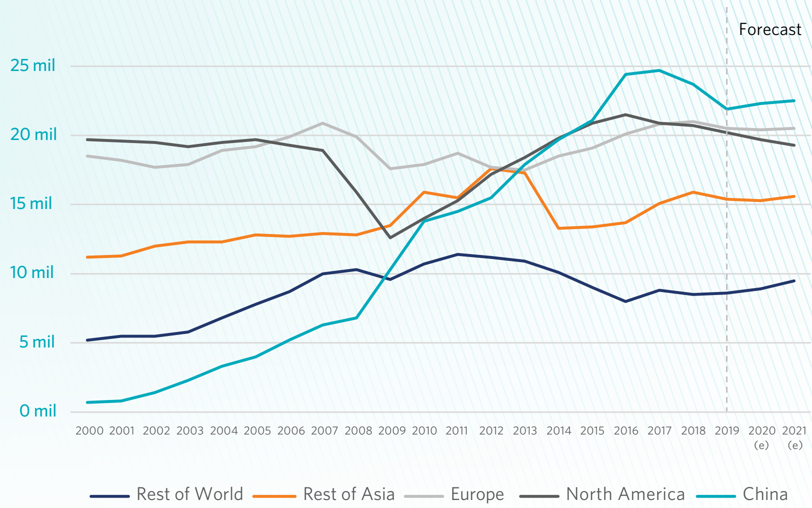
In large part the change to alternative automotive drive systems is expected to be neutral for magnesium alloy manufacturers and recyclers. Magnesium alloy products are widely found in steering wheels and instrument panel beams (the dashboard cross beam) and represent a growing product choice for a variety of other applications including doorframes and front ends. These applications will be found on all motor vehicles, internal combustion, electric or hybrid, well into the future. Other magnesium alloy applications, such as gear box cases, will likely experience volume declines as electric vehicles become more prevalent, although the rate of decline is not certain. However, the light weight and recyclable nature of magnesium alloy continues to make it a first-choice material for manufacturers seeking an environmentally friendly product and presents opportunities for new automotive applications.

Magontec's European metals businesses are well positioned to improve returns in 2020 through productivity improvement and growing volumes of higher margin products. The European technical staff have constantly sought to address costs and efficiency through process re-design and other initiatives.

EUROPEAN METALS BUSINESS: GP MARGIN



GLOBAL AUTOMOTIVE SALES - 2000 TO 2021 (EST)



In 2019 the technical team addressed material residue disposal costs improving metal recovery otherwise lost along with non-metallic waste. In 2020 a major overhaul of production systems is expected to further improve productivity.

A wider perspective of the automotive industry remains difficult to identify. The same themes will likely drive the sector; an uncertain economic outlook driven by US-China trade conflicts, Brexit and perhaps the knock-on effects of the novel Coronavirus. Overall, we expect to see a cautious automotive sector seeking greater clarity on the speed and direction of technology changes.

The economic effects on the automotive industry have been most keenly felt in China, the primary source of automotive sales unit growth since 2000. Chinese sales in 2019 were 1.8 million units lower than in 2018 and are now 2.8 million units below the peak year of 2017.

Through all of this the Magontec European magnesium alloy recycling business continues to offer consistency and a first class and reliable service to customers across the continent and in North America.

Research and Development

The key challenge of magnesium alloy research is to expand and diversify the range of applications.

In comparison to other structural metals, notably iron and steel and aluminium alloys, the consumption of magnesium alloys throughout the world remains tiny. This represents both a huge growth prospect and also a great challenge.

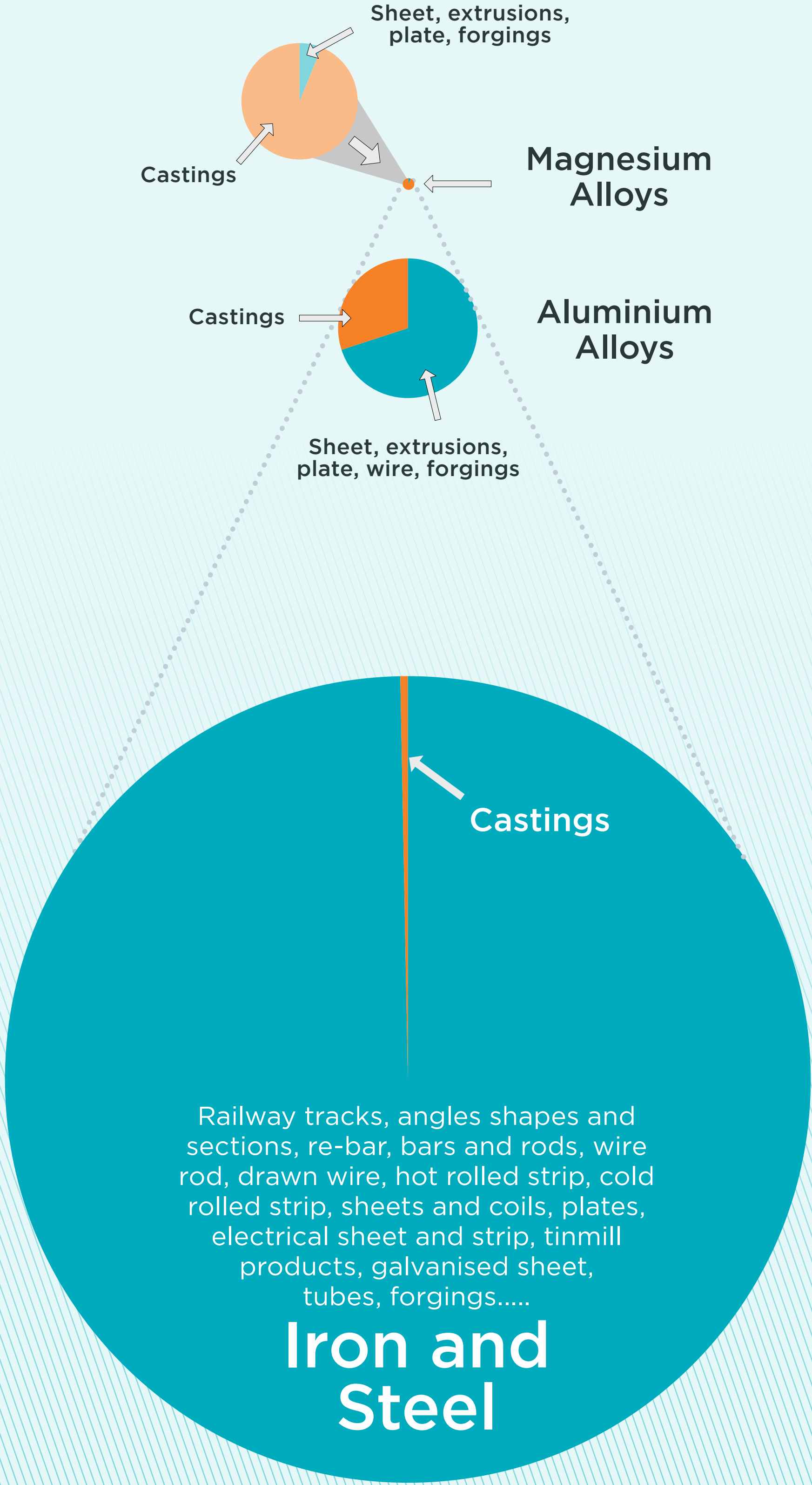
With an annual consumption of around 1.6 billion tons, iron and steel products are present everywhere in our daily lives. Virtually all steel is processed into semi-finished products. These are generic shapes in the form of rods, wires, sheets, plates and tubes. Finished steel products are made by further processing of these widely available generic shapes.

Aluminium alloys are also present in many products around us, and throughout the world approximately 70 million tons are consumed annually. As is the case for the ferrous industry, aluminium applications are also dominated by semi-finished products. However, a large proportion of aluminium alloys are also used for die casting. As aluminium has a much lower melting point than steel, it is practical to use steel dies to form near finished products directly from molten aluminium. This enables products to be created without passing through the semi-finished stage reducing costs and improving components fit for purpose.

At less than half a million tons per year, the consumption of magnesium alloys lags far behind aluminium and steel. Magnesium has some highly desirable properties for die casting, and in many instances is superior to aluminium. This accounts for the overwhelming majority of magnesium alloy applications being die cast products. These can be found in vehicles, power tools, laptops and other electronic devices.

The lack of semi-finished magnesium products presents an obstacle to further uptake. The die casting process requires considerable investment in casting facilities and in each new die. Readily available semifinished products enable a wider range of products to be made with lower barriers to entry and thus can be used for smaller production runs and prototypes.

Magontec forms close partnerships with existing and potential magnesium alloy customers and research organisations. Magontec has been active for many years in cast alloy research and has been involved in several successful Australian Research Council grant applications with Australian Universities. Through a recently awarded ARC project led by Monash University, Magontec is also pursuing the development of semi-finished (wrought) magnesium products. Research and development continues on cast alloys, including some customer initiated projects and some authority funded projects, such as the Qinghai Province Major Science and Technology Special Project targeting development of high strength/high ductile HPDC Mg alloy components.



Areas of circles illustrate relative consumption of iron, aluminium and magnesium alloys showing breakdown between cast (orange) and semi-finished (aqua)

Cathodic Corrosion Protection

(Magnesium and Electronic Anodes)

In 2019 Magontec's CCP businesses experienced a rise in volumes of magnesium products and a steady performance from electronic anodes. Magnesium anode volumes were largely driven by new contracts in China and North America and in 2019 global output rose by 25%.

In China the Xi'an factory was closed and re-equipped with new machinery in August. In addition to a new extrusion press the factory installed automated machining and processing equipment designed to lower labour inputs and improve productivity.

The volume of new orders complicated this transition and required the engagement of both additional short-term labour and some outsourcing of production through the third quarter.

To win these new orders and to retain existing business in China, Magontec Xi'an has consistently offered highly competitive pricing.

The impact of factory closure, new equipment commissioning, short-term product outsourcing and higher casual labour inputs combined to reduced overall profitability in the Chinese magnesium anode business at the Gross Profit line by 8% in 2019.

Having made this investment of capital and time the expectations are for a further rise in annual volumes in the coming year, lower conversion costs and a higher Gross Profit. The Magontec Xi'an factory 2020 output is currently forecast to be over 2,000 metric tonnes. In 2019 volumes rose by 42% over the previous corresponding period.

While volume and efficiency improvements have been slow to reflect in profitability, the production of magnesium anodes is sensitive to throughput as well as equipment efficiency. Furthermore, while the major capital items have been addressed, there remain other opportunities for factory process refinement.

In Europe, despite an improved work environment at the Romania factory - the key European production unit for this product - lower volumes for magnesium anodes resulted in lower revenues and a 7% decline in Gross Profit.

Through the year average European unit prices were relatively steady and growing sales into Middle Eastern markets provided some additional geographical spread and new volumes. However, a softer economic environment, particularly in western European markets, reflected in the final result.

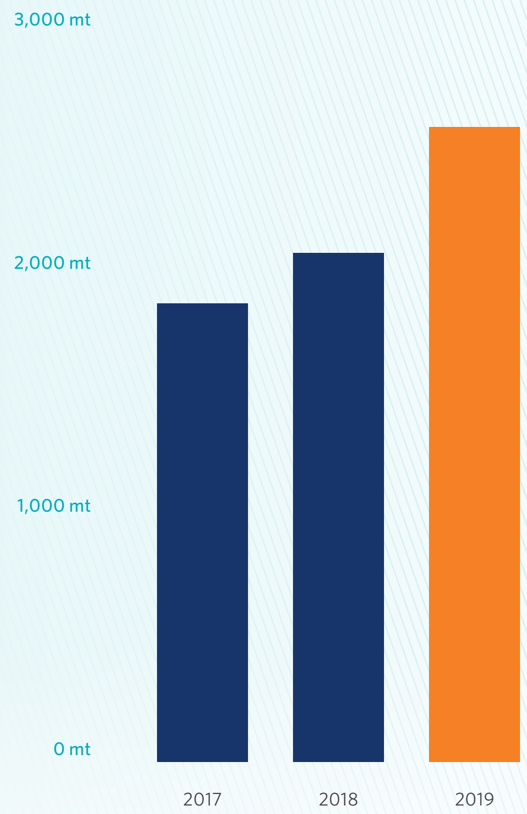
A key challenge for all magnesium products through the year was the steady decline in the price of raw materials. The magnesium price fell 16% from ¥16,850 to ¥14,150 in the 12 months to 31 December 2019. This decline followed a strong upward movement in 2018.

Managing this volatility, driven in large part by the introduction of new Chinese environmental legislation aimed at high-emission pure magnesium producers, has been challenging and a key factor in the cost of goods declining less rapidly than revenues in a falling price environment.

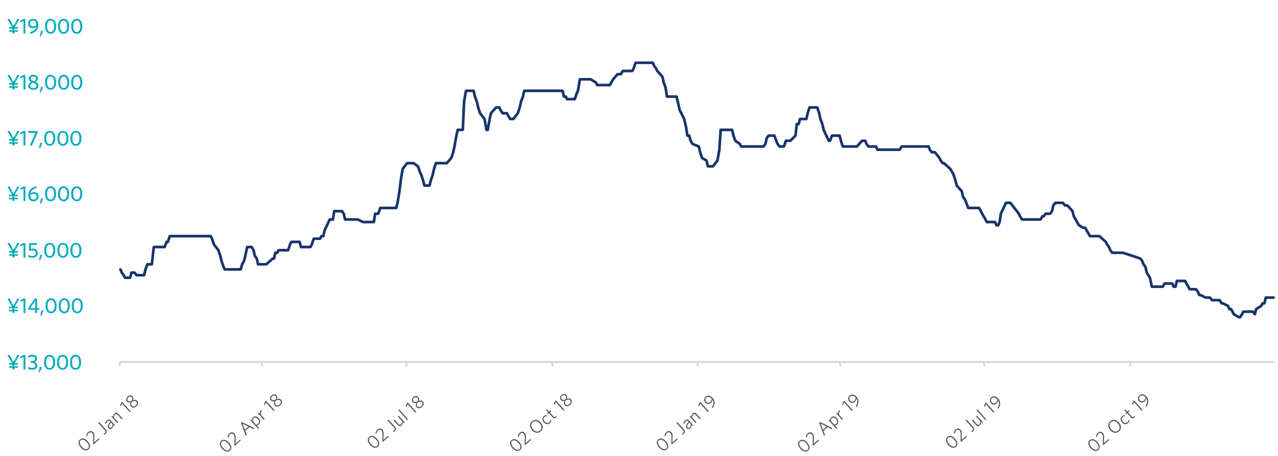
The electronic anodes business had a year of consolidation in 2019. Revenues and Gross Profit were down 5% and 6% respectively after rising 21% and 12% in the previous 12 months. The product continues to find new markets and new applications in Europe and North America and has good prospects for further growth in the coming years.

This is a product category where Magontec retains a leading edge. To maintain that advantage the Bottrop-based team have continued to focus on in-house development of new technologies. In 2019 a new laboratory has commenced construction and the applications and engineering team expanded to increase its skills base and to speed up development of new products.

MAGNESIUM ANODES – GLOBAL SALES



PURE MAGNESIUM: 1 JAN 2018 - 31 DEC 2019



Board of Directors

NICHOLAS ANDREWS

Executive Chairman

B Ec.(Syd)

Mr Andrews has been the Executive Chairman of Magontec Limited since November 2009. From 2007 to 2009 Mr Andrews served as a Non-Executive Director of Advanced Magnesium Limited prior to the acquisition of Magontec GmbH and the company name change to Magontec Limited.

Mr Andrews has a financial services background in the funds management industry and in investment banking. From 1996 to 2005 he was a Managing Director at UBS Investment Bank and responsible for global distribution of Australian and New Zealand Equity products. From 1989 to 1996 Mr Andrews was the Chief Investment Officer at LGT Investment Management in charge of the group's investment portfolios for the Australasian region.

Mr Andrews is also a Member of the Board and Treasurer of the International Magnesium Association.

XIE KANGMIN

Non-Executive Director (re-appointed 10 May 2018)

Member of the Finance, Audit and Compliance Committee (FAC)

Graduate of Chongqing University

Mr Xie is the President of Qinghai Salt Lake Industry Co., Ltd. Mr Xie has been an employee of the Qinghai Salt Lake Industry Co Ltd (QSLI) since 1984 and through this period has held a number of roles within the organisation and its subsidiary companies. Mr Xie is a Senior Engineer and holds a Bachelor of Engineering (Mining) degree from Chongqing University. QSLI is the parent company of Qinghai Salt Lake Magnesium Limited (QSLM).

QSLM is a 28.99% substantial shareholder in Magontec Limited and the company with whom Magontec Limited has entered into a number of agreements in relation to the Magontec Qinghai alloy production facility at Golmud in Qinghai Province PRC.

ANDRE LABUSCHAGNE

Non-Executive Director (re-appointed 10 May 2019)

Member of the Finance, Audit and Compliance Committee (FAC)

B. Comm (Potchefstroom University)

Mr Labuschagne is the Executive Chairman of Aeris Resources Limited (formerly Straits Resources Limited) which is a substantial shareholder of Magontec Limited to the extent of 13.06% at the date of this report.

Mr Labuschagne is an experienced mining executive with a career spanning more than 25 years, primarily in the gold industry, and has held various executive roles in South Africa, PNG, Fiji and Australia for a number of leading gold companies, including Emperor Gold Mines, DRD Gold and AngloGold Ashanti. Mr Labuschagne was previously Managing Director of ASX-listed gold company, Norton Gold Fields Limited.

