
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular, you should consult your stockbroker or other licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in APAC Resources Limited, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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**DISCLOSEABLE TRANSACTION AND
POSSIBLE MAJOR TRANSACTION
RELATING TO
THE COMMITMENT TO TAKE UP CERTAIN SHARES
IN AN UNDERWRITTEN RIGHTS ISSUE TO BE
CONDUCTED BY MOUNT GIBSON**

The Aggregated Commitments constitute a major transaction of the Company under the Listing Rules. A notice convening the SGM to be held at 7th Floor, Board Room, The Dynasty Club, South West Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on Monday, 29 December 2008 at 11:00 a.m. or any adjournment thereof is set out on pages 492 to 495 of this Circular. A form of proxy for the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the form of proxy in accordance with the instructions printed on it and return it to the Hong Kong branch share registrar of the Company, Tricor Secretaries Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as practicable and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment of the meeting. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so desire.

12 December 2008

* For identification purpose only

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DEFINITIONS

In this circular, unless the context otherwise requires, the following words and expressions have the following meanings:

“A\$”	Australian dollars, the lawful currency of Australia
“Aggregated Commitments”	the Shareholding Commitment and the Underwriting Commitment in aggregate
“Announcement”	the announcement of the Company dated 5 November 2008 in relation to the Heads of Agreement
“APAC Subsidiaries”	two wholly-owned subsidiaries of the Company which held an aggregate of 164,148,144 MG Shares as at the Latest Practicable Date
“ASX”	Australian Securities Exchange Limited
“Available Production”	lump and fines iron ore products from mines owned by Mount Gibson and/or its subsidiaries at the date of the Heads of Agreement (being Koolan Island, Tallering Peak and Extension Hill), that are available for shipping having regard to shipping schedules, mine production, transport logistics and port capacity, and that are not the subject of any existing binding offtake agreements
“Board”	the board of Directors
“Company”	APAC Resources Limited, a company incorporated in Bermuda with limited liability, with its securities listed on the Main Board of the Stock Exchange
“connected person(s)”	having the meaning ascribed to it under the Listing Rules
“Directors”	directors of the Company
“FIRB”	Foreign Investment Review Board of Australia
“Group”	the Company and its subsidiaries

DEFINITIONS

“Heads of Agreement”	the legally binding heads of agreement entered into between the Company and Mount Gibson on 2 November 2008 pursuant to which the Company and Mount Gibson have agreed on the key terms that will be contained in the definitive agreements in respect of, amongst other things, the offtake agreements and the Underwriting Agreement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Latest Practicable Date”	8 December 2008, being the latest practicable date prior to printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“MG Shares”	ordinary shares in the issued share capital of Mount Gibson
“Mount Gibson”	Mount Gibson Iron Limited, a corporation incorporated under the laws of Australia, with its shares listed on the ASX
“related body corporate”	having the meaning ascribed to it under section 50 of the Corporations Act 2001 in Australia, with effect that a body corporate is related to another body corporate of which it is the holding company; another body corporate of which it is a subsidiary; and another body corporate where it is a subsidiary of the holding company of that other body corporate
“Rights Issue”	a 1 for 5 renounceable rights issue to existing shareholders of Mount Gibson to be conducted by Mount Gibson at an issue price of A\$0.60 (equivalent to approximately HK\$3.09) to raise approximately A\$97 million (equivalent to approximately HK\$499,550,000)
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)

DEFINITIONS

“SGM”	the special general meeting of the Shareholders to be convened at 7th Floor, Board Room, The Dynasty Club, South West Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on Monday, 29 December 2008 at 11:00 a.m. for the purposes of considering and, if thought fit, approving the Aggregated Commitments
“Shares”	ordinary shares of HK\$0.10 each in the issued share capital of the Company
“Shareholders”	holders of Shares
“Shareholding Commitment”	the Company’s full entitlement (through the APAC Subsidiaries) under the Rights Issue in relation to MG Shares owned by the Company (through the APAC Subsidiaries) as at the date of the Heads of Agreement, namely, 32,829,629 new shares in Mount Gibson to be subscribed for under the Rights Issue
“Shortfall Shares”	up to 82,900,000 shares in Mount Gibson not taken up by shareholders of Mount Gibson in the Rights Issue, which does not include the Shareholding Commitment
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Underwriting Agreement”	the underwriting agreement to be entered into between the Company (or its nominee) and Mount Gibson under which the Company (or its nominee) will have the right to underwrite the Shortfall Shares in priority to any other underwriters to the Rights Issue. The definitive Underwriting Agreement was entered into on 20 November 2008.
“Underwriting Commitment”	the underwriting of the Shortfall Shares under the Underwriting Agreement in priority to any other underwriters to the Rights Issue by the Company (or its nominee)
“%”	per cent.

In this circular, for purpose of illustration only, amounts quoted in A\$ have been converted into HK\$ at the rate of A\$1.00 to HK\$5.15 as at 1 November 2008. Such exchange rate has been used, where applicable, for purposes of illustration only and does not constitute a representation that any amounts were or may have been exchanged at this or any other rates or at all.

LETTER FROM THE BOARD



APAC RESOURCES LIMITED

亞太資源有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1104) (Warrant Code: 324)

Executive Directors:

Mr. Cao Zhong (*Chairman*)
Mr. Liu Yongshun (*Chief Executive Officer*)
Mr. Zhou Luyong (*Deputy Chief Executive Officer*)
Ms. Chong Sok Un
Mr. Chen Zhaoqiang
Mr. Yue Jialin

Independent Non-Executive Directors:

Mr. Wong Wing Kuen, Albert
Mr. Chang Chu Fai, Johnson Francis
Mr. Alan Stephen Jones
Mr. Robert Moyses Willcocks

Registered office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

*Head office and principal place
of business:*

32/F China Online Centre
333 Lockhart Road
Wanchai
Hong Kong

12 December 2008

To the Shareholders and, for information only, the Warrantholders

Dear Sir or Madam,

**DISCLOSEABLE TRANSACTION AND
POSSIBLE MAJOR TRANSACTION
RELATING TO
THE COMMITMENT TO TAKE UP CERTAIN SHARES
IN AN UNDERWRITTEN RIGHTS ISSUE TO BE
CONDUCTED BY MOUNT GIBSON**

INTRODUCTION

The Board announced in the Announcement that on 2 November 2008, the Company entered into the legally binding Heads of Agreement with Mount Gibson pursuant to which the Company and Mount Gibson have agreed on the key terms that will be contained in the definitive agreements in respect of, amongst other things, (a) the Company (through the APAC Subsidiaries) committing to take up its full entitlement under the Rights Issue in relation to MG Shares owned by the Company (through the APAC Subsidiaries) as at the date of the Heads of Agreement; and (b) the Company (or its nominee) underwriting in priority the Shortfall Shares in the Rights Issue.

* For identification purpose only

LETTER FROM THE BOARD

As at the Latest Practicable Date, the Company (through the APAC Subsidiaries) held 164,148,144 MG Shares, representing approximately 20.41% interest in the issued share capital of Mount Gibson. Upon taking up the Shareholding Commitment, the Group's shareholding in Mount Gibson will remain at 20.41%. After completion of the Rights Issue, the Group's shareholding in Mount Gibson will be between approximately 20.41% (assuming that the Rights Issue is fully subscribed and the Group does not increase its percentage shareholding through the Underwriting Agreement) and approximately 29% (if the Shortfall Shares are all taken up by the Company (or its nominee) as the underwriter).

The purpose of this circular is to provide the Shareholders with, amongst other things, details of (a) the terms of the Shareholding Commitment and the Underwriting Commitment; and (b) a notice to convene the SGM to approve the Aggregated Commitments, in accordance with the requirements of the Listing Rules.

THE HEADS OF AGREEMENT

On 2 November 2008, the Company entered into the legally binding Heads of Agreement with Mount Gibson pursuant to which the Company and Mount Gibson have agreed on the key terms that will be contained in the definitive agreements in respect of, amongst other things, (a) the Company (through the APAC Subsidiaries) committing to take up its full entitlement under the Rights Issue in relation to MG Shares owned by the Company (through the APAC Subsidiaries) as at the date of the Heads of Agreement; and (b) the Company (or its nominee) underwriting in priority the Shortfall Shares in the Rights Issue. The Company has committed to the transactions contemplated under the Heads of Agreement subject to the conditions set out therein. If the Company elects to use a nominee in relation to the transaction(s) contemplated under the Heads of Agreement, that nominee must be a related body corporate of the Company and the Company must guarantee the performance of the nominee's obligations in respect of the relevant transaction(s).

Date

2 November 2008

Parties

- (1) The Company
- (2) Mount Gibson

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Mount Gibson and the ultimate beneficial owner of Mount Gibson are third parties independent of the Company and connected persons of the Company.

LETTER FROM THE BOARD

DISCLOSEABLE TRANSACTION

The Rights Issue

Pursuant to the Heads of Agreement, the Company (through the APAC Subsidiaries) has committed to take up its full entitlement under the Rights Issue in relation to MG Shares owned by the Company (through the APAC Subsidiaries) as at the date of the Heads of Agreement. The terms of the Rights Issue shall include, amongst other things, the following:

- (1) Mount Gibson to conduct a 1 for 5 renounceable rights issue to existing shareholders at an issue price of A\$0.60 (equivalent to approximately HK\$3.09), to raise approximately A\$97 million (equivalent to approximately HK\$499,550,000);
- (2) the Rights Issue is to be conducted as soon as practicable;
- (3) the Rights Issue is to be conducted as a traditional renounceable rights issue;
- (4) the Rights Issue is to be conducted as a documented rights issue (involving Mount Gibson issuing a prospectus);
- (5) Mount Gibson may engage a bank to act as a lead manager (but not an underwriter) to manage the distribution of the Rights Issue; and
- (6) the Company (through the APAC Subsidiaries) is to commit to take up the Shareholding Commitment.

As at the Latest Practicable Date, the Company (through the APAC Subsidiaries) held 164,148,144 MG Shares, representing approximately 20.41% interest in the issued share capital of Mount Gibson. As at the Latest Practicable Date, the Company was the single largest shareholder of Mount Gibson. Upon taking up the Shareholding Commitment, the Group's shareholding in Mount Gibson will remain at 20.41%.

Consideration

Based on an issue price of A\$0.60 (equivalent to approximately HK\$3.09) in the Rights Issue, the aggregate subscription price to be paid by the APAC Subsidiaries for the Shareholding Commitment is A\$19,697,777 (equivalent to approximately HK\$101,443,552).

LETTER FROM THE BOARD

The issue price of A\$0.60 (equivalent to approximately HK\$3.09) was determined by the board of Mount Gibson which took into account of (a) the closing price of the MG Shares of A\$0.405 (equivalent to approximately HK\$2.09) on the last trading day before Mount Gibson requested a trading halt on 23 October 2008; (b) the net assets value per MG Share of approximately A\$0.74 (equivalent to approximately HK\$3.81) according to Mount Gibson's 2008 annual report; and (c) the capital funding required by Mount Gibson. The Directors consider that the issue price is fair and reasonable on the basis that it represents (a) a discount of 49.2% to the average closing price of MG Shares during the one month prior to the date of the Heads of Agreement of approximately A\$1.18 (equivalent to approximately HK\$6.08) and (b) a discount of 18.9% to the net assets value per MG Share of approximately A\$0.74 (equivalent to approximately HK\$3.81).

Sources of funding

The aggregate subscription price to be paid by the APAC Subsidiaries for the Shareholding Commitment will be financed by the Group from its internal resources and borrowings.

Listing Rules Implications

The subscription of MG Shares by the APAC Subsidiaries in respect of the Shareholding Commitment constitutes a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules on the basis that the calculations of the relevant percentage ratios are within the range of 5% and 25%.

POSSIBLE MAJOR TRANSACTION

The Underwriting Agreement

Pursuant to the Heads of Agreement, the Company (or its nominee) and Mount Gibson will enter into the Underwriting Agreement under which the Company (or its nominee) will have the right to underwrite the Shortfall Shares in priority to any other underwriters to the Rights Issue. The Underwriting Agreement is to be on the following terms:

- (1) the Company (or its nominee) will be only underwriting the Underwriting Commitment;
- (2) the Underwriting Commitment will be subject to approval by the Shareholders under the Listing Rules, if required, and the Company taking all steps to ensure that the Rights Issue and the underwriting arrangements meet all applicable steps required under the Listing Rules and any other relevant legislation;

LETTER FROM THE BOARD

- (3) the Underwriting Agreement will be subject to approval by the shareholders of Mount Gibson;
- (4) the fee payable to the Company (or its nominee) in consideration of it being an underwriter will be 3.5% of the value of the Underwriting Commitment;
- (5) the Company currently has FIRB approval due to expire on 8 January 2009 to increase its holding in Mount Gibson to 29%:
 - (a) the Company will apply to FIRB as soon as practicable for, amongst other things, approval to increase its shareholding in Mount Gibson to the maximum percentage that it would receive if it took up the Shareholding Commitment and the entire Underwriting Commitment in the Rights Issue;
 - (b) if the said fresh FIRB approval is not received prior to the Underwriting Agreement becoming unconditional, the Company (or a related body corporate of the Company) will proceed to underwrite the Underwriting Commitment on the basis of the existing FIRB approval, but if the Company is unable to rely on the existing FIRB approval, the Company must use its best endeavours to arrange for a non-associated person that is not subject to any regulatory approval issues to underwrite the portion of the Shortfall Shares that the Company is unable to underwrite;
 - (c) Mount Gibson must use its best endeavours to assist the Company with the fresh FIRB Approval referred to above;
- (6) If required by Mount Gibson's banking syndicate:
 - (a) the Company must deposit 40% of the Underwriting Commitment into an interest bearing escrow account holding to the order of the Company and Mount Gibson jointly or provide a letter of credit or bank guarantee equivalent to Mount Gibson within five business days after execution of the Underwriting Agreement;
 - (b) the Company must deposit the remaining balance (if any) of the outstanding Underwriting Commitment into the same interest bearing escrow account (taking into account the actual number of Shortfall Shares and the Company's initial 40% deposit) at least five business days prior to the latter of the SGM or Mount Gibson's shareholders' meeting to be held in respect of the transactions contemplated under the Heads of Agreement.

LETTER FROM THE BOARD

Any amount that is not required to subscribe for the Shortfall Shares (including interest accrued on that amount) under the Underwriting Agreement is to be refunded to the Company as soon as practicable or prior to the completion of the Rights Issue. The full amount is to be refunded to the Company immediately if the Underwriting Agreement is terminated in accordance with its terms or if Mount Gibson shareholders and/or the Shareholders do not approve the underwriting as contemplated under the Heads of Agreement; and

- (7) the Underwriting Agreement will contain warranties and termination events that are customary for an underwriting of this nature and subject to usual limitations of liability for breach of warranty.

The Company lodged an application for the fresh FIRB approval referred to in paragraph (5) (a) above on 5 November 2008 and lodged a further notice with respect to the fresh FIRB approval on 2 December 2008. The Company has never failed to obtain a FIRB approval for previous applications and has considered the possibility of failing to obtain the fresh FIRB approval as referred to in paragraph 5(b) above. However, since the decision of FIRB is beyond the Company's control, the Company could not reach a conclusive view.

The arrangement referred to in paragraph (6) above has been included in the Heads of Agreement at the request of Mount Gibson's banking syndicate as it may request for such deposit arrangement to be made by the Company. The Company is of the view that such deposit arrangement is justifiable in the circumstances because the Company (a) is a corporate underwriter which is not a financial institution and (b) is not incorporated in Australia.

After completion of the Rights Issue, the Group's shareholding in Mount Gibson will be approximately 29% (following the Shareholding Commitment being taken up by the APAC Subsidiaries and if the Shortfall Shares are all taken up by the Company (or its nominee) as the underwriter).

Conditions

The underwriting arrangements in the Rights Issue (including the Underwriting Agreement) will be subject to approval by the shareholders of Mount Gibson. The resolutions to approve the underwriting arrangements in the Rights Issue and the long term offtake agreement(s) to be entered into between the Company (or its nominee) and a subsidiary of Mount Gibson pursuant to the Heads of Agreement (as referred to below) to be put to the shareholders' meeting of Mount Gibson are inter-conditional on each other and all other relevant resolutions put at the same general meeting of Mount Gibson. For the purposes of such shareholders' approval, the Company and its associates will not be permitted to vote on the relevant resolutions at the shareholders' meeting of Mount

LETTER FROM THE BOARD

Gibson. As at the Latest Practicable Date, the expected date of the shareholders' meeting of Mount Gibson was 30 December 2008. In the event that the Underwriting Agreement is not approved by the shareholders of Mount Gibson at such meeting, the Company cannot proceed with the Underwriting Commitment even if the Aggregated Commitments have been approved at the SGM. Under such circumstances, the Company will proceed with the subscription of MG Shares in respect of the Shareholding Commitment only.