LI ZHONGJUN

Non-Executive Director (re-appointed 10 May 2018)

Member of the Remuneration and Appointments Committee (REM)

Graduate of Wuhan University of Technology

Mr Li is the owner of Tianjin Keweier Metal Material Co Ltd (KWE (TJ)) in China. He is a graduate of Wuhan University of Technology and spent 10 years at Tianjin Auto Industry Company Ltd. For more than 10 years, Mr Li has built a trading and manufacturing business that specialises in magnesium products. KWE (TJ) has facilities located in Hong Kong and Tianjin and a broad experience of the global magnesium industry. Mr Li is a major beneficial shareholder in Magontec Limited.

ATUL MALHOTRA

Independent Director (appointed 1 January 2019)

Chairman of the Finance, Audit and Compliance Committee (FAC)

Member of the Remuneration and Appointments Committee (REM)

MBA (Delhi University)

—

Atul Malhotra has an extensive professional background in Procurement, Supply Management, Strategy, Business Development and other functions. During his career spanning over 40 years, he has held executive roles at ABB, Bombardier Transportation, Adtranz and Continental with responsibility for projects and operations in Europe, Asia and Australia.

For over 10 years till October 2013, Mr Malhotra was the Head of Purchasing and a Member of the Group Management at Georg Fischer Automotive Group, Schaffhausen, Switzerland, a leading global supplier of cast metal (including magnesium) parts with an annual turnover of approximately 1,200m Euro and 11 production units located in Europe and China.

As Head of Purchasing, his main responsibilities included establishing procurement strategy and managing the procurement function. As part of the Group's senior management team he also held co-responsibility for providing strategic direction to, and oversight of, the business units with reporting responsibilities to the Corporate division.

Since January 2014 he has been acting as an independent adviser to various corporate clients and businesses.

ROBERT KAYE SC

Independent Director (re-appointed 17 May 2017)

Chairman of the Remuneration and Appointments Committee (REM)

LLB (Syd), LLM (Cambridge) (Hons)

—

Mr Kaye was admitted to legal practice in 1978 and employed as a solicitor at Allen, Allen & Hemsley Solicitors. Thereafter he pursued his legal career at the NSW Bar and was appointed Senior Counsel in 2003, practising in commercial law. He has been involved in an array of commercial matters both advisory and litigious in nature and served on a number of NSW Bar Association committees including the Professional Conduct Committee. He has also served as a director for various private companies. In the conduct of his practice as a barrister, he has acted for many financial institutions and commercial enterprises, both public and private and given both legal and strategic advice. He has had significant mediation experience and been involved in the successful resolution of complex commercial disputes. Mr Kaye was previously the Chairman of Spicers Limited, and also previously served as a non-executive director with both UGL Limited and HT&E Limited. Mr Kaye is currently Chairman of Collins Foods Limited and the Chairman of the Macular Disease Foundation Australia.

LI SHUN

Alternate Non-Executive Director (appointed 25 October 2017)

Mr Li Shun graduated from Qinghai University with a degree in Accounting and is a qualified intermediate accountant. Within Qinghai Salt Lake Industry Co Ltd (QSLI), he is currently the Section Head of Securities Affairs (Board Secretary Department of QSLI) and the Securities Affairs Representative. His previous experience within QSLI also includes serving in the capacity of the deputy section chief of equity management (Investment Department) as well as experience in the QSLI audit department.

He serves as the alternate director to Mr Xie Kangmin.

Executive Management

TONG XUNYOU

President, Magontec Asia

B Chem (Dalian University), MBA (Hong Kong Polytechnic University)

Mr Tong joined Magontec Limited (then Hydro Magnesium) in 2003 in the role of Production Manager, Finance Manager and Deputy General Manager. In 2006 Mr Tong was appointed General Manager and assumed responsibility for all of Magontec's Chinese metal and anode activities.

Prior to joining Magontec Limited Mr Tong spent eight years with the Henkel Adhesive Company Limited where he was Production and Branch Manager.

Mr Tong holds a Bachelor's degree in Chemistry from Dalian University of Science and Engineering and an MBA from Hong Kong Polytechnic University.

CHRISTOPH KLEIN-SCHMEINK

President Magontec Europe, North America and Middle East

MBA (Münster University)

Mr Klein-Schmeink joined Magontec Limited (then Hydro Magnesium) in 2000 as Sales and Marketing Manager responsible for global sales of the company's anode products.

He was appointed Head of Sales and Marketing in 2007 and Vice-President of Global Sales and Marketing in 2011. In 2012 Mr Klein-Schmeink was appointed President of Magontec GmbH and has responsibility for the Group's activities in Europe, North America and the Middle East. Prior to joining Magontec Mr Klein-Schmeink held the position of Sales Director Asia Pacific with the global mining services company Terex Mining Corp.

Mr Klein-Schmeink holds a Masters of Business Administration degree from Münster University.

DERRYN CHIN

Chief Financial Officer

B Com (UNSW), CA, CFA

Mr Chin joined Magontec Limited in 2014 and was appointed as the Chief Financial Officer in 2016.

Prior to joining Magontec, Mr Chin was an equity research analyst at Macquarie Group in Australia and prior to that held roles in both the audit and financial advisory divisions of KPMG.

He is a member of Chartered Accountants Australia and New Zealand, a CFA charterholder and speaks Mandarin. He graduated with a Bachelor of Commerce from the University of New South Wales with a double major in Accounting and Finance.

PATRICK LOOK

Vice President, Finance & HR

Business Economist VWA

Mr Look is the Vice-President of Finance & HR, with primary finance and operating oversight responsibilities for the company's divisions in Europe, North America and the Middle East. Mr Look started his career at Magontec GmbH (then Hydro Magnesium) in 1998 as part of the industrial business management trainee program.

Over the last 20 years, after assuming various finance roles in the company including accounting, purchasing and logistics and graduating as a Business Economist (VWA) he was appointed Finance Manager in 2009 and Vice-President Finance & HR in 2012.

JOHN TALBOT

Company Secretary

B Bus, Accounting (UTS)

Mr Talbot has been the Company Secretary for Magontec since February 2008, a role he has previously combined with that of Chief Financial Officer. Mr Talbot relinquished his responsibilities as CFO in 2016.

From 1988 to September 2000 Mr Talbot was a senior executive at a leading Australian bank, where he headed the Bank's Project and Infrastructure Finance Division.

Prior to 1988 his other responsibilities within the bank included capital markets activity and income tax compliance. From 2000 to his appointment in February 2008 with Magontec, he undertook various corporate advisory roles in Australia and overseas.

DR ZISHENG ZHEN

Technical Director (R&D and Quality Management), Magontec Asia

PhD, Materials Processing Engineering (The University of Science and Technology Beijing)

Dr Zhen joined Magontec Limited in 2009 as the R&D manager of Magontec Xi'an Co. Ltd., and was appointed as the technical director of Magontec Asia in 2011, responsible for R&D activities as well as quality management for all facilities in China.

Dr Zhen has almost 20 years of research and technical development experience in magnesium. He gained his PhD in Materials Processing Engineering from The University of Science and Technology Beijing, China in 2003. He then conducted further research works on magnesium alloys and processing technologies at Oxford University and Brunel University in England, and at the Magnesium Innovation Center in GKSS (now HZG) in Germany. Prior to joining Magontec he was a senior research fellow at the Magnesium Innovation Center in Germany.

PROF TREVOR ABBOTT

Director - Research and Development

B App Sc Metallurgy (UniSA)
PhD (Monash)

Adjunct Professor, University of Queensland

Adjunct Professor, RMIT University

Prof Abbott completed his PhD in 1987 and has extensive experience in the metals industry including aluminium alloys (PhD topic), steel (working for BHP in Melbourne and Wollongong throughout the 1990's) and magnesium alloys. During the period 2000-2004 he held an academic position at Monash University where he led the magnesium applications development sector of the CAST Cooperative Research Centre. He has worked for Magontec and its predecessor organisations since 2005. His career spans both industrial and academic roles and he is experienced in applying university based research capabilities towards industrially relevant problems. He has been successful in obtaining three Linkage Research Grants from the Australian Research Council for collaborations with RMIT University, Monash University and the University of Queensland. These projects have focussed on improved alloys, particularly within the AE alloy family, with targets closely aligned to the needs of Magontec's customers worldwide. Prof Abbott has been instrumental in expanding Magontec's alloy portfolio including the recent entry into zirconium containing magnesium alloys. He also maintains an active presence in the scientific research community with over 80 scientific publications.

Financial Report

for the year ended 31 December 2019

1. Corporate information

The consolidated financial statements of Magontec Limited and its controlled subsidiaries as listed in Note 22 herein (collectively, the Group) for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the directors on 26 February 2020. 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 entities 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.	MGL, the Company or Parent Entity
Advanced Magnesium Technologies Pty Limited	Wholly owned subsidiary of Magontec Limited that acts as the administrative operating entity.	AMT
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 US LLC	The wholly owned entity that acts as the Group's distributor located in the United States of America.	MAU
Magontec Shanxi Co. Ltd.	The joint venture operations in Jishan, Shanxi province PRC. Production ceased at this facility in October 2018.	MAY
Magontec Suzhou Co. Ltd.	The wholly owned entity that owns the Group's operations in Suzhou, PRC. Production ceased at this facility in 2016.	MAS
Major related shareholders		
Qinghai Salt Lake Magnesium Co. Limited	A subsidiary of Qinghai Salt Lake Industry Co. Limited (a company listed on the Shenzhen Securities Exchange) and a 28.99% shareholder in MGL 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, a subsidiary of Aeris Resources Limited was a 13.06% substantial shareholder of MGL at the date of this report. Mr Andre Labuschagne, a director of Magontec Limited is the Executive Chairman of Aeris Resources Limited.	SMM
KWE (HK) Investment Development Co. Ltd.	Shareholder in Magontec Limited. Mr Li Zhongjun, a director of Magontec Limited is also a director and shareholder of KWE (HK) Investment Development Co. Ltd.	KWE (HK)

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 for the prior period.

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.

Directors' Report

The Directors of Magontec Limited submit herewith the Annual Financial Report of the Group for the twelve-month period ended 31 December 2019. In order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

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

- Mr Nicholas Andrews (Executive Chairman)
- Mr Xie Kangmin (Non-Executive Director)
- Mr Li Zhongjun (Non-Executive Director)
- Mr Atul Malhotra (Independent Director)
- Mr Robert Kaye (Independent Director)
- Mr Andre Labuschagne (Non-Executive Director)
- Mr Li Shun (Alternate Non-Executive Director to Mr Xie Kangmin)

Directorships of other Listed Companies

Directors who have held a Directorship position in another publicly listed company in the three years immediately before the end of the financial year are as follows:

- Mr Robert Kaye is Chairman of Collins Foods Limited. He was also formerly a director at HT&E Limited and Spicers Limited during the relevant 3-year period
- Mr Andre Labuschagne is Executive Chairman of Aeris Resources Limited (formerly Straits Resources Limited)
- Mr Xie Kangmin is a director of Qinghai Salt Lake Industry Co. Limited

Company Secretary

Mr JD Talbot, B Bus (Acctg)

Mr Talbot has been the Company Secretary for Magontec since February 2008, a role he has previously combined with that of Chief Financial Officer. Mr Talbot relinquished his responsibilities as Chief Financial Officer in 2016. Prior to 2008 he was engaged as a financial consultant in the corporate finance field. Prior to 2000 he was a senior executive with a leading Australian bank.

Principal Activities

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

- Manufacture and sale of generic and specialist alloys (including both primary alloy manufacture and recycling);
- Manufacture and distribution of magnesium and titanium cathodic corrosion protection products (anodes);
- Research and development of new proprietary magnesium alloys and technologies;
- Research and development of cathodic corrosion protection products (CCP); and
- Creating markets for new magnesium alloys and technologies by supporting demonstration trials and programs for developing new applications.

Directors' Meetings

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

	Board Meetings		FAC Meetings (2)		REM Meetings (3)	
Director	**Attended**	**Held**	**Attended**	**Held**	**Attended**	**Held**
Mr Nicholas Andrews	9	9				
Mr Xie Kangmin	–	9	–	2		
Mr Li Zhongjun	6	9			1	1
Mr Atul Malhotra	9	9	2	2	1	1
Mr Robert Kaye	8	9			1	1
Mr Andre Labuschagne	8	9	2	2		
Mr Li Shun (1)	5	9	–	2		

(1) Mr Li Shun is the alternate director to Mr Xie Kangmin
(2) Finance, Audit & Compliance Committee
(3) Remuneration & Appointments Committee

Directors' Shareholdings

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

Director	Ordinary Shares	Performance Rights
Mr Nicholas Andrews	20,870,953	9,000,000
Mr Xie Kangmin	–	–
Mr Li Zhongjun	56,197,298	–
Mr Atul Malhotra	–	–
Mr Robert Kaye	–	–
Mr Andre Labuschagne	–	–
Mr Li Shun	–	–

REMUNERATION REPORT

The remuneration report for the year ended 31 December 2019 outlines the remuneration arrangements of the Group in accordance with the requirements of the *Corporations Act 2001* (the Act) and its regulations.

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

The remuneration report is presented under the following sections:

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

1. INDIVIDUAL KEY MANAGEMENT PERSONNEL (KMP) DISCLOSURES

Details of Directors and KMP are set out below. Their remuneration is detailed in the table on page 22.

(i) Directors during the year ended 31 December 2019

- Mr Nicholas Andrews (Executive Chairman)
- Mr Xie Kangmin (Non-Executive Director)
- Mr Li Zhongjun (Non-Executive Director)
- Mr Atul Malhotra (Independent Director)
- Mr Robert Kaye (Independent Director)
- Mr Andre Labuschagne (Non-Executive Director)
- Mr Li Shun (Alternate Non-Executive Director to Mr Xie Kangmin)

(ii) Key Management Personnel (KMP) (Being the Executive Chairman and his Direct Reports) during the year ended 31 December 2019

- Mr Nicholas Andrews - Executive Chairman
- Mr Christoph Klein-Schmeink - President Magontec Europe, North America and Middle East
- Mr Tong Xunyou - President Magontec Asia
- Mr Derryn Chin - Chief Financial Officer

2. REMUNERATION AT A GLANCE

Remuneration Strategy

The Group uses a combination of cash and non-cash mechanisms to remunerate key management personnel. At the Company's 2017 Annual General Meeting shareholders approved a plan for the global management group comprising cash based short term incentives and equity based long term incentives in the form of performance rights.

3. BOARD OVERSIGHT OF REMUNERATION

Remuneration & Appointments Committee

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

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

Remuneration Approval Process

The board approves the remuneration arrangements of the Executive Chairman and executives following recommendations from the remuneration committee.

Remuneration Structure

The structure of Non-Executive Director and Executive Remuneration are separate and distinct processes as outlined in the following sections.

4. NON-EXECUTIVE DIRECTOR REMUNERATION ARRANGEMENTS – BOARD POLICY AND STRUCTURE

The remuneration of Non-Executive Directors consists of directors' fees. The aggregate amount of Non-Executive Directors' fees is approved by Shareholders and is currently limited to $600,000 per annum. Any increase to the aggregate amount must be approved by Shareholders.

The Board decides how the aggregate amount or a lesser amount is divided between the Directors. Within the constraint of the aggregate $600,000 fees approved by Shareholders for Non-Executive Directors, compensation is set at $60,000 per annum for each Non-Executive Director inclusive of any payments for superannuation. There are currently no additional fees being paid to those directors serving on either the Finance, Audit & Compliance Committee or the Remuneration & Appointments Committee.

Equity based compensation including the issue of options is generally avoided for non-executive directors. However, this can be provided to directors as long as any such issue complies with the requirements of the Corporations Act and the ASX Listing Rules.

5. EXECUTIVE REMUNERATION ARRANGEMENTS

Board Policy

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

- When an executive or an employee is recruited, the Group's aim is to reward its staff at market rates within the manufacturing technology industry as determined and in consultation with a remuneration specialist where appropriate;
- The remuneration policy aims to retain key employees and align employee interests with Group performance and shareholders' interests;
- On 18 December 2013, the Board approved an incentive plan comprising short-term incentive (STI) and long-term incentive (LTI) components for the Magontec global management group. This plan was known as the *2013 Board Approved Plan*.
- Subsequent amendments to the 2013 *Board Approved Plan* were approved by the Board on 23 February 2017 and presented at the Group's AGM on 17 May 2017, which was then ratified by shareholders. This plan is now known as the *2017 Shareholder Approved Plan*.
- The implementation of this plan is utilised to:
  a. motivate key management personnel (KMP) to originate and innovate strategies for growth;
  b. reward KMP for the satisfaction of positive strategic and financial outcomes; and
  c. to provide an adjunct to cash remuneration to preserve cash resources.

Each KMP has a set of key performance indicators (KPIs) mutually agreed by the employee with the Executive Chairman/Board (as appropriate) on an annual basis. The KPIs reflect the employee's ability to add value to the entity and increase shareholder wealth by ensuring productive gains such as increasing efficiencies, reduction in costs and increased profitability by maximising sales volumes and margins on sale revenues. Performance against these KPIs forms a component of the assessment of STI amounts as outlined below. The Board retains discretion to adjust final remuneration outcomes for all Executives. Board Policy is reviewed periodically by the Remuneration and Appointments Committee. Where appropriate, recommendations to the Board for variations will be made.