Consideration

Assuming that the Shortfall Shares are all taken up by the Company (or its nominee) as the underwriter, the aggregate subscription price to be paid by the Company (or its nominee) for the Underwriting Commitment is A\$49,740,000 (equivalent to approximately HK\$256,161,000).

The aggregate consideration to be paid by the Group for the Shareholding Commitment and the Underwriting Commitment (assuming that the Shortfall Shares are all taken by the Company (or its nominee) as the underwriter) is A\$69,437,777 (equivalent to approximately HK\$357,604,552).

Subject to all applicable laws and policies and the terms of the Underwriting Agreement, in consideration of the Company (or its nominee) underwriting the Underwriting Commitment, the Company (or its nominee) will receive from Mount Gibson a fee of 3.5% of the value of the Underwriting Commitment.

The underwriting commission of 3.5% of the value of the Underwriting Commitment was determined based on arm's length negotiation between the Company and Mount Gibson with reference to the current market norm in Australia in relation to underwriting transactions. The Directors consider that the underwriting commission is fair and reasonable.

Sources of funding

The aggregate subscription price to be paid by the Company (or its nominee) for the Underwriting Commitment will be financed by the Group from its internal resources and borrowings. As at the Latest Practicable Date, the exact amount of total consideration to be paid by the Group for the Shareholding Commitment and the Underwriting Commitment cannot be ascertained, and the Company has not reached a decision on the apportionment of the exact amount of the consideration to be settled by each of internal resources and borrowings for the Shareholding Commitment and the Underwriting Commitment.

LETTER FROM THE BOARD

Listing Rules Implications

The subscription of the MG Shares in respect of the Shareholding Commitment is, in itself a discloseable transaction pursuant to Rule 14.06(2) of the Listing Rules and does not require approval by Shareholders pursuant to Rule 14.33 of the Listing Rules. However, this subscription, when aggregated with the subscription of the MG Shares in respect of the Underwriting Commitment, will constitute a major transaction within the meaning of Rule 14.06(3) of the Listing Rules. Accordingly, the Stock Exchange has indicated that the subscription of the MG Shares in respect of the Aggregated Commitments will be subject to the approval of the Shareholders at the SGM in accordance with the requirements of Chapter 14 of the Listing Rules. No Shareholder will be required to abstain from voting at the SGM. To this end, if Shareholders' approval is not obtained in respect of the Aggregated Commitments, then the Company will proceed with the subscription of the MG Shares in respect of the Shareholding Commitment only. If the Shareholding Commitment takes place prior to the SGM, the Company shall proceed with subscription of the MG Shares in respect of the Shareholding Commitment on the basis that it is a discloseable transaction. Accordingly, the Shareholding Commitment and the Underwriting Commitment are not inter-conditional.

THE OFFTAKE AGREEMENTS

Pursuant to the Heads of Agreement, the Company (or its nominee) and the relevant Mount Gibson subsidiary shall enter into a series of offtake agreements (short term and long term) under which Mount Gibson will agree to sell certain iron ore produced by it to the Company (or its nominee). Under the long term offtake agreement(s), Mount Gibson will agree to sell and the Company (or its nominee) will agree to buy 20% of Available Production from 1 July 2009 for the life of the respective mines. The long term offtake agreement(s) will be subject to approval by the shareholders of Mount Gibson and the resolutions to approve the long term offtake agreement(s) and the underwriting arrangements in the Rights Issue to be put to the shareholders' meeting of Mount Gibson are inter-conditional on each other and all other relevant resolutions put at the same general meeting of Mount Gibson. Upon execution of the short term offtake agreement, the Company will have the right to nominate one director to Mount Gibson's board of directors.

The above disclosure of the offtake agreements is made by the Company on a voluntary basis. These offtake agreements are transactions of a revenue nature in the ordinary and usual course of business of the Group which are not discloseable under Chapter 14 of the Listing Rules but are disclosed in this circular for information of the Shareholders and prospective investors only.

The Underwriting Agreement and the long term offtake agreement(s) referred to above are conditional and may or may not proceed. Accordingly, Shareholders and prospective investors are reminded to exercise extreme caution when trading in the Shares and warrants of the Company.

LETTER FROM THE BOARD

FORMAL AGREEMENTS

Pursuant to the Heads of Agreement, the Company and Mount Gibson must negotiate in good faith and use their best endeavours to agree and enter into definitive offtake agreements and a definitive Underwriting Agreement as soon as practicable. The matters set out in the Heads of Agreement are not exhaustive of the terms which are required in such definitive agreements. As such, the terms of the Heads of Agreement may be refined or expanded subsequently in the definitive agreements.

As at the Latest Practicable Date, pursuant to the Heads of Agreement, the Company (or its nominee) has with Mount Gibson (and its relevant respective nominees), entered into a series of definitive offtake agreements (short term and long term). Further, Mr Cao Zhong has been appointed as a non-executive director of Mount Gibson with effect from 1 December 2008. Mr Cao was nominated as a director by the Company and subsequently appointed to the Mount Gibson board in accordance with the terms of the Heads of Agreement. Currently, Mr Cao Zhong is the Chairman and an executive director of the Company.

On 20 November 2008, APAC Resources Investments Limited (a direct wholly-owned subsidiary of the Company) (as the underwriter) (the “**Underwriter**”), the Company (as the guarantor) and Mount Gibson entered into the definitive Underwriting Agreement, the terms of which are substantially the same as those set out in the Heads of Agreement. However, similar to other customary underwriting agreements, the definitive Underwriting Agreement contains additional terms and conditions in respect of the Underwriting Commitment. Set out below is a summary of the conditions precedent and termination events under the definitive Underwriting Agreement for information of the Shareholders and prospective investors.

(a) **Conditions precedent**

The obligations of the Underwriter are conditional on each of the following conditions precedent to the completion of the Underwriting Agreement and the Underwriter may terminate the Underwriting Agreement with one business day’s notice if any of the following conditions precedent is not satisfied by the agreed deadlines:

- (1) the Mount Gibson’s prospectus (“**Prospectus**”) and ASX announcements referring to the Rights Issue (“**Rights Issue Documentation**”) are in a form acceptable to the Underwriter (acting reasonably);

LETTER FROM THE BOARD

- (2) none of the termination events outlined below has occurred before the Shortfall Settlement Date (as defined in the Underwriting Agreement, that is, the date specified as the date on which the Underwriter must apply for the Shortfall Shares in accordance with the terms of the Underwriting Agreement (currently 9 January 2009) or such other day agreed by the parties in writing);
- (3) during the Issue Period (as defined in the Underwriting Agreement, that is, between the date of the Underwriting Agreement and its completion) there is no application made to, action or investigation threatened or commenced by, or decision or order issued by a regulatory authority in connection with the Rights Issue, which:
- restrains or prohibits, or otherwise materially adversely affects, the completion of the Rights Issue or the completion of any other transaction contemplated by the Rights Issue (whether subject to conditions or not) or the rights of the Underwriter or its related body corporate in respect of Mount Gibson and the MG Shares to be acquired under the Rights Issue; or
 - requires the divestiture by the Underwriter or any related body corporate of any MG Shares, or the divestiture of any assets of the Mount Gibson group or the Underwriter;
- (4) ASX officially approving the quotation of the MG Shares offered pursuant to the Rights Issue (“**Rights Shares**”) and the rights of Mount Gibson’s shareholders to subscribe for Rights Shares (“**Rights**”) on or before:
- the last business day before the Rights are scheduled to be traded in the final timetable agreed with the Underwriter (“**Timetable**”) in respect of the Rights; and
 - an agreed date by which Mount Gibson must have received from ASX official quotation approval (currently 5 December 2008) in respect of the Rights Shares.

The quotation must be without qualifications or conditions (other than customary conditions in respect of the Rights), and must not be subsequently withdrawn, withheld or qualified;

LETTER FROM THE BOARD

- (5) the Company obtaining the approval of its Shareholders at SGM for the Aggregated Commitments and the Company taking all steps required under the Listing Rules and any other relevant legislation, including FIRB approval, before 9 January 2009 (or such other day as agreed by the parties in writing);
- (6) Mount Gibson obtaining the approval of its shareholders at its general meeting and taking all other steps required under the ASX Listing Rules and any other relevant legislation for entry into the Underwriting Agreement and the long term offtake agreements;
- (7) the Underwriter receiving by 9.00 am on the date of lodgement of the Prospectus a copy of the final due diligence report of the due diligence committee formed by Mount Gibson in connection with the Rights Issue (“**DDC**”), which must also be addressed to, and expressed to be for the benefit of, each of the DDC members and their representatives and signed by each member of the DDC, and accompanied by all opinions and sign-offs provided to the DDC which are expressed to be for the benefit of each member of the DDC and their representatives, each in a form acceptable to the Underwriter (acting reasonably);
- (8) the due diligence investigations conducted by Mount Gibson in connection with the Prospectus being completed to the satisfaction of the Underwriter (acting reasonably) by 9.00 am on the date of lodgement of the Prospectus; and
- (9) each offtake agreement having been executed by all relevant parties on or before the agreed date.