Eligible executives for the 2017 Shareholder Approved Plan are outlined in the table below.

Participant	Current Position
Nicholas Andrews	Executive Chairman
John Talbot	Company Secretary and Consultant
Derryn Chin	Chief Financial Officer
Christoph Klein-Schmeink	President Europe, North America & Middle East
Xunyou Tong	President Asia
Patrick Look	VP Finance & HR
Zisheng Zhen	Technical Director, Magontec Asia

5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

Outcomes

During the year ended 31 December 2019:

- regarding the STI scheme, there was no bonus paid to the global management group as financial outcomes for the year ended 31 December 2018 were not achieved.
- With respect to the current year ended 31 December 2019, no STI provision has been made for performance during the current year.
- Regarding the LTI scheme, there were no performance rights which converted to shares with respect to the 3-year period from 2016-2018 to members of the global management group.

Remuneration for directors and KMP in the current reporting period prepared according to accounting standards is shown below.

Key Management Personnel Remuneration 12 months ended 31-Dec-19 and 31-Dec-18

		Non-Performance Related					Performance Related			
		Salary & Allowances $	Termination Payment $	Super & Statutory Pension Benefits $	Share based payments $	Motor Vehicle & Other Allowances $	STI $	LTI shares issued $	Non cash accrual - LTI rights**	Total $
Mr N Andrews	2019	425,000	–	25,000	–	-	–	–	33,790	483,790
(Exec Chairman)	2018	425,000	–	25,000	–	-	–	–	20,693	470,693
Mr C Klein-Schmeink	2019	322,041	–	28,335	–	34,831	–	–	27,368	412,575
(President Magontec Europe)	2018	326,378	–	23,804	–	34,026	–	–	15,999	400,207
Mr X Tong	2019	326,028	–	17,037	–	-	–	–	24,485	367,550
(President Magontec Asia)	2018	317,075	–	18,039	–	-	–	–	14,534	349,648
Mr D Chin	2019	230,002	–	21,850	–	-	–	–	18,993	270,845
(Chief Financial Officer)	2018	230,002	–	21,850	–	-	–	–	10,332	262,184
Mr K Xie	2019	–	–	–	–	-	–	–	-	–
(Non Exec Dr)	2018	–	–	–	–	-	–	–	-	–
Mr Z Li	2019	60,000	–	–	–	-	–	–	-	60,000
(Non Exec Dr)	2018	60,000	–	–	–	-	–	–	-	60,000
Mr A Malhotra	2019	60,000	–	–	–	-	–	–	-	60,000
(Independent Dr)	2018	–	–	–	–	-	–	–	-	–
Mr R Kaye	2019	60,000	–	–	–	-	–	–	-	60,000
(Independent Dr)	2018	60,000	–	–	–	-	–	–	-	60,000
Mr A Labuschagne	2019	60,000	–	–	–	-	–	–	-	60,000
(Non Exec Dr)	2018	60,000	–	–	–	-	–	–	-	60,000
Mr S Li	2019	–	–	–	–	-	–	–	-	–
(Alternative Dr)	2018	–	–	–	–	-	–	–	-	–
Mr R Shaw	2019	–	–	–	–	-	–	–	-	–
(Independent Dr)	2018	54,795	–	5,205	–	-	–	–	-	60,000
Total year ended 31 December 2019		1,543,071	–	92,222	–	34,831	–	–	104,636	1,774,760
Total year ended 31 December 2018		1,533,250	–	93,898	–	34,026	–	–	61,558	1,722,732

**LTI rights - Long Term Incentive right explanatory note

The values listed in the table above under the column LTI rights are non cash. This is only an estimate of the fair value that the employee obtains from participation in the LTI scheme as required by accounting standards and does not represent an amount that has been received by the employee during the year. From an LTI perspective, the shares vesting to the employee from the scheme are indicated in the column “LTI shares issued”, of which no issues where made during the current or the prior period.

5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

Structure

The Group's limited resources mean that its remuneration structures must be simple. The arrangements therefore must balance ease of administration with appropriate reward.

Non-cash mechanisms are confined to shares and options. The issue of shares will be in terms of resolutions put to shareholders pursuant to ASX Listing Rules and other relevant governing regulations.

Technical services tend to be required by the Group on an irregular basis. There is a reliable base of technical consultants on which the Group can call upon when the need arises. This avoids the cost of maintaining permanent resources.

Key Management Personnel are defined as Directors, the Executive Chairman and full time employees with direct reporting responsibility to the Executive Chairman except the Company Secretary.

Under the 2017 Shareholder Approved plan, staff remuneration has three components:

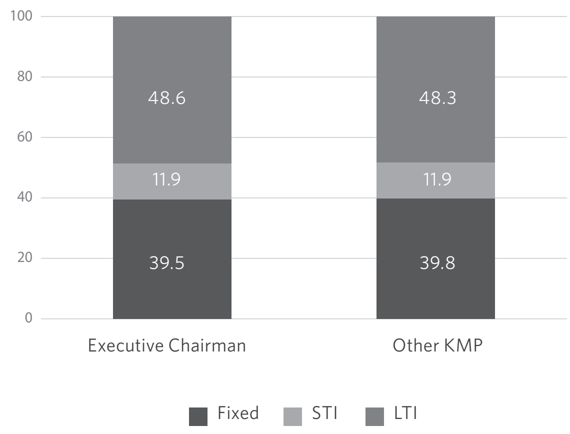
a. Base or fixed remuneration;
b. A short-term incentive (STI) in the form of cash; and
c. A long-term incentive (LTI) in the form of performance rights.

Further detail on each component is provided below.

Potential Remuneration Mix

The chart below outlines the target remuneration mix for the Executive Chairman and other key management personnel based on latest estimates of maximum possible remuneration at the date of this report.

REMUNERATION MIX TARGET (%)



Fixed Cash Remuneration

Executive contracts of employment include post-employment benefits (superannuation and certain social benefits for Chinese personnel) but do not include any guaranteed base pay increases. These are assessed on a periodic basis with the assistance of external consultants where deemed necessary.

Use of Remuneration Consultants

During the current year ended 31 December 2019, the Group did not engage the services of independent remuneration consultants.

5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

Executive STI Plan

The STI plan rewards executives according to a set formula with reference to group profitability. The Board determines the size of the pool based on actual financial metrics achieved relative to budget, and has discretion to adjust these payments depending on the particular circumstances of the Group and other qualitative factors as it sees fit. STI awards are 100% cash-settled.

Details of the STI plan forming part of the *2017 Shareholder Approved Plan* are as follows:

- The commencement date of the STI plan is 1 January 2017 and annually thereafter.
- The STI performance period is the one-year period from the relevant commencement date.
- The STI pool available for distribution is calculated as being equal to 25% of the excess of the actual net operating profit after tax (Actual NOPAT) over budgeted net operating profit after tax (Budgeted NOPAT) – the resultant figure being referred to as "The Pool";
- Net operating profit after tax (NOPAT) is defined as reported net profit after tax adjusted for specific items as deemed appropriate by the board.
- The amount of The Pool is modified as follows:

  a. The Pool would not be created where Actual NOPAT is negative; and
  b. In order to limit the amount of The Pool when profitability is low, the 25% ratio of excess Actual NOPAT over Budgeted NOPAT on which the Pool is calculated would be reduced according to the principles in the following table

1. If POOL as a % of ACTUAL NOPAT is equal to:	2. The Pool is MODIFIED to this % of excess ACTUAL NOPAT over BUDGET NOPAT
From 0.0% to 12%	25.0%
Over 12.0% to 20%	15.0%
Over 20.0%	8.0%

This constraint will be reviewed for appropriateness periodically by the Remuneration and Appointments Committee.

- Executives in the global management group participate in The Pool on a pro rata basis according to the percentage that their salary represents of the aggregate of salaries of eligible executives, the resultant figure being referred to as "The Provisional Payment";
- Eligible executives will receive –

  a. 45% of the Provisional Payment by way of a fixed component as determined by the formula described above; and
  b. Up to 55% of the Provisional Payment by way of a residual discretionary component determined according to an assessment of the eligible executive's contribution to regional and Group performance, satisfaction of KPIs laid down by management; and other subjective factors identified by the Remuneration and Appointments Committee.

- The resultant payments are subject to approval by the Board upon the recommendation of the Remuneration and Appointments Committee and may only be taken in cash.

Executive LTI Plan

Market Based Conditions

Long term incentives are issued in the form of performance rights to the global management group and provide for vesting into Magontec ordinary shares subject to the achievement of pre-determined share price targets in the first instance.

The plan uses absolute total shareholder return (TSR) as the basis for performance measurement targets based on the 30-day VWAP for each year ended 31 December.

TSR comprises the percentage change in the Company's share price, plus the value of any future dividends during the period and is measured over a 3-year period.

The performance condition of TSR is deemed as being the most appropriate by the Board due to the following reasons:

1. There are no comparable companies either on the ASX or globally that would provide a reliable relative performance benchmark
2. It is simpler to administer given limited human resources
3. It aligns the interests of employees in the management group with those of shareholders

Non-Market Based Conditions

Commencing from the 2018-2020 Plan, the 2017 Shareholder Approved Plan was modified such that if the share price market based conditions referred to above are not achieved, eligible executives will also be able to receive 10% of their total salary in the form of LTI shares provided certain operational targets (i.e. non-market based vesting conditions) are met as detailed further overleaf.

5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

The vesting according to non-market based conditions can be summarised as follows for the 2018-2020 Plan and for those plans following. If (and only if) the:

- share price targets at or above the threshold range in the scale are not achieved;
- share price at 31 December 2020 is not less than the share price adopted at 1 January 2018 (allowing for the effect of any dilution);
- supply of liquid pure Mg from Qinghai Salt Lake Magnesium Co. Ltd. (QSLM) to Magontec Qinghai over the quarter ended 31 December 2020 is occurring at a rate greater than 38,000 tonnes per annum (after allowing for scheduled maintenance and short-term temporary interruptions to supply caused by unusual circumstances); and
- the four outputs in the table immediately below are performed to the standard of the measure and/or to the satisfaction of the Board,

then, at the discretion of the Board, an LTI payment will be made at 31 December 2020 (and all the plans following) of up to 10% of total salary at 1 January 2018 via conversion of the relevant portion of the Performance Rights.

	Output Factor	Measure
1	Supply of liquid pure Mg by QSLM	Conversion to saleable Mg product of 100% of liquid pure so supplied
2	Mg product manufactured from QSLM supplied liquid pure	Sale of 100% of product at 1.
3	Conversion cost of liquid pure Mg supplied by QSLM to Mg product	Steady appreciable improvement over 2019 and 2020
4	Contribution to development of strategic initiatives	Subjective Board assessment of individual's input

During the year ended 31 December 2019, a total of 18,967,955 performance rights were issued with respect to the three-year period to 31 December 2021 pursuant to the 2017 Shareholder Approved Plan and the subsequent amendments approved by shareholders at the 2018 AGM.

No other options were issued to KMP during the current financial period.

Further details of the LTI plan forming part of the 2017 Shareholder Approved Plan are as follows:

- The commencement date of the LTI plan is 1 January 2017 and annually thereafter up to and including 1 January 2020.
- The LTI performance period is the 3-year period from the relevant commencement date.
- A Performance Right is a conditional right granted by the Company to an eligible executive whereby that conditional right may, subject to the relevant terms and conditions, vest as Magontec ordinary shares in respect of participation in the LTI.
- Performance Rights will automatically lapse in the event of the death, dismissal, retrenchment, retirement or resignation of the eligible executive prior to the end date of the 3-year LTI performance period.
- Performance Rights will vest immediately in the event of a takeover (being the acquisition of control over the voting shares) of the Company.
- Performance Rights may not be transferred, assigned or novated except with the approval of the Remuneration and Appointments Committee.
- Eligible executives will not grant any security interest in or over or otherwise dispose of or deal with any Performance Rights or any interest in them until the relevant Magontec ordinary shares are issued to that eligible executive, and any such security interest or disposal or dealing will not be recognised in any manner by the Company.
- Performance Rights do not confer on a participant the right to participate in new issues of shares by the Company, including by way of bonus issue, rights issue or otherwise.

Grant of Performance Rights

At the commencement date of the relevant 3-year LTI performance period an eligible executive will receive Performance Rights –

i. equal in value to 30% of the eligible executive's gross salary at that date;
ii. equal in number to the value in i. divided by 75% of the greater of the market value of Magontec ordinary shares on the same date and the market value adopted under this provision at the commencement date of the immediately prior 3-year LTI performance period; and
iii. at nil consideration.

The number of Performance Rights is rounded down to the next whole number if it is not a whole number. Performance rights issued to executives do not have escrow periods.

No entitlement to Performance Rights accrues to the eligible executive until an appropriate confirmation from the Company has been received by the eligible executive.

5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

The calculation of these Performance Rights was included in the notice to the 2017 AGM, and in subsequent Notice of AGMs and ASX announcements with the number of performance rights by employee provided in the table below.

Calculation of Performance Rights Issued to Global Management Group			
3 Year LTI Performance Period	1 Jan 17 to 31 Dec 19	1 Jan 18 to 31 Dec 20	1 Jan 19 to 31 Dec 21
1. Aggregate salaries of eligible participants at commencement of 3 year LTI period	$1,527,227	$1,718,161	$1,896,795
2. Multiplied by 30%	$458,168	$515,448	$569,039
3. Share price at commencement of 3 year LTI period assumed	$0.040	$0.040	$0.040
4. Performance Rights issued at commencement = Amount in step 2 / 75%* share price in step 3	15,272,266	17,181,612	18,967,955
5. Gross up for possible dilution in the period to the end of the 3 year LTI period	15,621,146	17,573,448	18,967,955
Date of issue of Performance Rights	01-Jan-17	01-Jan-18	01-Jan-19
Date for conversion to ordinary shares	31-Dec-19	31-Dec-20	31-Dec-21

Performance Rights Issued to Global Management Group			
3 Year LTI Performance Period	1 Jan 17 to 31 Dec 19	1 Jan 18 to 31 Dec 20	1 Jan 19 to 31 Dec 21
Nicholas Andrews	4,275,488	4,500,000	4,500,000
Derryn Chin	2,576,033	2,518,500	2,518,500
Christoph Klein-Schmeink	2,973,577	3,618,256	3,740,129
Xunyou Tong	2,674,317	3,225,906	3,356,953
John Talbot	1,227,413	1,250,000	1,250,000
Patrick Look	1,894,318	2,068,950	2,136,028
Zisheng Zhen	-	-	1,466,345
Total Performance Rights	**15,621,146**	**17,181,612**	**18,967,955**

Vesting of Performance Rights as Magontec Ordinary Shares

- If, at the end date of the 3-year LTI performance period, the Performance Rights have not lapsed or vested then, at that date, an individual eligible executive's entitlement to –
  - i. the number of Performance Rights will be adjusted for any dilution caused by capital restructures during the relevant 3-year LTI performance period; and
  - ii. the adjusted number of Performance Rights will vest as Magontec ordinary shares according to the relevant paragraphs above.
- Performance Right share prices targets are assessed according to the 30-day VWAP to 31 December in the year of vesting.
- The percentage of Performance Rights that will vest as Magontec ordinary shares according to Market Based Conditions (i.e. share price targets) are determined according to the following vesting % tables for the 2017-2019 Plan, the 2018-2020 Plan and the 2019-2021 Plan.

5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

2017-2019 LTI Plan Vesting Schedule

Performance Level		Share Price	% of Performance Rights vesting
Below threshold	Share price <	6.2	0%
Threshold range	Share price =	6.2	25%
Target range	Share price =	8.8	50%
Stretch	Share price >=	11.7	100%

2018-2020 LTI Plan Vesting Schedule

Performance Level		Share Price	% of Performance Rights vesting
Below threshold	Share price <	6.4	0%
Threshold range	Share price =	6.4	25%
Target range	Share price =	9.0	50%
Stretch	Share price >=	12.0	100%

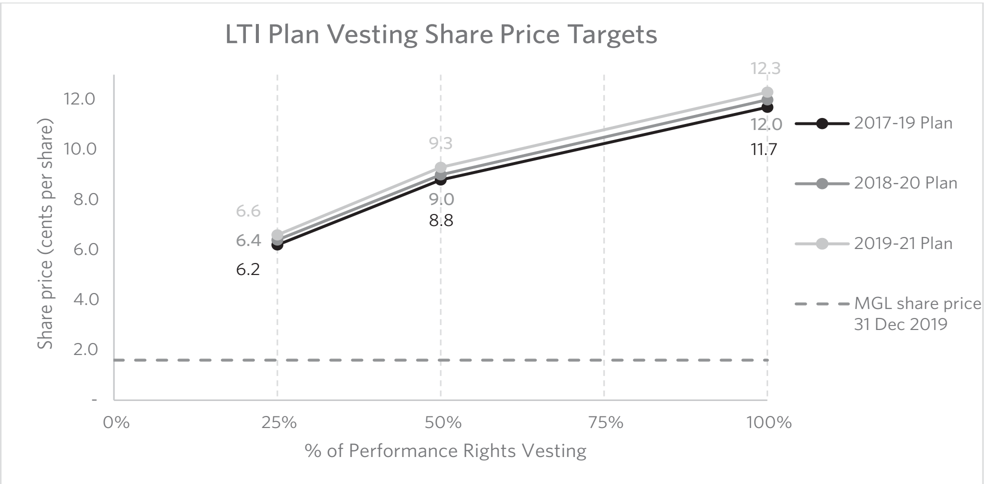
2019-2021 LTI Plan Vesting Schedule

Performance Level		Share Price	% of Performance Rights vesting
Below threshold	Share price <	6.6	0%
Threshold range	Share price =	6.6	25%
Target range	Share price =	9.3	50%
Stretch	Share price >=	12.3	100%

- For example, in the 2017-2019 plan, if the share price had reached 6.2 cents per share (the Threshold Range), this would have given rise to 25% of the Performance Rights vesting into Magontec ordinary shares.
- Under the 2017-19 Plan, if the share price had increased above 6.2 cents per share, the percentage of Performance Rights vesting would have increased on a pro-rata basis through to 100% vesting on achievement of the maximum Stretch target (being 11.7 cents per share). All other LTI plans for later years work in the same manner.
- No entitlement to Magontec ordinary shares accrues to the eligible executive until an appropriate confirmation from the Company has been received by the eligible executive.
- The Magontec ordinary shares to be issued with respect to the Plan are issued at the 10- day VWAP prior to the date of issue of the ordinary shares.
- The LTI Amount is equal to the number of Magontec ordinary shares multiplied by the 10-day VWAP prior to the date of issue of the ordinary shares.