(b) Termination events

The Underwriter may terminate the Underwriting Agreement if any of the following termination events occurs at any time before completion of the Underwriting Agreement, or the deadline otherwise specified in the Underwriting Agreement (“**Termination Events**”):

- (1) the Rights Issue does not comply in all respects with the relevant conditions specified in section 611 of the Australian Corporations Act 2001 (Cth) (“**Corporations Act**”);
- (2) the Underwriter becomes aware of:
 - any information in the Rights Issue Documentation or other Public Information (as defined in the Underwriting Agreement) which is untrue, incorrect or misleading or deceptive in a material manner; or

LETTER FROM THE BOARD

- any material omission from or non-disclosure in the Rights Issue Documentation,

and Mount Gibson fails to correct the information within 2 business days of being alerted by the Underwriter;

- (3) a statement contained in any of the Rights Issue Documentation or other Public Information (as defined in the Underwriting Agreement) is or becomes materially misleading or deceptive;
- (4) any material default by Mount Gibson or any of its subsidiaries in the performance of its obligations under the Underwriting Agreement or by any party in the performance of its obligations under any agreement referred to in the Rights Issue Documentation;
- (5) a material contravention by Mount Gibson of any provision of its constitution (or by a subsidiary of Mount Gibson of its constitution), the Corporations Act, taxation legislation or the ASX Listing Rules;
- (6) the occurrence of an event that has a material adverse effect on the assets, liabilities, financial position or performance, profits, losses or prospects of Mount Gibson or any subsidiary, insofar as the position in relation to that subsidiary affects the overall position of Mount Gibson, unless the effect results from:
 - any matter disclosed by Mount Gibson on ASX following the last accounts (on 30 June 2008) or otherwise disclosed in the Prospectus.
 - any default by a Mount Gibson customer under a previous offtake agreement, or where a Mount Gibson customer is currently in default under a previous offtake agreement, any further default by that customer; or
 - any legal action taken by Mount Gibson or its subsidiaries or a Mount Gibson customer in relation to a default by a Mount Gibson customer under a previous offtake agreement,

(“**Material Adverse Effect**”);

- (7) any legal action is commenced or threatened against Mount Gibson or any of its subsidiaries which, if successful, could, or any current pending legal action is determined with the result that it will, cause a Material Adverse Effect;
- (8) Mount Gibson or any of its subsidiaries is ordered to pay in excess of A\$1 million and the order has not been discharged within 7 business days;

LETTER FROM THE BOARD

- (9) the introduction of a law or policy likely to prohibit, restrict or regulate the Rights Issue or capital issues or reasonably likely to materially affect the level of valid applications for MG Shares under the Rights Issue;
- (10) at any time during the Issue Period, any member of the Mount Gibson group becomes insolvent (as defined under the Underwriting Agreement);
- (11) Mount Gibson fails to lodge the Prospectus with ASX by 3 December 2008 or such other date as agreed between the parties;
- (12) the Australian Takeovers Panel makes a declaration that circumstances in relation to the affairs of Mount Gibson are unacceptable circumstances under Part 6.10 of the Corporations Act;
- (13) a new circumstance in relation to Mount Gibson or any of its subsidiaries has arisen since the lodgement of the Rights Issue Documentation with ASX that would have been required to be included by the Corporations Act if it had arisen before the Rights Issue Documentation was lodged and Mount Gibson fails to lodge documents correcting the defect within a reasonable time of becoming aware of the new circumstance;
- (14) other than in relation to the Rights Shares and the Placement (as defined in the Underwriting Agreement), Mount Gibson or any of its subsidiaries alters the issued capital of Mount Gibson or the relevant subsidiary (as the case may be) before the proposed date of allotment of the Rights Shares in the Timetable (being 12 January 2009) or disposes or attempts to dispose of a substantial part of the business or property of Mount Gibson without the prior written approval of the Underwriter;
- (15) approval is refused or not granted, or approval is granted subject to conditions other than customary pre-quotation listing conditions, to the quotation of the Rights Shares on ASX or for the Rights Shares to be traded through CHES (the Australian clearing house electronic subregister system operated by Australian Stock Exchange Settlement and Transfer Corporation Pty Ltd.), on or before the agreed date or if granted, the approval is subsequently withdrawn, qualified (other than by customary pre-quotation listing conditions) or withheld;
- (16) approval is refused or not granted, or approval is granted subject to conditions, to the quotation of the Rights on ASX or for the Rights to be traded through CHES, on or before the last business day before the agreed date, or if granted, the approval is subsequently withdrawn, qualified or withheld;

LETTER FROM THE BOARD

- (17) the Australian Securities and Investments Commission (“ASIC”) gives notice of any deficiency in the Rights Issue Documentation or related documents or ASIC gives notice of an intention to hold a hearing, examination or investigation, or it requires information to be disclosed in connection with the Rights Issue or Mount Gibson, other than where the relevant notice does not become public and is withdrawn or addressed within 3 business days and the Underwriter is immediately notified of ASIC’s notice or requirements and the progress of its being withdrawn or addressed;
- (18) any person (other than the Underwriter) who has previously consented to the inclusion of its name in the Prospectus withdraws that consent or any person gives notice under section 730 of the Corporations Act in relation to the Prospectus;
- (19) Mount Gibson is prevented from allotting the Rights Shares within the time required by the Underwriting Agreement, the Corporations Act, the ASX Listing Rules, any statute or court order or a regulatory authority;
- (20) the S&P/ASX 200 Index, as published by ASX, is at any time after the date of lodgement of the Prospectus with ASIC and ASX, equal to or less than 2822.56 for a period of 3 consecutive trading days;
- (21) Mount Gibson does not provide a certificate to the Underwriter as and when required certifying that:
- Mount Gibson has complied with all of its obligations under the Underwriting Agreement and in respect of the Rights Issue, the ASX Listing Rules, statute or otherwise;
 - Mount Gibson is not in default under the provisions of the Underwriting Agreement;
 - none of the Termination Events have occurred or, if a Termination Event has occurred, it has been disclosed to the Underwriter and the Underwriter has confirmed that it has not formed the opinion that it is entitled to terminate the Underwriting Agreement; and
 - the representations and warranties given by Mount Gibson under the Underwriting Agreement are true and correct (“**Closing Certificate**”);

LETTER FROM THE BOARD

- (22) a statement in a Closing Certificate is untrue or incorrect in a material respect;
- (23) the Rights Issue is not conducted in accordance with the Timetable or any event specified in the Timetable is delayed for more than 2 business days without the prior written consent of the Underwriter;
- (24) Mount Gibson withdraws the Rights Issue;
- (25) any representation, warranty or undertaking given by Mount Gibson in the Underwriting Agreement is or becomes untrue or incorrect; or
- (26) the commencement or major escalation of local, national or international hostilities or armed conflict (whether war has been declared or not), or a major terrorist act is perpetrated on any country or any diplomatic, military, commercial or political establishment of any country, or the occurrence of any combination of such circumstances, where in each case in the reasonable opinion of the Underwriter (acting in good faith), the event:
- has materially adversely affected, or is reasonably likely to materially adversely affect, the business or the financial or trading position of the Underwriter and each of its related body corporate as a whole;
 - is reasonably likely to materially adversely prejudice the success of the Rights Issue, the willingness of persons to subscribe for the Rights Shares or the market price of the securities of Mount Gibson;
 - has given or could give rise to a material liability for the Underwriter or the Company; or
 - has given or could give rise to a contravention by the Underwriter or the Company, or the Underwriter or the Company being involved in a contravention of, the Corporations Act or any other applicable law.

INFORMATION ABOUT MOUNT GIBSON

Based on information published by Mount Gibson:

Mount Gibson is a company incorporated in Australia with limited liability in 1996. MG Shares are listed on the ASX and is part of the S&P/ASX 100 index as at the Latest Practicable Date.

LETTER FROM THE BOARD

The principal business of Mount Gibson is mining of hematite iron ore deposits at Koolan Island and Talling Peak and exploration and development of hematite iron ore deposits in Western Australia including Koolan Island, Talling Peak and Extension Hill. Mount Gibson is a pure iron ore exploration and mining company which owns iron ore deposits and holds mining rights. During the financial year ended 30 June 2008, Mount Gibson has produced and sold 6.9 million tonnes and 5.5 million tonnes of iron ore respectively. Mount Gibson currently exports most of its iron ore materials to China.

Based on the 2008 annual report of Mount Gibson, the audited consolidated net asset value of Mount Gibson for the year ended 30 June 2008 was A\$596,492,000 (equivalent to approximately HK\$3,071,933,800). The audited net profit before and after tax (from continuing operations) of Mount Gibson for the last two financial years ended 30 June are as follows:

	30 June 2007		30 June 2008	
	(Audited)		(Audited)	
	A\$	HK\$	A\$	HK\$
Net profit before tax	42,253,000	217,602,950	163,857,000	843,863,550
Net profit after tax	29,044,000	149,576,600	113,344,000	583,721,600

The Company's equity interest in Mount Gibson before and after taking up the Shareholding Commitment is and will be partly classified as trading securities (short term) and partly classified as available-for-sale investment (long term). The additional equity interest in Mount Gibson acquired as a result of taking up the Underwriting Commitment will be classified as available-for-sale investment (long term).

On 3 November 2008, Mount Gibson issued an announcement on the ASX in relation to, among other things, the Rights Issue and the Heads of Agreement. Set out below are some extracts from such announcement in relation to the financial position of Mount Gibson for Shareholders' information:

- “Mount Gibson Iron Limited (**Mount Gibson**) advised ASX on 9 October 2008 that it was in discussions with a number of its customers in relation to requested delays to iron ore shipments scheduled for the quarter commencing October 2008. Three of those customers have now defaulted on their binding offtake agreements.”
- “Mount Gibson has carefully reviewed all of its available options and has taken steps which mitigate the risk of further defaults and deferrals while preserving its rights against its defaulting customers.”

LETTER FROM THE BOARD

- “The impact of some of its customers defaulting on Mount Gibson’s near term cash flows together with the desire of Mount Gibson to continue priority development at Koolan Island and Extension Hill requires the raising of additional equity finance. The Rights Issue and Placement will together raise gross proceeds of A\$162.5 million. Together with existing cash reserves, the additional funds raised will ensure that Mount Gibson is adequately funded to continue priority development activities and mitigate the impact on Mount Gibson of any near term volatility in the iron ore market and financial markets.”
- “Mount Gibson will be pursuing those customers who materially breached their offtake agreements to recover from them any losses arising from volume and price differences between the customers’ existing offtake agreements and the new offtake agreements. Mount Gibson believes it will recover any such losses from those customers in due course.”
- “The Rights Issue and Placement, together with ongoing cash flows, will ensure that Mount Gibson is adequately funded to continue priority development activities at both Koolan Island and Extension Hill, which mitigates the impact of the current events on Mount Gibson’s medium and longer term operational objectives.

As a result of shipping delays to date, the new offtake arrangements and the need to modify mine plans at both Koolan Island and Tallering Peak, Mount Gibson has revised its iron ore shipment forecast for the 2008/2009 financial year to 5.0 million tonnes from the original 7.2 million tonnes. Mount Gibson advises that this, together with ore prices received for the remainder of the financial year at a discount to benchmark, will have a material impact on the company’s profitability in the current financial year.”

- “Consistent with both company policies and minimum bank mandated hedging requirements, Mount Gibson has entered into foreign exchange forward contracts to cover approximately 60% of its budgeted US Dollar exposure for the 2008/2009 and 2009/2010 financial years.

As at 1 November 2008, Mount Gibson has outstanding forward contracts for:

- US\$375 million at a average rate of 0.8824 per US\$ due to expire in the 2008/2009 financial year; and

LETTER FROM THE BOARD

- US\$185 million at an average rate of 0.8109 per US\$ due to expire in the 2009/2010 financial year.

Mount Gibson's lenders have expressed a willingness to consider rolling forward excess foreign exchange forward contracts once new offtake arrangements are in place and the Rights Issue and Placement have been completed. This will prevent Mount Gibson from having to cash settle any forward contracts not needed for coverage of monthly operational US dollar income. Although Mount Gibson anticipates the ongoing support of its lenders there is no commitment at this stage from them to roll existing foreign exchange hedges forward, however the proceeds from the Rights Issue and Placement will adequately cover any cash required."

Shareholders can visit the following website to view a full version of the announcement issued by Mount Gibson on 3 November 2008 as referred to above:

http://www.mtgibsoniron.com.au/pages2/InvestRelations.aspx?PageID=IR_ASX

INFORMATION ABOUT THE GROUP

The Company is a company incorporated in Bermuda with limited liability. Its securities are listed on the Main Board of the Stock Exchange.

The Group is principally engaged in (a) trading in base metals and commodities trading portfolio primarily focused on natural resources and related sectors; (b) trading in fabric products and other merchandises; and (c) trading and investment of listed securities in the resources and related industries.

REASONS FOR AND BENEFITS OF THE SHAREHOLDING COMMITMENT AND THE UNDERWRITING COMMITMENT

The Rights Issue to be conducted by Mount Gibson allows it to raise crucial additional capital with which to progress its business plan and to enable it to have sufficient working capital and to minimise its current exposure to financiers.

The Company views the increase in investment in Mount Gibson pursuant to the Shareholding Commitment and the Underwriting Commitment as a step to preserve the Group's interest in Mount Gibson from being diluted and as a way in which to strengthen and support its existing investment. In particular, Mount Gibson's mining and exploration of hematite iron ore provides an opportunity to expand the Company's trade in resources and bring continued growth.

LETTER FROM THE BOARD

The Company agreed to enter into the Underwriting Agreement at the request of Mount Gibson and, by way of acting as underwriter to the Rights Issue, the Company could be able to safeguard its interest and investment in Mount Gibson.

The trading of metals is one of the principal business activities of the Group and the Directors consider that the long term offtake agreement(s) will give the Group a good opportunity to secure long term supply of hematite iron ore products for its trading activities.

Ultimately, the Company regards the increase in investment in Mount Gibson as a continuation of its committed long term investment in Australia. This long term commitment brings the benefit of the Company's ability to access world markets for Australian hematite iron ore as well as long term growth and positive returns for the Company.

In respect of the Shareholding Commitment, there will be positive impacts on the non-current assets (available-for-sale investment) and current assets (trading securities) and negative impacts on current assets (cash and cash equivalents) and/or current liabilities (borrowings) of the Group but no effect on the net assets value. It is not expected to have any immediate material effect on the Group's earnings until there is receipt of future dividends or distributions from Mount Gibson and realised gain and loss from disposal in respect of the Group's investment and unrealised gain and loss from mark-to-market fair value changes on trading securities.

In respect of the Underwriting Commitment, there will be positive impacts on the non-current assets (available-for-sale investments) and negative impacts on current assets (cash and cash equivalents) and/or current liabilities (borrowings) of the Group and positive impacts on the net assets value. It is not expected to have any immediate effect on the Group's earnings until there is receipt of future dividends or distribution from Mount Gibson and realised gain and loss from disposal in respect of the Group's investment.

The Directors consider that the terms and conditions of the Shareholding Commitment and the Underwriting Commitment are on normal commercial terms and are fair and reasonable as far as the Shareholders as a whole are concerned and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

BUSINESS PLAN AND FUTURE INTENTIONS

The Group aims to establish itself as a significant natural resources trading and investment group by identification, evaluation and acquisition of strategic interests in quality natural resources assets (either indirectly through investment in, and support of, resources corporations or by direct investment in mineral projects) so as to build up a portfolio of long term cash generating investments that enhances the Company's value in the context of natural resources industry consolidation and rationalisation where it believes value can be maximised for all concerned stakeholders.

One of the strategies the Group employs is to work co-operatively with resources companies and management teams it identifies as reputable, trustworthy partners to achieve their corporate objectives where they are aligned with the Group.

Another possible strategy is to bridge the gap between Western mining companies and Asian end-users to facilitate investment in, and fast-track development of, quality natural resource assets enabling the Group to undertake profitable investments in the resources sector and to secure reliable long term production offtake to the Group's strategic advantage.