5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

LTI PLAN VESTING SHARE PRICE TARGETS



Valuation of Performance Rights

The fair value of goods and services received as consideration by the Group has been estimated by reference to the fair value of the equity instruments granted.

Market Based Conditions

In 2017, an external consultant (KPMG Australia) provided limited assistance to the Group with respect to compiling a binomial options pricing model which was used to determine the fair value of performance rights issued to executives for market based conditions. In particular, KPMG Australia did not specifically express any opinions regarding assumptions or inputs to the model.

Assumptions regarding dividend yield and volatility have been estimated based on historical dividend payouts (nil) and volatility on an appropriate period deemed to have excluded instances of non-normal trading.

The fair value of the equity instruments granted for market based conditions is calculated assuming a 0% probability of forfeiture before grant date (i.e. it is assumed all participants remain employed by Magontec during the period), and is expensed on a straight-line basis over the vesting period.

Non market based conditions assumptions

The structure of the new LTI plan provides that if the market-based conditions above (i.e. share price targets) are not satisfied, the satisfaction of the non-market based conditions means that 10% of the total salary can be paid out in the form of an LTI.

As any LTI payout can only be with respect to the satisfaction of either the market based conditions or the non-market based condition (but not for both simultaneously), the Group has therefore calculated the valuation to be equal to the higher of:

a. the existing market-based binomial valuation model; OR
b. the payout that would be owing by satisfaction of the non-market based conditions

Non-market based vesting conditions are subject to adjustment according to the number of instruments likely to vest.

In valuing the payout that would be owing by the satisfaction of the non-market based conditions, the Group has assumed:

a. 100% probability of attaining operational targets at the end of the 3-year period
b. 100% of eligible members will be still eligible at the end of the 3-year period

5. EXECUTIVE REMUNERATION ARRANGEMENTS (CONTINUED)

The table below outlines the assumptions used to determine the value of performance rights granted during the year ended 31 December 2019.

Table of assumptions

Plan	Share price (cents)	Grant date	Contractual Life (years)	Dividend yield	Volatility	Risk free rate	TSR share price 100% vest (cents)	Performance Right Fair Value (cents)
2017-19 Plan	3.6	19-May-17	2.62	0.0%	21.3%	1.74%	11.7	0.119
2018-20 Plan	3.1	10-May-18	2.65	0.0%	23.7%	2.16%	12.0	1.000
2019-21 Plan	2.4	24-Jan-19	2.94	0.0%	32.5%	0.77%	12.3	1.000

Loans to Members of Key Management Personnel

As at 31 December 2019, there was one employee loan outstanding to Mr Christoph Klein-Schmeink for a total of A$54,302 (2018: A$53,814).

The loan has a maturity date of 16 July 2021, which can be extended by 10 years at the option of the Company. Interest of 1.81% is attached to the loan. There were no other employee loans to key management personnel outstanding as at 31 December 2019.

Key Management Personnel and Director Equity Holdings

Fully paid ordinary shares of Magontec Limited - 31 Dec 2019

	Total balance (held directly and indirectly) 01-Jan-19	Granted as remuneration	Received on exercise of options	Acquired On Market or Under Share Purchase Plan	Total balance (held directly and indirectly) 31-Dec-19	Balance held nominally (indirectly)
	No.	No.	No.	No.	No.	No.
Mr Z Li (1)	56,197,298	–	–	–	56,197,298	55,797,298
Mr N Andrews (2)	20,870,953	–	–	–	20,870,953	15,409,401
Mr C Klein-Schmeink	6,142,212	–	–	–	6,142,212	-
Mr X Tong	9,882,973	–	–	–	9,882,973	-
Mr D Chin	1,000,000	–	–	–	1,000,000	-
Total	94,093,436	–	–	–	94,093,436	71,206,699

(1) 55,797,298 shares held via KWE (HK) Investment Development Co Limited and 400,000 shares are held directly.
(2) 15,409,401 shares are held via DEWBERRI PTY LIMITED as trustee for Andrews Superannuation Fund and 5,461,552 are held directly.

Fully paid ordinary shares of Magontec Limited - 31 Dec 2018

	Total balance (held directly and indirectly) 01-Jan-18	Granted as remuneration	Received on exercise of options	Acquired On Market or Under Share Purchase Plan	Total balance (held directly and indirectly) 31-Dec-18	Balance held nominally (indirectly)
	No.	No.	No.	No.	No.	No.
Mr Z Li (1)	56,197,298	–	–	–	56,197,298	55,797,298
Mr N Andrews (2)	20,870,953	–	–	–	20,870,953	15,409,401
Mr R Shaw	800,000	–	–	–	800,000	800,000
Mr C Klein-Schmeink	6,142,212	–	–	–	6,142,212	-
Mr X Tong	9,882,973	–	–	–	9,882,973	-
Mr D Chin	1,000,000	–	–	–	1,000,000	-
Total	94,893,436	–	–	–	94,893,436	72,006,699

(1) 55,797,298 shares held via KWE (HK) Investment Development Co Limited and 400,000 shares are held directly.
(2) 15,409,401 shares are held via DEWBERRI PTY LIMITED as trustee for Andrews Superannuation Fund and 5,461,552 are held directly.

6. GROUP PERFORMANCE AND THE LINK TO REMUNERATION

In summary, resources have been directed to the following high-level tasks:

- restructure and redirect manufacturing resources to improve production efficiencies;
- rationalise inventories;
- planning for the installation of manufacturing plant and equipment at Golmud;
- initial marketing of production output from the new Golmud plant;
- monitoring manufacturing operations at all centres with a view to efficiency improvements; and
- negotiating the group debt position and working capital requirements among other financial imperatives.

Rewards are directed to those personnel who can directly or indirectly further the Group's objectives of:

- developing and executing strategic initiatives;
- cost efficiency; and
- market development.

During the reporting period ended 31 December 2019, the focus of the Group's management resources is described in the Executive Chairman's address. Outcomes with respect to financial performance over the last 5 years and details with respect to STI remuneration is summarised below.

Summary of financial performance	12 months to 31-Dec-15 $	12 months to 31-Dec-16 $	12 months to 31-Dec-17 $	12 months to 31-Dec-18 $	12 months to 31-Dec-19 $
Profit attributable to shareholders	**44,807**	**619,800**	**(1,614,255)**	**776,068**	**(1,370,122)**
Less unrealised FX gains/ add unrealised FX losses	(292,610)	498,282	436,901	(295,573)	28,340
Add back non cash equity expense	174,371	183,456	190,585	78,412	134,656
Add back provision for STI	-	145,078	-	-	-
Add back provision for LTI	-	141,478	-	-	-
Profit excluding unrealised FX, STI and non cash share based payments	**(73,432)**	**1,588,094**	**(986,768)**	**558,907**	**(1,207,126)**
STI pool ($)	**-**	**145,078**	**-**	**-**	-
%	0.0%	9.1%	0.0%	0.0%	0.0%

With respect to the LTI scheme, the share price targets approved by shareholders at the 2017 AGM for the 3-year assessment period ended 31 December 2019 were not achieved.

During the 3-year period ended 31 December 2019, the share price of the Company decreased from 4.0 cents per share as at 1 January 2017 to 1.6 cents per share (30-day VWAP as at 31 December 2019) giving rise to a decrease in the market capitalisation of Magontec Limited from $45.1 million to $18.0 million. After adjusting for new capital raised, dividends paid, return of capital (nil) during the 3-year assessment period, total shareholder wealth decreased to an adjusted total of $18.2 million, representing a decrease of $26.9 million during the LTI assessment period. As this fell short of the targets as outlined in the 2017-19 plan, no performance rights with respect to this period were eligible for vesting and thus have lapsed.

The table below summarises the STI and LTI awards for key management personnel at their face value, which differs from the remuneration report table above that is prepared according to accounting standards.

Directors' Report

continued

6. GROUP PERFORMANCE AND THE LINK TO REMUNERATION (CONTINUED)

Summary of STI and LTI awarded to key management personnel	2019 STI awarded $	2019 LTI face value awarded $	2019 STI & LTI awarded $	2018 STI awarded $	2018 LTI face value awarded $	2018 STI & LTI awarded $
Current KMP executives						
Nicholas Andrews	–	45,000	45,000	–	45,000	45,000
Christoph Klein-Schmeink	–	37,401	37,401	–	36,183	36,183
Xunyou Tong	–	33,570	33,570	–	32,259	32,259
Derryn Chin	–	25,185	25,185	–	25,185	25,185
Total	–	141,156	141,156	–	138,627	138,627

The following table details the number of LTI performance rights granted, lapsed or exercised during the year ended 31 December 2019, by plan participant and in aggregate.

Performance Rights Issued to Global Management Group

Name	Grant date	Performance Condition	Fair value/ right (cents per share)	Holding at 01-Jan-19	Granted in 2019	Lapsed in 2019	Holding at 31-Dec-19	Vested at 31-Dec-19
Nicholas Andrews								
2017–19 Plan	19-May-17	TSR	0.12	4,275,488	–	(4,275,488)	–	–
2018–20 Plan	10-May-18	TSR or Operational	1.00	4,500,000	–	–	4,500,000	–
2019–21 Plan	24-Jan-19	TSR or Operational	1.00	–	4,500,000	–	4,500,000	–
Subtotal				8,775,488	4,500,000	(4,275,488)	9,000,000	–
Derryn Chin								
2017–19 Plan	19-May-17	TSR	0.12	2,576,033	–	(2,576,033)	–	–
2018–20 Plan	10-May-18	TSR or Operational	1.00	2,518,500	–	–	2,518,500	–
2019–21 Plan	24-Jan-19	TSR or Operational	1.00	–	2,518,500	–	2,518,500	–
Subtotal				5,094,533	2,518,500	(2,576,033)	5,037,000	–
Christoph Klein-Schmeink								
2017–19 Plan	19-May-17	TSR	0.12	2,973,577	–	(2,973,577)	–	–
2018–20 Plan	10-May-18	TSR or Operational	1.00	3,618,256	–	–	3,618,256	–
2019–21 Plan	24-Jan-19	TSR or Operational	1.00	–	3,740,129	–	3,740,129	–
Subtotal				6,591,833	3,740,129	(2,973,577)	7,358,385	–
Xunyou Tong								
2017–19 Plan	19-May-17	TSR	0.12	2,674,317	–	(2,674,317)	–	–
2018–20 Plan	10-May-18	TSR or Operational	1.00	3,225,906	–	–	3,225,906	–
2019–21 Plan	24-Jan-19	TSR or Operational	1.00	–	3,356,953	–	3,356,953	–
Subtotal				5,900,223	3,356,953	(2,674,317)	6,582,859	–

6. GROUP PERFORMANCE AND THE LINK TO REMUNERATION (CONTINUED)

Performance Rights Issued to Global Management Group

Name	Grant date	Performance Condition	Fair value/ right (cents per share)	Holding at 01-Jan-19	Granted in 2019	Lapsed in 2019	Holding at 31-Dec-19	Vested at 31-Dec-19
John Talbot								
2017–19 Plan	19–May–17	TSR	0.12	1,227,413	–	(1,227,413)	–	–
2018–20 Plan	10–May–18	TSR or Operational	1.00	1,250,000	–	–	1,250,000	–
2019–21 Plan	24–Jan–19	TSR or Operational	1.00	–	1,250,000	–	1,250,000	–
Subtotal				2,477,413	1,250,000	(1,227,413)	2,500,000	–
Patrick Look								
2017–19 Plan	19–May–17	TSR	0.12	1,894,318	–	(1,894,318)	–	–
2018–20 Plan	10–May–18	TSR or Operational	1.00	2,068,950	–	–	2,068,950	–
2019–21 Plan	24–Jan–19	TSR or Operational	1.00	–	2,136,028	–	2,136,028	–
Subtotal				3,963,268	2,136,028	(1,894,318)	4,204,978	–
Zisheng Zhen								
2017–19 Plan	–	–	–	–	–	–	–	–
2018–20 Plan	–	–	–	–	–	–	–	–
2019–21 Plan	24–Jan–19	TSR or Operational	1.00	–	1,466,345	–	1,466,345	–
Subtotal				–	1,466,345	–	1,466,345	–
Aggregate								
2017–19 Plan	19–May–17	TSR	0.12	15,621,146	–	(15,621,146)	–	–
2018–20 Plan	10–May–18	TSR or Operational	1.00	17,181,612	–	–	17,181,612	–
2018–20 Plan	24–Jan–19	TSR or Operational	1.00	–	18,967,955	–	18,967,955	–
Total				32,802,758	18,967,955	(15,621,146)	36,149,567	–

7. EXECUTIVE CONTRACTUAL ARRANGEMENTS

Executive Contractual Arrangements

Name	Position	2019 Remuneration (1)	Contract Term	Contract Expiry	Notice Period For Termination	Payment in Lieu of Notice
Mr N Andrews	Executive Chairman	$483,790	3 years	30-Jun-20	Employer initiated - 6 mths Employee initiated - 6 mths	6 months' pay
Mr C Klein-Schmeink	President Magontec Europe & North America	$412,575	5 years	14-Aug-22	Employer initiated - 12 mths Employee initiated - 12 mths	12 months' pay
Mr X Tong	President Magontec Asia	$367,550	No fixed term or expiry		Employer initiated - 6 mths Employee initiated - 6 mths	6 months' pay
Mr D Chin	Chief Financial Officer	$270,845	No fixed term or expiry		Employer initiated - 6 mths Employee initiated - 6 mths	6 months' pay

Total 2019 Remuneration for the reporting period ended 31 December 2019 differs from current contractual arrangements mainly due to impacts associated with the equity expense arising from the LTI schemes.

Current contractual arrangements are as follows for each member of key management personnel:

- Mr Andrews' fixed contractual cash remuneration at 31 December 2019 is $450,000.
- Mr Klein-Schmeink's fixed contractual cash remuneration at 31 December 2019 is $382,792.
- Mr Tong's fixed contractual cash remuneration at 31 December 2019 is $338,305.
- Mr Chin's fixed contractual cash remuneration at 31 December 2019 is $251,850.

Directors' Report

continued

FINANCIAL REPORT

Refer to 'Financial Report' section.

OPERATIONS REPORT

Refer to Operations Report.

DIVIDENDS

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

Subsequent Events

Subsequent events are detailed in Note 27.

Future Developments

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

Non-Audit Services

Camphin Boston (the Group's auditors) provided tax and other services during the financial year. Aggregate fees for non audit services paid in the financial year were $8,260.

Auditor's Independence Declaration

The Auditor's independence declaration is included on page 34 of this Annual Report.

Indemnification of Officers and Auditors

The Group paid premiums to insure certain officers of the Company and related bodies corporate in relation to performance of their duties as officers of the Company. The officers of the Group covered by this insurance includes directors or company secretaries of controlled entities.

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

On behalf of the Board of Directors

Mr N Andrews
Executive Chairman

Signed on the 26 February 2020 in accordance with a resolution of the Directors made pursuant to Section 298(2) of the *Corporations Act 2001*.

CAMPHIN BOSTON
CHARTERED ACCOUNTANTS

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

Dear Board Members,

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

We hereby declare, that to the best of our knowledge and belief, during the financial year ended 31 December 2019 there have been:

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

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

Camphin Boston
Chartered Accountants

G J Boston

Greg Boston
Lead Audit Partner

Sydney

Dated this 28 February 2020.