As at the Latest Practicable Date, the Company as a substantial shareholder of Mount Gibson and one of the underwriters in the Rights Issue, has the following current intentions in relation to Mount Gibson following implementation of the transactions contemplated under the Heads of Agreement:

- (a) To support Mount Gibson and its management in relation to the operational plans as described in the Explanatory Memorandum issued by Mount Gibson to its shareholders dated 25 November 2008 (available at http://www.mtgibsoniron.com.au/pages2/InvestRelations.aspx?PageID=IR_ASX).
- (b) To support Mount Gibson in pursuing its strategic goal of becoming a leading Australian independent iron ore producer. The Company has no current intention to seek to do any of the following:
 - change the incumbent senior management;
 - amend Mount Gibson's dividend policy;
 - transfer any of Mount Gibson's property to the Company; or
 - redeploy any of Mount Gibson's fixed assets.

LETTER FROM THE BOARD

- (c) Mount Gibson will continue to operate under the name “Mount Gibson Iron Limited” and the head office of Mount Gibson will remain in Perth, Western Australia.

SGM

A notice convening the SGM is set out on pages 492 to 495 of this circular. An ordinary resolution in respect of the Aggregate Commitments will be proposed at the SGM accordingly.

A form of proxy for the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the form of proxy in accordance with the instructions printed on it and return it to the Hong Kong branch share registrar of the Company, Tricor Secretaries Limited, 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, as soon as practicable and in any event not less than 48 hours before the time appointed for holding the SGM or any adjournment of the meeting. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the SGM or any adjournment thereof should you so desire.

PROCEDURES FOR DEMANDING A POLL

Pursuant to Bye-law 66 of the Bye-laws of the Company, at any general meeting a resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of such meeting; or
- (b) by at least three Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or
- (c) by a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or
- (d) by a Shareholder or Shareholders present in person (or in the case of a Shareholder being a corporation by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

LETTER FROM THE BOARD

Under the Listing Rules, the ordinary resolution to be proposed at the SGM to approve the Aggregate Commitments is subject to the approval of the Shareholders at the SGM and at which no Shareholder shall abstain from voting.

RECOMMENDATIONS

The Directors consider that the terms and conditions of the Shareholding Commitment and the Underwriting Commitment are fair and reasonable as far as the Shareholders as a whole are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolution as set out in the notice of the SGM.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendices to this circular.

Yours faithfully,
On behalf of the Board of
APAC RESOURCES LIMITED
Cao Zhong
Chairman

1. SUMMARY OF RESULTS AND ASSETS AND LIABILITIES OF THE GROUP FOR THREE FINANCIAL YEARS ENDED 31 DECEMBER 2007

Set out below is a summary of results and assets and liabilities of the Group for three financial years ended 31 December 2007 as extracted from the Company's 2007 annual report.

Financial Summary

Results

	Year ended 31 December		
	2007	2006	2005
	HK\$'000	HK\$'000	HK\$'000
Turnover	65,348	22,773	68,393
Profit before taxation	345,313	25,220	6,539
Income tax expense	–	(238)	(38)
Profit after taxation	345,313	24,982	6,501
Minority interests	–	–	–
Profit for the year	345,313	24,982	6,501

Assets and liabilities

	As at 31 December		
	2007	2006	2005
	HK\$'000	HK\$'000	HK\$'000
Total assets	4,749,348	279,373	43,003
Total liabilities	(11,052)	(149,397)	(21,122)
Minority interests	–	–	–
Shareholders' funds	4,738,296	129,976	21,881

2. AUDITORS' REPORT

Reproduced below is the auditors' report for the year ended 31 December 2007 issued by Graham H.Y. Chan & Co. as extracted from the Company's 2007 annual report.

**GRAHAM H.Y. CHAN & CO.**

CERTIFIED PUBLIC ACCOUNTANTS

HONG KONG

TO THE SHAREHOLDERS OF APAC RESOURCES LIMITED*(incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of APAC Resources Limited (the "Company") set out on pages 29 to 83, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Graham H. Y. Chan & Co.

Certified Public Accountants (Practising)

Unit 1, 15/F., The Center,
99 Queen's Road Central,
Hong Kong

16 April 2008

3. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2007

The financial information set out below is an extract from pages 29 to 83 of the annual report of the Company for the year ended 31 December 2007. All information in this paragraph should be read in conjunction with the audited accounts for the year ended 31 December 2007 which are included in the Company's 2007 annual report.

CONSOLIDATED INCOME STATEMENT

For the Year Ended 31 December 2007

	<i>Note</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Turnover	4	<u>65,348</u>	<u>22,773</u>
Gain on disposal of available-for-sale investment		19,646	–
Net gain from sale of trading securities		–	910
Revenue from sales of goods		24,751	19,920
Unrealised gain on trading securities		566,796	38,743
Interest income		14,360	1,181
Other operating income		80	419
Purchases		(24,055)	(19,568)
Equity-settled share option expenses		(214,889)	–
Salaries and allowances		(8,041)	(3,354)
Operating lease rental on buildings		(1,584)	(366)
Gain on disposal of a subsidiary	6	1,536	–
Impairment of goodwill		–	(3,116)
Other operating expenses		(21,678)	(7,396)
Finance costs	7	<u>(11,609)</u>	<u>(2,153)</u>
Profit before taxation	8	345,313	25,220
Income tax expense	9	<u>–</u>	<u>(238)</u>
Profit for the year		<u>345,313</u>	<u>24,982</u>

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP**

	<i>Note</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Attributable to:			
Equity shareholders of the company		345,313	24,982
Minority interests		<u>–</u>	<u>–</u>
Profit for the year		<u>345,313</u>	<u>24,982</u>
Dividends	12	<u>–</u>	<u>–</u>
Earnings per share attributable to equity shareholders of the Company			
– basic (<i>HK Cents per share</i>)	13	<u>9.78</u>	<u>3.10</u>
– diluted (<i>HK Cents per share</i>)		<u>9.39</u>	<u>N/A</u>

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP****CONSOLIDATED BALANCE SHEET***As at 31 December 2007*

	<i>Note</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	<i>14</i>	2,198	–
Deposit for acquisition of available-for-sale investment		–	20,000
Available-for-sale investment	<i>16</i>	<u>2,993,426</u>	<u>–</u>
		<u>2,995,624</u>	<u>20,000</u>
Current assets			
Inventories	<i>17</i>	–	1,494
Trade and other receivables	<i>18</i>	233,296	8,460
Trading securities	<i>19</i>	814,957	227,039
Pledged bank deposits		10,526	10,098
Cash and cash equivalents	<i>20</i>	<u>694,945</u>	<u>12,282</u>
		<u>1,753,724</u>	<u>259,373</u>
Current liabilities			
Trade and other payables	<i>21</i>	9,018	7,585
Margin financing	<i>22</i>	1,797	141,612
Income tax payable		<u>237</u>	<u>200</u>
		<u>11,052</u>	<u>149,397</u>
Net current assets		<u>1,742,672</u>	<u>109,976</u>
Total assets less current liabilities		<u><u>4,738,296</u></u>	<u><u>129,976</u></u>
Capital and reserves			
Share capital	<i>23</i>	472,629	125,900
Reserves		<u>4,265,667</u>	<u>4,076</u>
Total equity attributable to equity shareholders of the Company		<u><u>4,738,296</u></u>	<u><u>129,976</u></u>

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP****BALANCE SHEET***As At 31 December 2007*

	<i>Note</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	<i>14</i>	2	–
Investments in subsidiaries	<i>15</i>	<u>1,726,686</u>	<u>90,065</u>
		<u>1,726,688</u>	<u>90,065</u>
Current assets			
Other receivables		447	478
Bank balances and cash		<u>592,708</u>	<u>7,093</u>
		<u>593,155</u>	<u>7,571</u>
Current liabilities			
Other payables		<u>8,324</u>	<u>4,602</u>
Net current assets		<u>584,831</u>	<u>2,969</u>
Total assets less current liabilities		<u><u>2,311,519</u></u>	<u><u>93,034</u></u>
Capital and reserves			
Share capital	<i>23</i>	472,629	125,900
Reserves	<i>26</i>	<u>1,838,890</u>	<u>(32,866)</u>
Total equity		<u><u>2,311,519</u></u>	<u><u>93,034</u></u>

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the Year Ended 31 December 2007