Camphin Boston
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Consolidated Statement of Profit & Loss and Other Comprehensive Income

for the year ended 31 December 2019

	Note	12 months to 31 Dec 2019 $'000	12 months to 31 Dec 2018 $'000
Sale of goods	2(a)	130,617	130,793
Cost of sales	2(b)	(117,498)	(115,991)
Gross profit		**13,119**	**14,803**
Other income	2(c)	480	712
Interest expense		(599)	(573)
Impairment of inventory, receivables & other financial assets	2(d)	47	(217)
Travel accommodation and meals		(802)	(994)
Research, development, licensing and patent costs		(422)	(357)
Promotional activity		(75)	(99)
Information technology		(330)	(271)
Personnel		(7,925)	(7,502)
Depreciation & amortisation		(695)	(536)
Office expenses		(517)	(381)
Corporate		(3,418)	(3,519)
Foreign exchange gain/(loss)		33	483
Other operating expenses		–	(150)
Profit/(Loss) before income tax expense/benefit from continuing operations		**(1,103)**	**1,399**
Income tax (expense)/benefit	3(a)	(267)	(623)
Profit/(Loss) after income tax expense/benefit from continuing operations		**(1,370)**	**776**
Other Comprehensive Income – that may later emerge in the Profit and Loss Statement			
Exchange differences taken to reserves in equity – translation of overseas entities	17	(718)	1,155
Other Comprehensive Income – that will not emerge in the Profit and Loss Statement			
Movement in various actuarial assessments	17	(1,289)	(38)
Total Comprehensive Income		**(3,378)**	**1,894**
Profit/(Loss) after income tax expense for the year attributable to			
Minority interests		–	–
Members of the parent entity		(1,370)	776
Total		**(1,370)**	**776**
Comprehensive Income for the year attributable to			
Minority interests		–	–
Members of the parent entity		(3,378)	1,894
Total Comprehensive Income for the year		**(3,378)**	**1,894**

	Note	12 months to 31 Dec 2019 cents per share	12 months to 31 Dec 2018 cents per share
Profit/(Loss) after income tax expense for the year			
Members of the parent entity - Basic (cents per share)	19	(0.120)	0.068
Members of the parent entity - Diluted (cents per share)	19	(0.115)	0.064

Consolidated Balance Sheet

as 31 December 2019

	Note	31 Dec 2019 $'000	31 Dec 2018 $'000
Current assets			
Cash and cash equivalents	25(d)	4,303	12,889
Trade & other receivables	6	26,029	23,525
Inventory	7	24,863	24,404
Other	8	596	373
Total current assets		55,791	61,191
Non-current assets			
Other receivables	9	350	952
Property, plant & equipment	10	21,661	22,488
Deferred tax asset	3(c)	2,371	1,675
Intangibles	11	3,618	3,657
Total non-current assets		28,001	28,771
TOTAL ASSETS		83,792	89,962
Current liabilities			
Trade & other payables	12	17,065	21,544
Bank borrowings	13	19,616	7,462
Provisions	14	1,577	3,277
Total current liabilities		38,258	32,283
Non-current liabilities			
Other payables		385	–
Bank borrowings	13	–	10,633
Provisions	15	14,110	12,293
Total non-current liabilities		14,495	22,926
TOTAL LIABILITIES		52,752	55,209
NET ASSETS		31,039	34,754
Equity attributable to members of MGL			
Share capital	16	58,907	58,907
Reserves	17	4,220	6,093
Accumulated (losses)	18	(32,088)	(30,709)
Equity attributable to minority interests			
Share capital	16	–	463
Reserves	17	–	–
Accumulated (losses)	18	–	–
Total equity		31,039	34,754

Consolidated Statement of Changes in Equity

for the year ended 31 December 2019

	Share Capital									
	Ordinary	Options Valuation	Retained Earnings	Foreign Currency Translation Reserve	Capital Reserve	Actuarial Reserve	Expired Options Reserve	Employee 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	–	–	776	–	–	–	–	–	–	776
Profit/(Loss) attributable to minority interests	–	–	–	–	–	–	–	–	–	–
Comprehensive income	–	–	–	1,155	–	(38)	–	–	–	1,117
Issue of shares	–	–	–	–	–	–	–	78	–	78
Balance 31-Dec-18	58,907	–	(30,709)	3,969	2,750	(2,383)	1,637	120	463	34,754
Balance 1-Jan-19	58,907	–	(30,709)	3,969	2,750	(2,383)	1,637	120	463	34,754
Profit/(Loss) attributable to members of parent entity	–	–	(1,370)	–	–	–	–	–	–	(1,370)
Profit/(Loss) attributable to minority interests	–	–	–	–	–	–	–	–	–	–
Other (1)	–	–	(8)	–	–	–	–	–	(463)	(471)
Comprehensive income	–	–	–	(718)	–	(1,289)	–	–	–	(2,008)
Issue of shares	–	–	–	–	–	–	–	135	–	135
Balance 31-Dec-19	58,907	–	(32,088)	3,251	2,750	(3,672)	1,637	254	–	31,039

(1) Movement in retained earnings relates to the adjustment for the implementation of AASB 16 Leases from 1 January 2019. The movement in minority interest relates to the closure of the corporate entity of Magontec Shanxi Co. Ltd. during the year ended 31 December 2019.

Consolidated Cash Flow Statement

for the year ended 31 December 2019

	Note	12 months to 31 Dec 2019 $'000	12 months to 31 Dec 2018 $'000
Cash flows from operating activities			
Profit before taxation		**(1,103)**	**1,399**
Adjustments for:			
– Non-cash equity expense		135	78
– Depreciation & amortisation		3,200	2,630
– Foreign currency effects		28	(296)
– Other non–cash items		687	1,193
Cash generated from/(utilised in) underlying operating activities		**2,946**	**5,005**
Movement in working capital balance sheet accounts			
– Trade and other receivables		(5,835)	5,712
– Inventory		(1,425)	1,117
– Trade and other payables		(2,669)	5,341
– Other		52	18
Cash generated from/(utilised in) underlying operational cash flow and net working capital assets		**(6,931)**	**17,193**
– Net Interest paid		(504)	(528)
– Income tax paid		(697)	(1,301)
Cash generated from/(utilised in) other operating activities		**(8,132)**	**15,364**
Cash flows from investing activities			
Net cash out on purchase/disposal of property, plant & equipment		(1,725)	(1,166)
Group information technology software		(200)	(575)
Security deposits		(41)	8
Lease payments and other		(403)	(32)
Net cash provided by / (used in) investing activities		**(2,369)**	**(1,765)**
Cash flows from financing activities			
Proceeds from borrowings		14,585	11,374
Repayment of borrowings		(12,678)	(14,697)
Other		(16)	–
Net cash provided by financing activities	2(e)	**1,891**	**(3,323)**
Net increase/(decrease) in cash and cash equivalents		**(8,610)**	**10,276**
Foreign exchange effects on total cash flow movement		**24**	**304**
Cash and cash equivalents at the beginning of the reporting period	25(d)	**12,889**	**2,309**
Cash and cash equivalents at the end of the reporting period	25(d)	**4,303**	**12,889**

Notes to the Financial Statements

for the year ended 31 December 2019

1. SUMMARY OF ACCOUNTING POLICIES

Statement of Compliance

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

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

The audited accounts were authorised for issue by the Directors on 26 February 2020. The Group has adopted all new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2019.

Basis of Preparation

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

All amounts are presented in Australian dollars, unless otherwise noted.

The accounts are prepared on a going concern basis. The Group, having made appropriate enquiries have a reasonable expectation that Magontec Limited has adequate resources to continue in operational existence for the foreseeable future.

Changes in Significant Accounting Polices

The current period saw the initial adoption of AASB 16 Leases from 1 January 2019.

In accordance with the transition methods chosen by the Group, comparative information has not been restated to reflect the requirements of these new standards unless otherwise stated. The Group has applied the standard retrospectively by reflecting this as an adjustment to opening retained earnings.

The impact of applying this standard is that the operating lease treatment has been eliminated. Under AASB 16 Leases, all leases are recognised by recording a lease liability and a corresponding "right of use" asset on the balance sheet.

The lease liability is unwound over time, with each lease payment apportioned between an interest expense component and a principal reduction component.

The right of use asset is depreciated over the useful life of the asset.

Significant Accounting Polices

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

a. Cash and Cash Equivalents

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

b. Employee Benefits

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

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

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

Contributions by the Group to superannuation plans on behalf of Australian employees and other defined contribution payments on behalf of employees are expensed when incurred. Provision is made for any long term defined benefit pension obligations the Group has to employees in foreign jurisdictions. The required amount of the provision is actuarially assessed having regard to such matters as future interest rates, the date at which pension payments might commence and the likely period over which pensions may be paid.

c. Financial Assets

Subsequent to initial recognition, investments in subsidiaries are measured at cost less any allowance for impairment. Other financial assets are classified into the following categories in accordance with AASB 9 Financial Instruments being 'amortised cost', 'fair value through profit or loss' and ' fair value through other comprehensive income'. The classification depends on the nature and purpose of the financial asset.

Receivables

Trade receivables and other receivables are recognised initially at their fair value and subsequently at amortised cost less impairment in accordance with the Expected Credit Loss method.

d. Financial Instruments Issued by the Company

Debt and Equity Instruments

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

Notes to the Financial Statements

continued

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Transaction Costs on the Issue of Equity Instruments

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

e. Foreign Currency

Foreign Currency Transactions

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

Foreign Operations

On consolidation, the assets and liabilities of the consolidated entity's overseas operations are translated at exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly.

Exchange differences arising, if any, are recognised in the foreign currency translation reserve, and recognised in profit or loss on disposal of the foreign operation.

f. Goods and Services Tax and Value Added Tax

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

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

g. Impairment of Assets

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

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

h. Income Tax

Current Tax

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

Deferred Tax

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

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

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

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

Current and Deferred Tax for the Period

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

Notes to the Financial Statements

continued

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Tax Consolidation

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

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

i. Intangible Assets

Patents, Trademarks and Licences

Patents, trademarks and licences are recorded at cost of acquisition. Patents and trademarks have an indefinite useful life and are carried at cost. Carrying values are subject to impairment testing as outlined above.

Research and Development Costs

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

j. Inventories

Inventory is measured at the lower of cost and net realisable value. Costs are assigned to inventory using a weighted average cost method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

k. Leases

Leases are recognised by recording a lease liability at inception and a corresponding "right of use" asset on the balance sheet.

The lease liability is unwound over time, with each lease payment apportioned between an interest expense component and a principal reduction component.

The right of use asset is depreciated over the useful life of the asset.

l. Non-current Assets Held for Sale

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

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

m. Payables

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

n. Presentation Currency

The presentation currency of the Group is Australian dollars.

o. Principles of Consolidation and Investments in Subsidiaries

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the Company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements.'

A list of subsidiaries appears in the notes to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Similarly, any excess of the fair market value over the cost of acquisition is recognised as a discount upon acquisition.

The consolidated financial statements include the information and results of each subsidiary from the date on which the Company obtains control and until such time as the Company ceases to control such entity. In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

p. Plant and Equipment

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

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

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

Depreciation is provided on plant and equipment and is calculated on a straight-line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Useful life is determined having regard to the nature of the plant and equipment, the environment in which it operates (including geographical and climatic conditions) and an expectation that maintenance is conducted on a scheduled basis.

Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. The assets' estimated useful lives and residual values are reviewed, and adjusted if appropriate, at the end of each annual reporting period. The estimated useful lives of significant items of property, plant and equipment are as follows:

Land & Buildings	4 - 60 years
Plant & Equipment	3 - 20 years

q. Provisions

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

r. Revenue Recognition

Sale of Goods

Revenue from the sale of goods is recognised when the consolidated entity has satisfied performance obligations in transferring to the buyer the significant risks and rewards of ownership of the goods. The Group's activities involve the sale and delivery of a variety of products including primary and recycled magnesium ingots, as well as both magnesium and titanium anodes.

As it relates to Magontec specifically, the timing of revenue recognition and satisfaction of performance obligations is determined with reference to the INCO shipping terms (e.g. FOB, CIF, DDP, DAP) that apply to each delivery. Invoices are issued and revenue is recognised at the point where the transfer of the significant risks and rewards of ownership of the goods are determined to have passed to the customer in line with this framework. For example, under FOB shipping terms, the Group recognises revenue at the point when goods have arrived at the port of departure and has received the bill of lading.

Rendering of Services

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

Interest Revenue

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

s. Share-based Payments

Senior executives of the Company receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

Equity-settled Transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using a binomial options pricing valuation model. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Company's estimate of the number of equity instruments that will ultimately vest.

Market performance conditions are reflected within the grant date fair value.

Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. Any additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share.

Notes to the Financial Statements

continued

1. SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Cash-settled Transactions

A liability is recognised for the fair value of cash-settled transactions. The fair value is measured initially and at each reporting date up to and including the settlement date, with changes in fair value recognised in employee benefits expense. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability.

t. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

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

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

- actuarial assessment of future pension liabilities;
- value of trade debtors; and
- valuation of intellectual property acquired

u. New Accounting Standards for Application in Future Periods

The AASB has issued new and amended standards and interpretations that have mandatory application dates for future reporting periods. The Group has not early adopted any of these standards.

2. RESULTS FROM OPERATIONS

	12 months to 31 Dec 2019 $'000	12 months to 31 Dec 2018 $'000
(a) Sales Revenue:		
Alloys	99,872	103,745
Anodes	30,745	27,049
	130,617	130,793
(b) Cost of Sales:		
Alloys	(94,661)	(97,776)
Anodes	(22,836)	(18,214)
	(117,498)	(115,991)

Note with respect to closure of Magontec Shanxi Co Ltd.

During 2018, production ceased at the Magontec Shanxi Co Ltd factory. This was not deemed to be a discontinued operation, as the plant did not generate largely independent cash inflows, and as such did not qualify as a cash generating unit.

(c) Other Income in Comprehensive Income Statement		
Interest revenue	78	49
Government grants	233	259
Write back of provisions and other adjustments	50	337
Gain/Loss on disposal of fixed assets	–	3
Other	120	64
	480	712

Notes to the Financial Statements

continued

2. RESULTS FROM OPERATIONS (CONTINUED)

	12 months to 31 Dec 2019 $'000	12 months to 31 Dec 2018 $'000
(d) Significant expenses in Comprehensive Income Statement (not detailed elsewhere)		
Personnel Costs		
Consultancies	(372)	(337)
Share based payments (ESIP and LTI)	(135)	(78)
Defined contribution payments recognised as an expense – Note 1	(1,145)	(1,046)
Other staff payments – Note 1	(6,274)	(6,040)
Total personnel costs	(7,925)	(7,502)
Director fees	(240)	(240)
Asset impairment expense		
Write down of trade debtors	47	(217)
Total asset impairment expense	47	(217)

Note 1 - in 2018, defined contribution expense was updated from the prior period report, with an increase of $223,000. This was offset against other staff payments which was reduced by the same amount. No overall change to personnel costs.

	31 Dec 2018 $'000	Financing Cash Flows $'000	Non-cash FX & Other $'000	31 Dec 2019 $'000
(e) Financing cash flows reconciliation				
Bank Borrowings	18,094	1,907	(385)	19,616
Lease liabilities	–	(16)	715	699
Total	18,094	1,891	330	20,315

(f) Share-Based Payments

Executive STI plan

The STI plan is designed to award executives for achieving group financial performance targets. The Board determines the size of the pool based on actual financial metrics achieved relative to budget, and has discretion to adjust these payments depending on the particular circumstances of the consolidated entity and other qualitative factors as it sees fit. STI awards are 100% cash-settled.

Executive LTI plan

Under the executive LTI plan, awards are made to executives and other key talent who have an impact on the consolidated entity's performance. LTI awards are delivered in the form of perfomance rights which vest into shares upon achievement of share price targets (market based) or operational outcomes (non-market based).

For market based targets, the Board uses absolute total shareholder return (TSR) as the key performance measure. TSR comprises the percentage change in the company's share price, plus the value of any future dividends received during the period and is measured over a 3 year period.

If market based targets are not achieved, the Board uses non-market based targets (from the 2018-2020 Plan onwards) to assess whether an LTI up to the value of 10% of the salary of the Global Management Group should be issued in the form of vested performance rights.

The fair value of this scheme is recorded as an expense in the profit and loss statement. Refer to the Remuneration Report for further detail.

	31 Dec 2019 $'000	31 Dec 2018 $'000
Expense recognised from equity-settled share-based payments	(135)	(78)
Total expense - share-based payments	(135)	(78)

Notes to the Financial Statements

continued

3. INCOME TAXES

	12 months to 31 Dec 2019 $'000	12 months to 31 Dec 2018 $'000
(a) Income tax recognised in profit and loss		
Tax expense comprises:		
Current tax expense	(348)	(671)
Deferred tax expense		
Utilisation of tax losses	–	(92)
Change in recognised deductible temporary differences	81	140
Subtotal deferred tax expense	81	48
Total tax expense	(267)	(623)
The prima facie income tax expense on pre-tax accounting profit/(loss) from operations reconciles to the income tax expense in the financial statements as follows:		
Profit/(Loss) from total operations	(1,103)	1,399
Nominal Income tax benefit/(expense) calculated at 30%	331	(420)
Nominal tax benefit (expense) effected by:		
Adjusted for effect of tax rates in foreign jurisdictions	(109)	144
Tax effect - P & L items not assessable or deductible for tax purposes.	(577)	(458)
Adjustments - changes in deductible temporary differences, tax losses	89	111
Actual tax benefit/(expense)	(267)	(623)

	12 months to 31 Dec 2019 $	12 months to 31 Dec 2018 $
(b) Income tax amounts recognised in OCI		
Revaluation of defined benefit pension plan	(1,925)	(50)
Tax effect (expense)/benefit through OCI	635	12

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

	31 Dec 2019 $'000	31 Dec 2018 $'000
(c) Future Income tax benefit		
Current	–	-
Non–Current		
Timing differences	2,180	1,586
Carry forward tax losses	191	89
Total	2,371	1,675

Note: The Group has revenue losses in its PRC entity which have given rise to a deferred tax asset as at 31 December 2019. The utilisation of these losses in the PRC is subject to a 5 year time limit.