	Attributable to equity shareholders of the Company						Retained Earnings/ (Accumulated Losses)	Total
	Share Capital	Share Premium	Special Reserve	Investment Revaluation Reserve	Exchange Reserve	Share Option Reserve		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2007	125,900	105,470	(14,980)	-	-	-	(86,414)	129,976
Changes in equity for 2007								
Fair value change in available-for-sale investments and total income recognised directly in equity	-	-	-	1,817,762	-	-	-	1,817,762
Currency translation differences	-	-	-	-	1,350	-	-	1,350
Profit for the year	-	-	-	-	-	-	345,313	345,313
Total recognised income and expenses for the year	-	-	-	1,817,762	1,350	-	345,313	2,164,425
Issue of right shares, net of expenses	125,900	248,778	-	-	-	-	-	374,678
Issue of placing shares for cash, net of expenses	186,500	1,456,976	-	-	-	-	-	1,643,476
Issue of shares upon exercise of warrants	5,565	11,131	-	-	-	-	-	16,696
Issue of shares for acquisition of available-for-sale investments	28,764	165,392	-	-	-	-	-	194,156
Equity-settled share option expenses	-	-	-	-	-	214,889	-	214,889
At 31 December 2007	<u>472,629</u>	<u>1,987,747</u>	<u>(14,980)</u>	<u>1,817,762</u>	<u>1,350</u>	<u>214,889</u>	<u>258,899</u>	<u>4,738,296</u>

	Attributable to equity shareholders of the Company						Retained Earnings/ (Accumulated Losses)	Total
	Share Capital	Share Premium	Special Reserve	Investment Revaluation Reserve	Exchange Reserve	Share Option Reserve		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2006	41,300	106,957	(14,980)	-	-	-	(111,396)	21,881
Changes in equity for 2006								
Profit for the year and total recognised income and expenses	-	-	-	-	-	-	24,982	24,982
Issue of shares upon the conversion of convertible debt	2,000	-	-	-	-	-	-	2,000
Issue of rights shares	82,600	(1,487)	-	-	-	-	-	81,113
	84,600	(1,487)	-	-	-	-	-	83,113
At 31 December 2006	<u>125,900</u>	<u>105,470</u>	<u>(14,980)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(86,414)</u>	<u>129,976</u>

CONSOLIDATED CASH FLOW STATEMENT

For the Year Ended 31 December 2007

	<i>Note</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Operating activities			
Profit before taxation		345,313	25,220
Adjustments for:			
Interest on other loans		6,118	958
Interest on margin financing account		5,491	1,195
Depreciation		179	–
Equity-settled share option expenses		214,889	–
Unrealised gain on trading securities		(566,796)	(38,743)
Gain on disposal of a subsidiary		(1,536)	–
Impairment of goodwill		–	3,116
Interest income		(14,360)	(1,181)
Operating cash flows before changes in working capital		(10,702)	(9,435)
Decrease in inventories		–	416
(Increase)/decrease in trade and other receivables		(224,836)	29,074
Increase/(decrease) in trade and other payables		3,686	(626)
Cash (used in)/from operations		(231,852)	19,429
Hong Kong profits tax paid		(13)	(107)
Hong Kong profits tax refund		50	–
Net cash (used in)/from operating activities		(231,815)	19,322
Investing activities			
Purchase of property, plant and equipment		(2,377)	–
Payment for the purchase of trading securities		(21,122)	(188,296)
Payment for the acquisition of available-for-sale investment		(961,508)	–
Deposit paid for acquisition of available-for-sale investment		–	(20,000)
Acquisition of a subsidiary		–	(876)
Disposal of a subsidiary	6	777	–
Increase in pledged bank deposits		(428)	(6,086)
Interest received		14,360	1,181
Net cash used in investing activities		(970,298)	(214,077)

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP**

	<i>Note</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Financing activities			
Issue of rights shares, net of expenses		374,678	81,113
Issue of placing shares, net of expenses		1,643,476	–
Issue of share upon exercise of warrants		16,696	–
Interest paid		(11,609)	(2,153)
Increase in margin financing loan		–	141,612
Repayment of margin financing loan		(139,815)	–
Repayment of other loans		–	(15,000)
Net cash from financing activities		<u>1,883,426</u>	<u>205,572</u>
Net increase in cash and cash equivalents		681,313	10,817
Effect of foreign exchange rate change		1,350	–
Cash and cash equivalents at 1 January		<u>12,282</u>	<u>1,465</u>
Cash and cash equivalents at 31 December	20	<u><u>694,945</u></u>	<u><u>12,282</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2007

1. Corporate information

The Company is incorporated as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of its registered office and principal place of business of the Company are disclosed in the “Corporate Information” section of the annual report.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 35.

The financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand except when otherwise indicated.

2. Significant accounting policies**(a) Statement of compliance**

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), (which also includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Company and its subsidiaries (together referred to as the “Group”) is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2007 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that financial instruments classified as trading securities and available-for-sale investments are stated at their fair value as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumption that affect the application of policies and reported amounts of assets, liabilities, income and expenses. 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 judgments about carrying values of assets and liabilities that are not readily apparent from other source. 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 current and future periods.

Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 33.

(c) *Subsidiaries and minority interests*

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment loss, unless the investment is classified as held for sale or included in a disposal group that is classified as held for sale.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation of property, plant and equipment, is provided to write off their cost, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

– Leasehold improvement	over the lease term
– Office equipment	5 years
– Computer	5 years
– Motor vehicles	5 years

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on derecognition of the asset is the difference between the net disposal proceeds and the carrying amount of the relevant asset, and is recognised in the income statement in the year in which the asset is derecognised.

(e) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first in, first out basis and includes all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds in the ordinary course of business less estimated selling expenses.

(f) Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when the Group has become a party to the contractual provisions of the instrument.

All regular way purchases and sales of financial assets are recognised on the trade date, that is the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place.

(i) Financial assets at fair value through profit or loss

Investments in securities held for trading are classified as current assets and are initially stated at fair value. At each balance sheet date the fair value is re-measured, with any resultant gain or loss being recognised in profit or loss. Upon disposal, the difference between the net sales proceeds and the carrying value is included in the income statement.

(ii) Available-for-sale investments

Available-for-sale investments are those non-derivates and are designated as available-for-sale investments or not classified under other investment categories. Available-for-sale investments are carried at fair value. Unrealised gain and losses (including transaction costs on acquisition) arising from changes in the fair value are recognised in fair value reserve in accordance with HKAS 39. When the securities are sold, the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments in the investment revaluation reserve are treated as gains or losses on disposal. For investments where there is no active market and whose fair value cannot be reliably measured, such investments are measured at cost less any impairment losses at each balance sheet date subsequent to initial recognition.

(iii) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest rate method, less impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimate future cash flows, discounted at the effective interest rate. The amount of provision is recognised in the income statement.

(iv) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are ready convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

(v) Trade and other payables

Trade and other payable are initially recognised at fair value and thereafter stated at amortised cost using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(vi) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings using the effective interest method.

(vii) *Share capital*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares are taken to equity as a deduction, net of tax, from the proceeds.

(viii) *Derecognition of financial assets and liabilities*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in the income statement.

For financial liabilities, they are removed from the company's balance sheet when, and only when they are extinguished (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in the income statement.

(g) **Impairment of assets**

(i) *Impairment of investments in equity securities and other receivables*

Investment in equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

- For available-for-sale securities, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

(ii) Impairment of non-financial assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expenses immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(h) Employee benefits

(i) Short term employee benefits in the form of leave

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlement to sick leave and maternity leave are not recognised until the time of leave.

(ii) Retirement benefit costs

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for all its employees in Hong Kong. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the company in an independently-administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme. The company’s contributions to the MPF Scheme are recognised as an expense in the income statement as incurred.

(iii) Share-based payments

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (“equity-settled transactions”).

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company, if applicable.

The cost of equity-settled transaction is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date of which the relevant employees became fully entitled to the award (the “vesting date”). The cumulative expense recognised for equity-settlement transactions at each balance sheet date until the vesting date reflects the extent to which (i) the vesting period has expired, and (ii) the Group’s best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movements in cumulative expense recognised as at the beginning and end of the period.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

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

(i) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on the differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the accounting profit nor the taxable profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(j) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(k) Revenue recognition

Revenue is measured at the fair value of the consideration received and receivable.

Sales of investments held for trading are recognised on a trade-date basis when contracts are executed.

Sales of goods are recognised when goods are delivered and title has passed and when the relevant sales contracts become unconditional.

Interest income is recognised as it accrues using the effective interest method.