Notes to the Financial Statements

continued

3. INCOME TAXES (CONTINUED)

Tax Consolidation

Relevance of tax consolidation to the consolidated entity

The parent Company and its wholly-owned Australian subsidiary have formed a tax-consolidated group with effect from 1 February 2003 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Magontec Limited. The members of the tax-consolidated group are identified at Note 22.

Nature of tax funding arrangements and tax sharing agreements

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

	Consolidated Parent Entity	
	31 Dec 2019 $'000	**31 Dec 2018 $'000**
(d) Unrecognised deferred tax balances		
The following deferred tax assets have not been brought to account as assets:		
Australian Tax Consolidated Group		
Deferred Tax Asset (DTA) on pre-tax consolidation revenue losses	81,581	81,581
DTA on post-tax consolidation revenue losses	38,083	37,321
DTA on capital losses	29,019	29,019
Sub Total Australian Tax Consolidated Group	**148,683**	**147,921**
These are based on the following tax losses:		
Aust consolidated group Tax losses – revenue pre-tax consolidation	271,936	271,935
Aust consolidated group Tax losses – revenue post-tax consolidation	126,944	124,402
Aust consolidated group Tax losses – capital	96,732	96,732
Consolidated Group Total	495,612	493,069

Note: DTA on revenue losses for foreign subsidiaries in the prior year ended 31 Dec 2018 were recognised on the balance sheet and thus have been removed from the table above.

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

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

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

Unused tax losses incurred after the formation of the former Advanced Magnesium Limited (the former name of Magontec Limited) consolidated group are $126.9 million. These losses will be fully available to offset future taxable income to the extent MGL continues to satisfy the loss integrity rules (i.e. Continuity of Ownership Test and Same Business Test).

Based on testing performed by MGL and its advisors, these losses should satisfy the loss integrity rules as at 31 December 2019.

Unused tax losses incurred prior to the formation of the former Advanced Magnesium Limited (the former name of Magontec Limited) consolidated group were $272.0 million. These losses will be subject to restricted use (Available Fraction rules).

3. INCOME TAXES (CONTINUED)

These restrictions on use are in addition to the loss integrity rules. Broadly, the Available Fraction rules limit the amount of losses that can be used each year by applying the following formula:

Available Fraction x Taxable income for year = Pre consolidation losses available for use for year.

Based on testing performed by MGL and its advisors, MGL's pre consolidation losses should satisfy the loss integrity rules at 31 December 2019 subject to further testing and continued compliance with loss integrity rules. No detailed Available Fraction calculations have been performed as at 31 December 2019, however it is unlikely that the Available Fraction applying to pre-consolidation tax losses will be greater than 0.2.

The Australian tax consolidated entity has not paid income tax up to 31 December 2019 and neither is any assessment expected to be received which will result in a tax liability for the period to 31 December 2019. Accordingly, there are no franking credits available for distribution in the year ended 31 December 2019.

Tax outside of Australian tax consolidation regime

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

4. KEY MANAGEMENT PERSONNEL REMUNERATION

The aggregate compensation of the key management personnel of the Group is set out below:

	12 months to 31 Dec 2019 $'000	12 months to 31 Dec 2018 $'000
Short term employee benefits	1,543	1,533
Termination benefits	–	–
Post–employment benefits	92	94
Motor vehicle	35	34
Equity based payment	105	62
Total Remuneration KMP	1,775	1,723

Individual directors and executives compensation disclosures

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

5. REMUNERATION OF AUDITORS

	12 months to 31 Dec 2019 $'000	12 months to 31 Dec 2018 $'000
Group auditor		
– Audit or review of the financial report	98	104
– Accounting/taxation services	8	7
Auditors of subsidiaries		
– Audit or review of the financial reports	90	128
– Accounting/taxation services	83	51
	279	290

The auditor of Magontec Limited is Camphin Boston Chartered Accountants. Magontec GmbH, Magontec Xi'an Co. Limited, Magontec Qinghai Co. Limited and Magontec Romania are all audited by local auditors who supply information as requested by the Group Auditor Camphin Boston.

Notes to the Financial Statements

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6. CURRENT TRADE AND OTHER RECEIVABLES

	31 Dec 2019 $'000	31 Dec 2018 $'000
Trade receivables [1]	19,803	16,882
Allowance for doubtful debts	(285)	(512)
	19,518	16,370
Net GST/VAT recoverable	2,389	1,187
Security deposits	83	41
Other receivables due to operating entities	4,031	5,927
Other	9	–
	6,511	7,155
Total receivables	26,029	23,525

(1) Trade receivables represent 55.3 days sales at 31 Dec 19 (47.1 days sales at 31 Dec 18)

7. CURRENT INVENTORIES

	31 Dec 2019 $'000	31 Dec 2018 $'000
Inventory of finished alloy at cost	9,700	15,246
Provision for Inventory loss	(368)	(135)
Net value of finished goods inventory	9,332	15,111
Raw materials	12,634	8,954
Work in progress	2,897	338
Current inventories at net realisable value	24,863	24,404

8. OTHER CURRENT ASSETS

	31 Dec 2019 $'000	31 Dec 2018 $'000
Other prepayments	596	373
	596	373

9. NON-CURRENT TRADE AND OTHER RECEIVABLES

	31 Dec 2019 $'000	31 Dec 2018 $'000
Pension asset	348	330
Security deposits and prepayments	2	621
	350	952

Notes to the Financial Statements

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10. PROPERTY PLANT & EQUIPMENT

	Capital WIP $'000	Land & Buildings $'000	Plant & Equipment $'000	Total $'000
Gross carrying amount				
Balance at 1 January 2018	8,694	18,383	25,150	52,226
Additions	174	60	715	950
Adjustments and reclassifications	(6,724)	(29)	6,730	(22)
Disposals and write offs	–	–	(124)	(124)
Net foreign currency exchange differences	426	1,097	1,475	2,998
Balance at 31 December 2018	2,571	19,511	33,947	56,028
Additions	190	24	1,504	1,718
Adjustments and reclassifications	(235)	214	1,923	1,901
Disposals	–	–	(16)	(16)
Net foreign currency exchange differences	(28)	(465)	(668)	(1,160)
Balance at 31 December 2019	2,498	19,283	36,691	58,471
Accumulated depreciation/ amortisation and impairment				
Balance at 1 January 2018	–	9,254	20,141	29,394
Disposals and write offs	–	–	(127)	(127)
Depreciation expense	–	605	1,989	2,593
Net foreign currency exchange differences	–	537	1,143	1,679
Balance at 31 December 2018	–	10,395	23,145	33,540
Disposals	–	–	(14)	(14)
Adjustments and reclassifications	–	–	924	924
Depreciation expense	–	622	2,369	2,991
Net foreign currency exchange differences	–	(207)	(423)	(630)
Balance at 31 December 2019	–	10,809	26,001	36,810
Net Book Value As at 31 December 18	2,571	9,117	10,801	22,488
Net Book Value As at 31 December 19	2,498	8,475	10,689	21,661

11. INTANGIBLES

	Indefinite Life (1) $'000	Finite Life $'000	Total $'000
Gross carrying amount			
Balance at 31 December 2018	2,800	2,275	5,075
Net foreign currency exchange differences	–	(30)	(30)
Additions	–	170	170
Balance at 31 December 2019	2,800	2,415	5,215
Accumulated depreciation/amortisation and impairment			
Balance at 31 December 2018	–	1,418	1,418
Depreciation/amortisation expense	–	209	209
Net foreign currency exchange differences	–	(29)	(29)
Balance at 31 December 2019	–	1,597	1,597
Net Book Value As at 31 December 2018	2,800	857	3,657
Net Book Value As at 31 December 2019	2,800	818	3,618

Note 1 - Indefinite Life Intangible Assets - Patents in relation to "AE44" and "Correx".

11. INTANGIBLES (CONTINUED)

The indefinite life intangible assets comprise the patents over the “AE” alloys and the “Correx” anode system. Both products enjoy technical superiority over possible alternatives and continue to earn high margins. In testing this asset for impairment, an average discount rate of 6.3% to management cash flow forecasts was applied. A zero growth rate has been assumed over the initial 5 year period, with an average terminal decline rate of 12.6% per annum thereafter. The value in use was found to be in excess of the carrying amount and thus no impairment loss was recorded.

12. CURRENT TRADE AND OTHER PAYABLES

	31 Dec 2019 $’000	31 Dec 2018 $’000
Trade creditors [(1)]	14,849	13,463
Other creditors and accruals	2,215	8,081
	17,065	21,544

(1) Trade creditors represent 46.1 days cost of goods sold at 31 Dec 19 (42.4 days cost of goods sold at 31 Dec 18).

13. BORROWINGS

	Notes	31 Dec 2019 $’000	31 Dec 2019 Maturity Date	31 Dec 2019 Interest pa[(1)]	31 Dec 2018 $’000	31 Dec 2018 Maturity Date	31 Dec 2018 Interest pa[(1)]
Bank & Institutional Borrowings							
Magontec GmbH (Bank Loan) [(2) (5)]	25(i)	11,008	30-Sep-20	1.55%	10,633	30-Sep-20	1.55%
Magontec GmbH (Hire Purchase Facility)	25(i)				41	31-Dec-18	2.50%
Magontec GmbH (Factoring Facility) [(4)]		925	30-Nov-20	1.06%	1,466	30-Nov-19	1.34%
Magontec SRL (Working Capital Facility) [(3)]		4,523	Open	5.04%	3,294	Open	4.84%
Magontec Xian Limited (Bank Loan)		4,086	28-Apr-20	4.79%	4,127	1-Apr-19	5.22%
Total Bank Borrowings		20,542			19,561		
Current Borrowings							
Bank borrowings as above (excluding factoring facility)		19,616	Various		7,462	Various	
Total Current Borrowings		19,616			7,462		
Non-Current Borrowings							
Bank borrowings as above		-		–	10,633		
Total Non-Current borrowings		-			10,633		

(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 €1,528,000 ($2,440,000) and inventory of €3,620,800 ($5,783,000).

(3) These borrowings are secured by a charge over MAR’s trade debtors and inventory to the extent of RON 15,191,000 ($5,070,000).

(4) This facility is set off against trade debtors, and thus is not shown in ‘Borrowings’ on the balance sheet.

(5) The maturity date of the Commerzbank facility extended to Magontec GmbH is 30 September 2020, and as such is classified as a current liability in the balance sheet. In addressing the refinancing risk associated with this facility, the Group remains confident of the ongoing support of Commerzbank for the following reasons:

- the strong nature of the long standing relationship with the Bank
- the Bank’s considerations are confined to Magontec GmbH as its credit risk counter party and does not generally evaluate the broader Magontec Group either in its consolidated form or its other individual subsidiaries
- Magontec GmBH continues to exhibit profits at the net result line, and has done so for a number of years
- Magontec GmbH was in compliance with its financial covenants as at, and for the year ended 31 December 2019; and
- the Bank has indicated its written interest in considering an application (in due course and without commitment) to extend the facility beyond its current maturity date.

Notes to the Financial Statements

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14. CURRENT PROVISIONS

	Note	31 Dec 2019 $'000	31 Dec 2018 $'000
Provision for annual & long service leave and employee costs		578	616
Provision for income tax payable		161	547
Provision for loss on FX hedges and interest rate swaps	25(h)	13	25
Other current provisions		824	2,090
Totals		1,577	3,277

Other current provisions as at 31 December 2018 included $1.4m of deferred income due to prepayments for material.

15. NON-CURRENT PROVISIONS

	31 Dec 2019 $'000	31 Dec 2018 $'000
Provision for defined benefit pension obligation	13,842	12,027
Other provisions	268	267
Totals	14,110	12,293

Reconciliation of the defined benefit pension obligation

	Year Ended 31 Dec 2019 $'000	Year Ended 31 Dec 2018 $'000
Defined benefit obligation beginning of year	12,027	11,189
Current service cost	233	252
Interest cost	221	216
Total benefits paid - actual	(351)	(344)
Foreign currency exchange rate changes	(213)	658
Experience adjustments (gains)/ losses	–	-
Actuarial (gains)/ losses due to change of assumptions	1,925	56
Defined benefit obligation end of year	13,842	12,027

The extent of the Provision for the Defined Benefit Obligation is assessed annually based on actuarial calculations which take into account such matters as:

- number of participants in the plan;
- likely retirement salaries of participants in the pension plan;
- their life expectancy beyond retirement; and
- implied interest earnings on the extent of the fund

Notes to the Financial Statements

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15. NON-CURRENT PROVISIONS (CONTINUED)

The defined benefit plan is an unfunded plan which has been provided to certain employees in the European business. Increasing interest rates will act to decrease the Provision. The converse is also true. In the context of falling interest rates in Europe (where the beneficiaries of this pension plan are domiciled) there has been upward pressure on the Provision over the last few years. A summary of the key assumptions underpinning the actuarial calculation and a sensitivity analysis is provided below.

Key actuarial assumptions used in calculation of the defined benefit obligation

	Year Ended 31 Dec 2019 $'000	Year Ended 31 Dec 2018 $'000
Discount rate	1.05%	1.90%
Expected salary increase per annum	2.75%	2.75%
Expected pension increase per annum	1.75%	1.75%

Key sensitivities of actuarial assumptions used in calculation of defined benefit obligation

	% chg	Year Ended 31 Dec 2019 $'000	Year Ended 31 Dec 2018 $'000
Discount rate (%)	+0.5%	(1,274)	(1,041)
	(0.5)%	1,481	1,202
Salary increase (%)	+0.5%	73	68
	(0.5)%	(70)	(64)
Pension increase (%)	+0.5%	1,043	856
	(0.5)%	(942)	(776)
Life expectancy (years)	+ 1 year	741	571

Notes to the Financial Statements

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16. SHARE CAPITAL

	31 Dec 2019 $'000	31 Dec 2018 $'000
Opening balance of share capital attributable to members of MGL	58,907	58,907
Issue of shares to Executives of Magontec Limited (1)	–	–
Various costs associated with above issues	–	–
Share capital on issued ordinary shares 1,140,073,483 (2018: 1,140,073,483)	58,907	58,907
Summary of share capital		
Share capital attributable to members of MGL	58,907	58,907
Share capital attributable to minority interest	–	463
Total share capital	58,907	59,370

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

A reconciliation of the movement in fully paid ordinary shares at the line in Note 16 'Share capital on issued ordinary shares 1,140,073,483 (31 Dec 2018: 1,140,073,483) is set out below

	CONSOLIDATED / PARENT ENTITY			
	31 Dec 2019		31 Dec 2018	
	No.	$'000	No.	$'000
Fully paid ordinary shares				
Balance at beginning of financial year	1,140,073,483	58,907	1,140,073,483	58,907
Expenses of various issues	–	–	–	–
Issue of shares to Executives of Magontec Limited	–	–	–	–
	1,140,073,483	58,907	1,140,073,483	58,907

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

Share Options

All share options carry no rights to dividends and no voting rights until converted into ordinary shares. Further details of the share-based payment schemes are contained in the Remuneration Report.

Notes to the Financial Statements

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17. RESERVES

	31 Dec 2019 $'000	31 Dec 2018 $'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	3,969	2,814
Movement in VHL Consolidated accounts	(718)	1,155
Balance at end of financial year	**3,251**	**3,969**
Actuarial Reserves		
Balance at beginning of financial year	(2,383)	(2,346)
Deferred tax assets	635	12
Employee pensions	(1,925)	(50)
Balance at end of financial year	**(3,672)**	**(2,383)**
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	120	41
Issue of ordinary shares on conversion of rights	–	–
Fair value of performance rights issued for future periods	135	78
Balance at end of financial year	**254**	**120**
Total reserves	**4,220**	**6,093**
Reserves attributable to minority interests	–	–
Reserves attributable to members of MGL	4,220	6,093
Total reserves	**4,220**	**6,093**
Other Comprehensive Income - that may later emerge in the Profit and Loss Statement		
Exchange differences taken to reserves in equity – translation of overseas entities	(718)	1,155
Movement in various actuarial assessments	(1,289)	(38)
Total Other Comprehensive Income	**(2,007)**	**1,117**

Notes

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

The **foreign currency translation reserve** arises as 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) as well as movements attributable to the market value of derivatives and deferred tax assets where relevant.

Notes to the Financial Statements

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18. ACCUMULATED LOSSES

	31 Dec 2019 $'000	31 Dec 2018 $'000
Balance at beginning of financial year	(30,709)	(31,485)
Adjustment to opening retained earnings due to AASB 16	(8)	–
Profit/(Loss) attributable to members of Magontec Limited	(1,370)	776
Profit/(Loss) attributable to minority interests	–	–
	(32,088)	(30,709)
Accumulated losses attributable to members of Magontec Limited	(32,088)	(30,709)
Accumulated losses attributable to minority interests	–	–
Total accumulated losses	(32,088)	(30,709)

19. EARNINGS/(LOSS) PER SHARE

	12 months to 31 Dec 2019 cents per share	12 months to 31 Dec 2018 cents per share
Basic earnings/(loss) per share	(0.120)	0.068
Diluted earnings/(loss) per share	(0.115)	0.064

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

	12 months to 31 Dec 2019 $'000	12 months to 31 Dec 2018 $'000
Profit/(Loss) after income tax expense/benefit from continuing operations		
Members of the parent entity	(1,370)	776
Weighted average number of ordinary securities on issue (for basic earnings calculation)	1,140,073,483	1,140,073,483
Performance rights	57,233,050	64,014,977
Weighted average number of ordinary securities on issue (for diluted earnings calculation)	1,197,306,533	1,204,088,460

20. CONTINGENT LIABILITIES AND ASSETS

At 31 December 2019 a contingent asset exists in relation to the item below.

1. Romanian Tax Office Audit of MAR

Note 5 in the half year report at 30 June 2015 referred to an audit by the Romanian tax office of VAT matters at MAR. The audit was expanded to a full tax audit.

The audit was completed in October 2015 and resulted in two primary adjustments in the 2015 financial statemments.

(i) a reduction of $181,169 in the Deferred Tax Asset at 31 December 2014; and
(ii) imposition of penalties and interest amounting to $119,245 associated with denial of a VAT input credit.

Item (ii) may be recovered in 3 ways -

- under a formal objection;
- under a professional indemnity claim; and
- under Romanian amnesty legislation recently enacted.

Legal action continued during the 2019 year and a preliminary judgement found in favour of the company. However, the fiscal authorities have the right of appeal. The matter remains unresolved.

At 31 December 2019 a contingent liability exists in relation to the item below.

Notes to the Financial Statements

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20. CONTINGENT LIABILITIES AND ASSETS (CONTINUED)

2. Claim Against MAS

A claim was made against the Magontec Suzhou company with respect to restoration costs on the property formerly occupied by this plant. The company does not believe there is a reasonable basis for this claim. Although a judgement was passed previously against the company, the company will continue to contest the matter.

21. CAPITAL AND LEASING COMMITMENTS

a. Right of use assets

From 1 January 2019, the Group adopted AASB 16 Leases. The Group recognises a right of use lease asset at inception in the Property, Plant & Equipment caption on the balance sheet, which includes equipment and vehicles as well as a corresponding lease liability in the Current and Non Current Provisions provisions on the balance sheet.

The right of use asset is depreciated on a straight-line basis per the term of the lease

The lease liability is unwound over the term of the lease, with interest expense recorded in the income statement

The company used the modified retrospective approach, whereby transition entries have been taken to 2019 opening retained earnings with a negative impact of $8,000 being the net of depreciation charges and additional interest charges associated with the unwinding of the lease liability on the balance sheet.

The movement in the right of use assets balance during the 2019 period is summarised below.

RIGHT OF USE ASSETS SUMMARY

	31 Dec 2019 $'000
Amount recognised at inception on adoption of AASB 16	1,397
Less accumulated depreciation in retained earnings	(942)
Opening balance as at 1 January 2019	455
Add new leased assets	615
Depreciation charge	(375)
Closing balance as at 31 December 2019	695

b. Lease Liabilities

The total undiscounted lease payments as at 31 December 2019 are as follows:

	31 Dec 2019 $'000
Lease liabilities recognised in the balance sheet	
Current	314
Non Current	385
Total lease liabilities recognised in the balance sheet	699

Interest charges and amounts recognised in interest payments in the cash flow statement during the period were as follows:

	12 months to 31 Dec 2019 $'000
Amounts recognised in the profit and loss statement	
Interest charge on lease liabilities	16
Amounts recognised in the cash flow statement	
Total cash inflow/(outflow) for leases	(395)

c. Capital Expenditure Commitments

There are no material capital commitments for the Group as at 31 December 2019

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22. CONTROLLED ENTITIES

a. Consolidated Controlled Entities

Name of Entity	Ownership Entity	Country of Incorporation	Ownership Interest 31 Dec 2019	Ownership Interest 31 Dec 2018
Parent entity				
Magontec Limited [(a)]		Australia	100%	100%
Directly Controlled Subsidiaries of Parent				
Advanced Magnesium Technologies Pty Ltd [(a)]	Magontec Limited	Australia	100%	100%
AML China Ltd [(b)]	Magontec Limited	China	100%	100%
Varomet Holdings Limited	Magontec Limited	Cyprus	100%	100%
Magontec Qinghai Co. Ltd.	Magontec Limited	China	100%	100%
Magontec US LLC	Magontec Limited	United States	100%	100%
Indirectly Controlled Subsidiaries of Parent – Level 1				
Magontec Xi'an Co Ltd.	Varomet Holdings Ltd	China	100%	100%
Magontec GmbH	Varomet Holdings Ltd	Germany	100%	100%
Magontec SuZhou Co Ltd	Varomet Holdings Ltd	China	100%	100%
Indirectly Controlled Subsidiaries of Parent - Level 2				
Magontec Shanxi Company Limited [(c)]	Magontec Xi'an Co Ltd	China	0%	70%
Magontec SRL	Magontec GmbH	Romania	100%	100%

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

(b) Dormant from 30 June 2012

(c) Joint venture entity through which alloying operations were conducted at Shanxi before the closure of this facility in October 2018. This entity was closed as at the date of this report. The previous joint venture arrangements provided that from 1 January 2013, 100% of the benefits and responsibilities of transactions on revenue account accrue to Magontec Xi'an Co Ltd.

Notes to the Financial Statements

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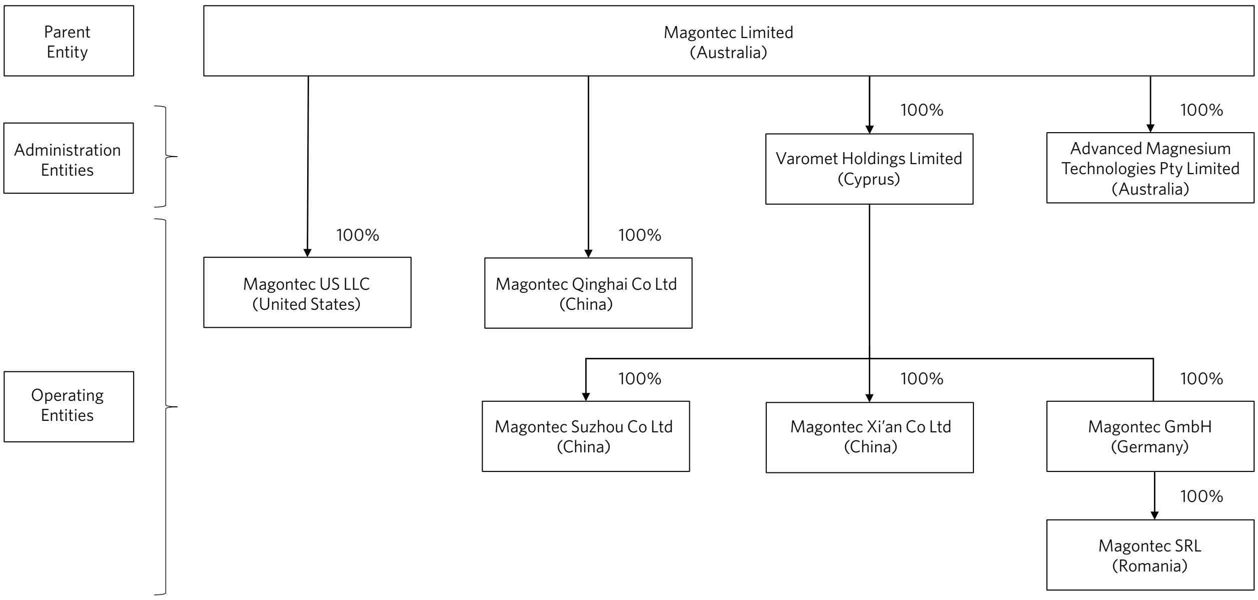
22. CONTROLLED ENTITIES (CONTINUED)

b. Corporate Structure as at 31 December 2019

MAGONTEC LIMITED CORPORATE STRUCTURE



c. Acquisition of Controlled Entities

There were no acquisitions of controlled entities made during the relevant period.

d. Disposal of Controlled Entities

There were no disposals of controlled entities made during the relevant period.

23. SEGMENT INFORMATION

Identification of Reportable Segments

The consolidated entity comprises the entities as described in Note 22. In respect of the period to 31 December 2019, segment information is presented in respect of the three main departments within the company.

- 'Admin Units' = Magontec administrative entities performing a Head Office function comprising -
  Magontec Limited (Australia), Advanced Magnesium Technologies Pty Limited (Australia), Varomet Holdings Limited (Cyprus)
- 'EUR' = Magontec operating entities in Europe comprising -
  Magontec GmbH (Germany), Magontec SRL (Romania), Magontec LLC (United States)
- 'PRC' = Magontec operating entities in the People's Republic of China comprising -
  Magontec Xi'an Co. Ltd. (China), Magontec Qinghai Co. Ltd. (China), Magontec Suzhou Co. Ltd. (China)

Types of Products and Services

The principal operating activities comprise:

- Magnesium alloy production
- Magnesium alloy recycling
- Manufacture of cathodic corrosion protection products

Accounting Policies and Inter-segment Transactions

The accounting policies used by the Group in reporting segments internally are the same as those contained in Note 1 to the accounts. Magontec GmbH (Bottrop, Germany) is the entity through which alloy production at Magontec Xi'an Co Limited (Xi'an, PRC) and Magontec Qinghai Co Ltd (PRC) destined for Europe is sold.

The segment data below is presented net of intergroup transactions (other than sales).

Notes to the Financial Statements

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23. SEGMENT INFORMATION (CONTINUED)

Statement of Comprehensive Income

	12 months to 31 December 2019				12 months to 31 December 2018			
	$'000 Admin	$'000 EUR	$'000 PRC	$'000 TOTAL	$'000 Admin	$'000 EUR	$'000 PRC	$'000 TOTAL
Sale of goods	–	79,470	52,319	131,788	–	77,034	55,160	132,194
Less Inter-company sales				(1,171)				(1,401)
Net Sales	**–**	**79,470**	**52,319**	**130,617**	**–**	**77,034**	**55,160**	**130,793**
Cost of sales	–	(70,061)	(48,609)	(118,669)	–	(67,779)	(49,612)	(117,391)
Less Inter-company sales				1,171				1,401
Net Cost of Sales	**–**	**(70,061)**	**(48,609)**	**(117,498)**	**–**	**(67,779)**	**(49,612)**	**(115,991)**
Gross Profit	–	**9,409**	**3,710**	**13,119**	**–**	**9,256**	**5,547**	**14,803**
Other income	14	158	309	480	24	380	309	712
Interest expense	(2)	(377)	(220)	(599)	–	(282)	(291)	(573)
Impairment of inventory, receivables & other financial assets	(1)	(11)	58	47	(10)	(175)	(32)	(217)
Travel accommodation and meals	(90)	(347)	(364)	(802)	(167)	(440)	(387)	(994)
Research, development, licensing and patent costs	(38)	(120)	(264)	(422)	(20)	(137)	(200)	(357)
Promotional activity	(2)	(73)	–	(75)	(2)	(97)	–	(99)
Information technology	(23)	(250)	(57)	(330)	(23)	(181)	(67)	(271)
Personnel	(1,086)	(5,037)	(1,802)	(7,925)	(1,050)	(4,556)	(1,896)	(7,502)
Depreciation & Amortisation	(41)	(545)	(109)	(695)	–	(343)	(193)	(536)
Office expenses	(67)	(306)	(143)	(517)	(87)	(173)	(121)	(381)
Corporate and other	(538)	(1,365)	(1,514)	(3,418)	(675)	(1,775)	(1,220)	(3,669)
Foreign exchange gain/(loss)	(11)	(181)	225	33	894	(62)	(349)	483
Profit/(Loss) before income tax expense	**(1,885)**	**954**	**(172)**	**(1,103)**	**(1,116)**	**1,414**	**1,101**	**1,399**
Income tax expense	43	(301)	(10)	(267)	–	(435)	(188)	(623)
Profit/(Loss) after income tax expense/benefit including discontinued operations	**(1,842)**	**653**	**(181)**	**(1,370)**	**(1,116)**	**980**	**912**	**776**
Other Comprehensive Income								
Movement in various actuarial assessments	–	(1,289)	–	(1,289)	–	(38)	–	(38)
Exchange differences taken to reserves in equity – translation of overseas entities	(41)	(361)	(317)	(718)	(18)	395	778	1,155
Total Comprehensive Income	(1,883)	(997)	(499)	(3,378)	(1,134)	1,337	1,690	1,894

Notes to the Financial Statements

continued

23. SEGMENT INFORMATION (CONTINUED)

	31 Dec 2019 $'000 Admin	31 Dec 2019 $'000 EUR	31 Dec 2019 $'000 PRC	31 Dec 2019 $'000 TOTAL	31 Dec 2018 $'000 Admin	31 Dec 2018 $'000 EUR	31 Dec 2018 $'000 PRC	31 Dec 2018 $'000 TOTAL
Segment Assets								
Gross Segment assets	48,172	47,644	39,379	135,194	55,016	44,127	45,976	145,120
Eliminations								
– Inter-Coy Loans	(34,663)	(3,671)	(2,708)	(41,042)	(41,173)	(2,554)	(1,538)	(45,264)
– Investment in subsidiaries	(15,392)	–	–	(15,392)	(15,392)	–	–	(15,392)
– Other	5,153	326	(449)	5,031	4,401	(14)	1,112	5,499
As per Consolidated Balance Sheet	3,270	44,300	36,222	83,792	2,852	41,559	45,551	89,962
Segment Liabilities								
Gross Segment liabilities	27,839	41,922	22,966	92,727	32,630	37,327	28,428	98,385
Eliminations								
– Inter-Coy Loans	(27,619)	(2,549)	(10,772)	(40,939)	(32,346)	(2,180)	(10,662)	(45,188)
– Other	419	280	266	965	–	–	2,011	2,011
As per Consolidated Balance Sheet	640	39,653	12,460	52,752	285	35,147	19,777	55,209
Net assets	2,630	4,647	23,762	31,039	2,567	6,412	25,774	34,754
Segment Disclosures								
– Acquisition of segment fixed assets	–	909	809	1,718	–	289	661	950
– Non-cash share based payments expense	135	–	–	135	78	–	–	78
Provisioning								
– Inventory Increase/(Decrease)	–	233	–	233	–	105	–	105
– Doubtful debts Increase/ (Decrease)	–	6	(233)	(227)	–	123	54	177

24. RELATED PARTY DISCLOSURES

a. Equity interests in related parties

Equity interest in subsidiaries

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

b. Transactions with Key Management Personnel including Loans

Details of KMP compensation are disclosed in to the financial statements and in the Remuneration Report.

c. Group Entity

The parent entity is Magontec Limited. Members of the group are set out in Note 22. Transactions during the financial year between group entities included:

- Investment in controlled entities;
- Repayment of interest free funds from controlled entities to the parent entity; and
- Incurring expenditure on behalf of other entities for office rental and related costs, travel costs, seconded employees and other sundry costs.

The entity is fully reimbursed for these costs on an actual cost basis.

Notes to the Financial Statements

continued

24. RELATED PARTY DISCLOSURES (CONTINUED)

d. Transactions with Related Parties apart from Directors and Key Management Personnel

		Sales to Related Parties $'000	Purchases from Related Parties $'000	Amounts owed by Related Parties $'000	Amounts owed to Related Parties $'000
Entity with significant influence					
Qinghai Salt Lake Magnesium Co. Ltd	2019	–	7,838	–	–
	2018**	–	10,287	–	–

**Updated from prior year 2018 Annual Report

Nature of related party transactions with Qinghai Salt Lake Magnesium Co. Ltd

During the year, the Group purchased pure Magnesium from the Qinghai Salt Lake Magnesium Co. Ltd (QSLM), the largest shareholder in Magontec Limited as at the balance date. These purchases were made in accordance with the Off Take Pricing Agreement with QSLM.

Outstanding balances owing to QSLM are unsecured and are on an interest free basis. Settlement occurs in cash, with no guarantees provided for any related party receivable or related party payable balance outstanding between the parties.

25. FINANCIAL INSTRUMENTS

AASB 9 - Classification and Measurement of Financial Assets and Financial Liabilities

AASB 9 provides three categories for classification of financial assets, being amortised cost, fair value through other comprehensive income and fair value through profit and loss. This is assessed in accordance with the contractual cash flows and nature of the underlying asset. The table below summarises the classifications under AASB 9. The Group did not apply hedge accounting to derivatives during the reporting period.

	Category per AASB 9	Fair value hierarchy where applicable*
Financial assets:		
Cash and cash equivalents	Amortised cost	Not applicable
Trade & other receivables	Amortised cost	Not applicable
Other	Amortised cost	Not applicable
Financial liabilities:		
Trade & other payables	Other financial liabilities	Not applicable
Current Bank Borrowings	Other financial liabilities	Level 2
Non-Current Bank Borrowings	Other financial liabilities	Level 2

* Fair value information is not provided where carrying amounts are assumed to be a reasonable approximation of fair value

AASB 9 - Impairment of Financial Assets

As a result of the introduction of AASB 9, the Group adopts an "Expected Credit Loss" model to assess impairment of financial assets. The Group has elected to apply the practical expedient with respect to impairment losses on trade receivables with the use of a provision matrix which takes into account historical bad debt losses as well as estimates of future losses where considered material. More detail is provided in the credit risk section below.

Notes to the Financial Statements

continued

25. FINANCIAL INSTRUMENTS (CONTINUED)

a. Capital Risk Management

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

The capital structure of the Group consists of cash and cash equivalents, equity attributable to equity holders of the parent, comprising issued capital,reserves and accumulated losses as disclosed in Note 16, Note 17 and Note 18 respectively and debt funding provided by Chinese and European banks (Note 13).

The Group's main financial risk management issues are ensuring the integrity of debtors, planning for production capacity expansion in China and continued availability of debt funding. The Group operates globally, primarily through subsidiary companies established in the markets in which the Group trades.

The Group manages these working capital risks to meet its strategic objectives by monitoring its working capital requirements on a constant basis. Due to the need to purchase material in bulk to take advantage of favourable pricing, as well as timing of receipts from key customers, working capital can fluctuate by several million dollars in any given month. This has resulted in the reported operating cash outflow of $8.1 million during the year ended 31 December 2019 compared to an operating cash inflow of $15.4 million for the year ended 31 December 2018. The Group has accepted that these were driven by a $9.9 million outflow into net working capital assets in the current period and a $12.1 million inflow in the prior corresponding period. The Group is comfortable that this net working capital asset is readily realisable and, further, without this movement operating cash during the period would have been a positive inflow to the extent of $1.7 million (FY18 – positive cash inflow of $3.2 million).

b. Financial Risk Management Objectives

The magnesium alloy industry operates with a disparity of trade terms on the purchase of production inputs and the sale of output. The Group's senior management effort is aimed at firstly, arranging funding for working capital and secondly, negotiating with purchasers and buyers the best available terms.

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

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

c. Significant Accounting Policies

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

d. Categories and Maturity Profile of Financial Instruments and Interest Rate Risk

The following table details the consolidated entity's exposure to interest rate risk as at 31 December 2019.

31 December 2019	Notes	Weighted average effective interest rate %	Variable interest rate $'000	Fixed interest rate $'000	Non-interest bearing $'000	Total $'000
Financial assets:						
Cash and cash equivalents		0.91%	4,303	–	–	4,303
Trade & other receivables (net of provision for loss)		–	–	–	26,029	26,029
Other		–	–	–	596	596
			4,303	–	26,625	30,928
Financial liabilities:						
Trade & other payables		–	–	–	17,065	17,065
Current Bank Borrowings	13	2.94%	20,542	–	–	20,542
Non-Current Bank Borrowings	13	–	–	–	–	–
			20,542	–	17,065	37,607

Notes to the Financial Statements

continued

25. FINANCIAL INSTRUMENTS (CONTINUED)

The following table details the consolidated entity's exposure to interest rate risk as at 31 December 2018.

31 December 2018	Notes	Weighted average effective interest rate %	Variable interest rate $'000	Fixed interest rate $'000	Non-interest bearing $'000	Total $'000
Financial assets:						
Cash and cash equivalents		0.30%	12,889	–	–	12,889
Trade & other receivables (net of provision for loss)		–	–	–	23,525	23,525
Other		–	–	–	373	373
			12,889	-	23,898	36,787
Financial liabilities:						
Trade & other payables		–	–	–	21,544	21,544
Current Borrowings	13	4.43%	8,928	–	–	8,928
Non–Current Borrowings	13	1.55%	10,633	–	–	10,633
			19,561	-	21,544	41,104

e. Market Risk

Refer comments under headings a and b of Note 25.

f. Liquidity Risk Management

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

Notes to the Financial Statements

continued

25. FINANCIAL INSTRUMENTS (CONTINUED)

g. Fair Value of Financial Instruments

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

h. Foreign Currency Risk Management

The Group has exposure to four main currencies – the United States Dollar (USD), the Euro (EUR), the Chinese Yuan (RMB) and the Romanian Leu (RON).The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows.

	Foreign Currency Monetary Assets & Liabilities Table			
	Assets		Liabilities	
	31 Dec 2019 $'000	31 Dec 2018 $'000	31 Dec 2019 $'000	31 Dec 2018 $'000
Foreign currency monetary assets and liabilities				
Cash and cash equivalents	4,264	12,844		
Trade and other receivables	26,103	21,903		
Other non-current receivables	348	949		
Trade and other payables			17,398	21,865
Provisions			15,208	15,333
Borrowings			19,616	18,094
Other				
Other net assets and liabilities	53,076	54,266	530	(84)
Total	83,792	89,962	52,752	55,209

The Group undertakes sales transactions denominated in RMB, USD and EUR and incurs manufacturing input costs denominated in EUR, RMB and RON. Additionally certain Head Office overheads are incurred in AUD and the Group reports in AUD. The objective is to centralise treasury risk and cash management so that foreign exchange risk washes through to a single point.

Notes to the Financial Statements

continued

25. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign Currency Sensitivity Analysis

The following table details the Group's sensitivity to a 10% increase and 10% decrease in relevant foreign currency monetary items against the Australian Dollar. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates over the medium term. The sensitivity analysis includes foreign currency monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

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

	Notes	31 Dec 2019 $'000	31 Dec 2018 $'000
		USD impact	
Effect on Profit/Loss of a 10% increase in USD rate	(i)	636	915
Effect on Profit/Loss of a 10% decrease in USD rate		(636)	(915)
		EUR impact	
Effect on Profit/Loss of a 10% increase in EUR rate	(ii)	(2,563)	(2,465)
Effect on Profit/Loss of a 10% decrease in EUR rate		2,563	2,465
		RMB impact	
Effect on Profit/Loss of a 10% increase in RMB rate	(iii)	209	117
Effect on Profit/Loss of a 10% decrease in RMB rate		(209)	(117)
		RON impact	
Effect on Profit/Loss of a 10% increase in RON rate	(iv)	(433)	(292)
Effect on Profit/Loss of a 10% decrease in RON rate		433	292

A positive number in the above table represents a reduction in the operating profit/loss and or other equity

(i) Exposure to USD is represented by net monetary assets of USD 4.5 million as at 31-Dec-19 (Net monetary assets of USD 6.4 million as at 31-Dec-18)

(ii) Exposure to EUR is represented by net monetary liabilities of EUR 16.0 million as at 31-Dec-19 (Net monetary liabilities of EUR 15.2 million as at 31-Dec-18)

(iii) Exposure to RMB is represented by net monetary assets of RMB 10.2 million as at 31-Dec-19 (Net monetary assets of RMB 5.7 million as at 31-Dec-18)

(iv) Exposure to RON is represented by net monetary liabilities of RON 13.0 million as at 31-Dec-19 (Net monetary liabilities of RON 8.4 million as at 31-Dec-18)

Notes to the Financial Statements

continued

25. FINANCIAL INSTRUMENTS (CONTINUED)

Derivatives and Hedging

During the period, the Company engaged in foreign exchange hedges primarily to manage risks associated with securing the EUR:USD rate on real metal purchases of pure magnesium in USD. The gains and losses on the market value of these hedges are recognised directly in the profit and loss statement.

	Notes	Carrying value $'000	Market value $'000	Cash flow due within 1 year $'000	Cash flow due after 1 year $'000
31 December 2019					
FX hedges	6	(13)	(13)	(13)	–
31 December 2018					
FX hedges	6	(25)	(25)	(21)	(4)

The sensitivity of FX hedges to a 10% movement in the relevant exchange rate is outlined below:

	AUD impact of change	
	31 Dec 2019 $'000	31 Dec 2018 $'000
FX hedges		
Sensitivity to +10% change in USD EUR rate	11	62
Sensitivity to -10% change in USD EUR rate	(11)	(62)

i. Capital Management and Interest Rate Risk Management

The Group has bank loans outstanding of $11,007,574 (refer Note 13) owing to Commerzbank globally. Management remains confident that Commerzbank will continue offering its facilities to the amount of EUR15.0 million (A$24.4 million) as the Company's relationship with the bank is strong and significant headroom exists compared with facilities drawn.

Credit

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

The Group's alloy sales to European customers are, for the most part, centralised through Magontec GmbH in Bottrop Germany. Magontec GmbH has insurance cover in place to cover its exposure to debtors secured under the Commerzbank facility. The insured percentage cover for 'named' debtors is 90% and for 'unnamed' debtors is 80% but with individual claims in respect of 'unnamed' debtors limited to EUR 10,000.

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

Provision Matrix

The Group applies a provision matrix in order to determine Expected Credit Losses in accordance with AASB 9 Financial Instruments. This provision matrix is based on:

- Historical experiences of bad debts in the last 5 years (which have been low as a percentage of sales)
- Where deemed material, estimates to incorporate the Group's forward looking expectations on future operating and economic conditions

Provision Matrix	EU & NA	PRC
Due Date	0.01%	0.05%
1-30 days overdue	0.03%	0.09%
31-60 days overdue	0.04%	0.14%
61-90 days overdue	0.05%	0.19%
90 days + overdue	0.07%	0.23%

Notes to the Financial Statements

continued

26. PARENT ENTITY INFORMATION MAGONTEC LIMITED

Statement of Comprehensive Income

	Magontec Limited	
	12 months to 31 Dec 2019 $'000	12 months to 31 Dec 2018 $'000
Sale of goods	–	–
Cost of sales	–	–
Gross profit	**–**	**–**
Other income	20	16
Interest expense	–	–
Impairment of inventory, receivables & other financial assets	(339)	417
Travel accommodation and meals	(64)	(121)
Research, development, licensing and patent costs	(31)	–
Promotional activity	–	–
Information technology	(11)	(11)
Personnel	(2)	–
Depreciation & amortisation	–	–
Office expenses	(5)	(3)
Corporate	(522)	(546)
Foreign exchange gain/(loss)	(155)	274
Other operating expenses	–	–
Profit/(Loss) before income tax expense/benefit from continuing operations	**(1,108)**	**26**
Income tax (expense)/benefit	–	–
Profit/(Loss) after income tax expense/benefit from continuing operations	**(1,108)**	**26**
Other Comprehensive Income - that may later emerge in the Profit and Loss Statement		
Exchange differences taken to reserves in equity – translation of overseas entities	–	–
Other Comprehensive Income - that will not emerge in the Profit and Loss Statement	–	–
Movement in various actuarial assessments	–	–
Total Comprehensive Income	**(1,108)**	**26**
Profit/(Loss) after income tax expense for the year (incl discontinued operations) attributable to		
Minority interests	–	–
Members of the parent entity	(1,108)	26
Total	**(1,108)**	**26**
Comprehensive Income for the year attributable to		
Minority interests	–	–
Members of the parent entity	(1,108)	26
Total Comprehensive Income for the year	**(1,108)**	**26**

Notes to the Financial Statements

continued

26. PARENT ENTITY INFORMATION MAGONTEC LIMITED (CONTINUED)

Balance Sheet

	Magontec Limited	
	31 Dec 2019 $'000	31 Dec 2018 $'000
Cash and cash equivalents	15	36
Trade & other receivables	(1)	(2)
Other	66	53
Total current assets	80	86
Non-current assets		
Inter Company Loan Receivables (net of provisioning)	17,110	17,743
Investment in shares of subsidiaries (net of provisioning)	11,718	11,718
Total non-current assets	28,828	29,461
Total assets	28,907	29,547
Current liabilities		
Trade & other payables	55	58
Total current liabilities	55	58
Non-current liabilities		
Other	6,027	5,556
Total non-current liabilities	6,027	5,556
Total liabilities	6,082	5,614
Net assets	22,825	23,933
Equity attributable to members of MGL		
Share capital	58,616	58,616
Reserves	1,637	1,637
Accumulated losses	(37,428)	(36,320)
Equity attributable to minority interests		
Share capital	–	–
Reserves	–	–
Accumulated losses	–	–
Total equity	22,825	23,933

26. PARENT ENTITY INFORMATION MAGONTEC LIMITED (CONTINUED)

Contingent Liabilities

The parent entity had no contingent liabilities as at 31 December 2019.

Capital Commitments - Property, Plant and Equipment

The parent entity had no material capital commitments for property, plant and equipment as at 31 December 2019.

Significant Accounting Policies

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

27. SUBSEQUENT EVENTS

To the best of the company's knowledge there have been no other material subsequent events that require disclosure.

Registered Office and Principal Place of Business

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Directors’ Declaration

The Directors declare as follows -

a. in the Directors’ opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable;

b. in the Directors’ opinion, the financial statements and notes thereto set out on pages 35 to 69 of this Annual Report, are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and give a true and fair view of the financial position and performance of the Group; and

c. the Directors have been given the declarations required by s.295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of the Directors made pursuant to s.295A of the *Corporations Act 2001*.

On behalf of the Board of Directors

Mr N Andrews
Executive Chairman
26 February 2020

Mr A Malhotra
Non-executive Director

CAMPHIN BOSTON
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MAGONTEC LIMITED

Report on the Financial Report

Auditor's Opinion
We have audited the accompanying financial report of Magontec Limited and Controlled Entities, which comprises the consolidated balance sheet as at 31 December 2019, and the consolidated statement of profit & loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a statement of accounting policies, other explanatory notes and the directors' declaration.
In our opinion:
(a) the financial report of Magontec Limited is in accordance with the *Corporations Act 2001*, including:
 (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the year ended on that date; and
 (ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Basis for Opinion
We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation and Existence of Property, Plant & Equipment	
The Company's significant assets include plant & equipment in both China and Europe. We focused on this area due to the: • The Group's Net Assets exceeding its Market Capitalisation. • Extent of management judgment involved in assessing impairment indicators and determining the assumptions used in evaluating these indicators.	Our procedures included, amongst others, • Assessing management's determination of any impairment charge, and analysis of internal reporting to assess how operating performance is monitored and reported; • Assessment of key forward looking assumptions used to estimate any possible impairment, including projected future growth rates of CGU, costs, and the discount rate applied; • Retrospective review of historical results against previous forecasts to identify any indications of management bias; • Assessing the sensitivity of the model to variances in key inputs. • Substantive testing of asset additions. • Assessment of the classification of capitalised costs as Construction in Progress
Valuation and Existence of Inventory	
We focused on this area as a key audit matter due to the: • Quantum of amounts involved;	Our procedures included, amongst others, • Attendance at stock takes for all significant locations to conduct test counts and assess internal controls; • Testing of carrying value to subsequent sales and cost;

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- Sensitivity of the Company's margins to changes in the underlying price of Magnesium; and
- Multiple geographical areas.

- Review of costing methodology applied by entities within the group for compliance with the Group accounting policy;
- Challenging management's view of the recoverable value of aged inventory.

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 the Group financial statements and notes comply with International Financial Reporting Standards.

Auditor's Responsibility
Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Report on the Remuneration Report

Auditor's Opinion
We have audited the Remuneration Report included in pages 20 to 32 of the directors' report for the year ended 31 December 2019.
In our opinion the Remuneration Report of Magontec Limited for the year ended 31 December 2019 complies with section 300A of the *Corporations Act 2001*.

Responsibilities
The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Camphin Boston
Chartered Accountants

G S Boston

Greg Boston
Partner

Level 5, 179 Elizabeth Street, Sydney NSW 2000
Dated: 28 February 2020

Shareholder Information

Class: Ordinary shares fully paid

ASX Code: MGL

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

Twenty Largest Holders of Ordinary Shares as at End Date of Current Reporting Period

	Name of Holder	No. Of Shares	%
1	QINGHAI SALT LAKE MAGNESIUM CO LTD	330,535,784	28.99
2	STRAITS MINE MANAGEMENT PTY LTD	148,874,507	13.06
3	J P MORGAN NOMINEES AUSTRALIA	100,964,663	8.86
4	CITICORP NOMINEES PTY LIMITED	66,483,860	5.83
5	KEWEIER METAL CO LTD & LI ZHONG JUN	56,197,298	4.93
6	NATIONAL NOMINEES LIMITED	21,429,012	1.88
7	MR NICHOLAS WILLIAM ANDREWS	20,870,953	1.83
8	MR SCOTT PARHAM	18,774,531	1.65
9	HSBC CUSTODY NOMINEES	15,255,678	1.34
10	MRS DAWN PATRICIA DAVIS	13,600,000	1.19
11	MR JORIS ARJEN LUGTENBURG & MRS ADRIENE LUGTENBURG	11,063,493	0.97
12	MR XUNYOU TONG	9,882,973	0.87
13	MIENGROVE PTY LTD	9,750,000	0.86
14	DALSIZ PTY LTD	8,400,000	0.74
15	ESCOR EQUITIES CONSOLIDATED	8,000,000	0.70
16	DR ANDREW DUNCAN	7,075,000	0.62
17	HSBC CUSTODY NOMINEES	7,000,000	0.61
18	BRIAN GORMAN SELF MANAGED	7,000,000	0.61
19	MR CHRISTOPH KLEIN-SCHMEINK	6,142,212	0.54
20	MR PETER FABIAN HELLINGS & MRS JACQUELINE KIM GUN	6,000,000	0.53
TOTAL		873,299,964	76.60

Distribution of Shareholders as at End Date of Current Reporting Period

Number Held	Holders	No. of Securities	Percentage
1-1,000	9,522	3,172,436	0.28
1,001-5,000	1,745	3,794,670	0.33
5,001-10,000	367	2,954,223	0.26
10,001-100,000	1,198	38,909,763	3.41
100,001 and over	407	1,091,242,391	95.72
TOTAL	13,239	1,140,073,483	100.00

Shareholder Information

continued

Substantial shareholders

Magontec Limited has been notified of the following substantial shareholdings:

Number Held	No. of ordinary shares	% of issued ordinary share capital
Qinghai Salt Lake Magnesium Co. Ltd (QSLM)	330,535,784	28.99%
Allan Gray Australia Pty Limited	176,858,972	15.51%
Straits Mine Management Pty Ltd	148,874,507	13.06%

As at 31-Dec-2019 a marketable parcel of securities ($500) is a holding of at least 31,250 securities [1].

1. Based on a closing share price of $0.016

Issued Capital and Securities	On Issue at 31 Dec 19
Ordinary Shares fully paid	1,140,073,483

Share Registry: Boardroom Pty Limited	Postal:	Local:	International
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SYDNEY, NSW 2000			Website: www.boardroomlimited.com.au

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