(l) Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

In preparing the financial statements, transactions in currencies other than the Group entity's functional currency (foreign currencies) are recorded at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which case, the exchange differences are also recognised directly in equity.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiary is translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiary which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

(m) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of qualifying assets, namely assets that necessarily take a substantial period of time to get ready for their intended use or sale.

(n) Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risk and rewards of ownership of the assets concerned to the lessee. All other leases are classified as operating leases and annual rentals are charged to the income statement on a straight-line basis over the relevant lease term. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

(o) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment as the secondary reporting format for the purpose of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

3. Adoption of new and revised standards

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, *Financial instruments: Disclosures* and the amendment to HKAS 1, *Presentation of financial statements: Capital disclosures*, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements included expanded disclosure about the significance of the company's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, *Financial instruments: Disclosure and presentation*. These disclosures are set out in note 28.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the company's objectives, policies and processes for managing capital. These new disclosures are set out in note 23.

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial statements.

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ⁵
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ⁵
HKFRS 8	Operating Segments ¹
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions ²
HK(IFRIC) – INT 12	Service Concession Arrangements ³
HK(IFRIC) – INT 13	Customer Loyalty Programmes ⁴
HK(IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ³

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 March 2007

³ Effective for annual periods beginning on or after 1 January 2008

⁴ Effective for annual periods beginning on or after 1 July 2008

⁵ Effective for annual periods beginning on or after 1 July 2009

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

4. Turnover

Turnover represents revenue generated from sales of goods as well as revenue from investments, and is analysed as follows:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Revenue from sales of base metals	–	5,788
Proceeds from sale of trading securities	–	2,853
Revenue from sales of fabric products and other merchandises	24,751	14,132
Proceeds from sale of available-for-sale investment	40,597	–
	<u>65,348</u>	<u>22,773</u>

5. Segmental information

Primary reporting format – business segments

As at 31 December 2007, the Group comprises the following main business segments:

- (i) trading in base metals;
- (ii) trading in fabric products and other merchandises; and
- (iii) trading and investment of listed securities

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

The following tables represent revenue and profit/(loss) information on each of the above business segments for the years ended 31 December 2006 and 2007, and certain assets and liabilities information regarding business segments as at 31 December 2006 and 2007. The comparative figures for the year ended 31 December 2006 were restated to conform to current year presentation.

	Trading in base metals		Trading and investment of listed securities		Trading in fabric products and other merchandises		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	<u>-</u>	<u>5,788</u>	<u>40,597</u>	<u>2,853</u>	<u>24,751</u>	<u>14,132</u>	<u>65,348</u>	<u>22,773</u>
Segment result	(8)	(12)	585,437	38,882	1,508	69	586,937	38,939
Unallocated corporate expenses							(231,551)	(11,566)
Gain on disposal of a subsidiary							1,536	-
Finance costs							<u>(11,609)</u>	<u>(2,153)</u>
Profit before taxation							345,313	25,220
Income tax expense							<u>-</u>	<u>(238)</u>
Profit for the year							<u>345,313</u>	<u>24,982</u>

	Trading in base metals		Trading and investment of listed securities		Trading in fabric products and other merchandises		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	226,368	551	3,812,668	247,039	5,448	7,281	4,044,484	254,871
Unallocated corporate assets							<u>704,864</u>	<u>24,502</u>
Consolidated total assets							<u>4,749,348</u>	<u>279,373</u>
Segment liabilities	5	-	2,195	570	5	-	2,205	570
Unallocated corporate liabilities							<u>8,847</u>	<u>148,827</u>
Consolidated total liabilities							<u>11,052</u>	<u>149,397</u>

Secondary reporting format – geographical segments

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	Trading in base metals		Trading and investment of listed securities		Trading in fabric products and other merchandises		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong and PRC	-	5,788	-	2,853	7,240	1,614	7,240	10,255
Australia	-	-	40,597	-	-	-	40,597	-
South East Asia	-	-	-	-	988	-	988	-
United States of America	-	-	-	-	5,789	-	5,789	-
Africa	-	-	-	-	10,734	12,518	10,734	12,518
							<u>65,348</u>	<u>22,773</u>

The following table provides an analysis of the Group's assets by geographical location of assets:

	Trading in base metals		Trading and investment of listed securities		Trading in fabric products and other merchandises		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong and PRC	226,368	551	184,623	21,810	12	919	411,003	23,280
Australia	-	-	3,628,045	225,229	-	-	3,628,045	225,229
United States of America	-	-	-	-	3,033	-	3,033	-
Africa	-	-	-	-	2,403	6,362	2,403	6,362
Unallocated assets					-	-	<u>704,864</u>	<u>24,502</u>
							<u>4,749,348</u>	<u>279,373</u>

Additions of property, plant and equipment to the amount of HK\$2,377,000 for the year ended 31 December 2007 are all located in Hong Kong and PRC. There was no addition of property, plant and equipment for the year ended 31 December 2006.

6. Gain on disposal of a subsidiary

Pursuant to an option agreement dated 14 June 2006, Rise Cheer Limited (“Rise Cheer”), a wholly owned subsidiary of the Company, would have an option to put to Professional Trading Limited (“Professional Trading”) for the 60% interest in Chinairight Electronics Limited (“Chinairight”). During the year, Rise Cheer exercised the put option against Professional Trading for the 60% interest in Chinairight.

HK\$’000

Net liabilities disposed of:

Inventories	1,494
Bank balances and cash	23
Trade and other payables	(2,253)
	<u> </u>
Net liabilities	(736)
Gain on disposal	1,536
	<u> </u>
Consideration received – cash	<u><u>800</u></u>

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

HK\$’000

Cash consideration	800
Cash and cash equivalents disposed of	(23)
	<u> </u>
Net inflow of cash and cash equivalents	<u><u>777</u></u>

7. Finance costs

	2007	2006
	<i>HK\$’000</i>	<i>HK\$’000</i>
Interest on other loans	6,118	958
Interest on margin financing account	5,491	1,195
	<u> </u>	<u> </u>
	<u><u>11,609</u></u>	<u><u>2,153</u></u>

8. Profit before taxation

Profit before taxation has been arrived at after charging the following:

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Auditors' remuneration	330	250
Depreciation	179	–
Exchange loss (net)	2,054	2
Legal and professional fees	<u>5,454</u>	<u>2,290</u>
Consultancy fee		
– settled by cash	6,886	–
– equity-settled share option expenses	<u>21,165</u>	–
Total consultancy fee	<u>28,051</u>	–
Staff costs, including directors' emoluments		
– salaries and allowance	8,041	3,354
– equity-settled share option expenses	193,724	–
– staff quarter	111	–
– Retirement benefits scheme contributions, net of nil forfeited contributions	<u>96</u>	<u>70</u>
Total staff costs	<u>201,972</u>	<u>3,424</u>

9. Income tax expense

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Hong Kong profits tax provided for the year	<u> –</u>	<u> 238</u>

No provision for Hong Kong profits tax has been made for the year as the Group had no assessable profit. Hong Kong profits tax was calculated at 17.5% on the estimated assessable profit arising in Hong Kong during the year ended 31 December 2006.

No provision for overseas taxation has been made for the year as the subsidiaries operating in the PRC had no assessable income for PRC taxation purpose.

The income tax expense for the year can be reconciled to the profit before taxation per the consolidated income statement as follow:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Profit before taxation	<u> 345,313</u>	<u> 25,220</u>
Tax at Hong Kong Profits Tax rate of 17.5%	60,430	4,413
Tax effect of non-deductible expenses	38,683	2,069
Tax effect of non-taxable income	(105,198)	(6,943)
Tax effect of tax loss not recognised	<u> 6,085</u>	<u> 699</u>
Income tax expense	<u> –</u>	<u> 238</u>

At 31 December 2007, the Group had unused tax losses of approximately HK\$44,755,000 (2006: HK\$8,161,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

The Company had no significant unprovided deferred taxation at the balance sheet date.

10. Directors' and employees' emoluments

An analysis of remuneration paid and payable to directors of the Company for the year ended 31 December 2007 and 2006 is set as follows:

	Fee <i>HK\$'000</i>	Salaries, Allowances and Benefits in Kind <i>HK\$'000</i>	Employee Share Option Benefits <i>HK\$'000</i>	Retirement Scheme Contribution <i>HK\$'000</i>	2007 Total <i>HK\$'000</i>
Executive directors					
Mr. Cao Zhong (<i>note a</i>)	–	1,000	56,380	–	57,380
Mr. Liu Yongshun (<i>note b</i>)	–	1,230	58,470	–	59,700
Ms. Chong Sok Un (<i>note c</i>)	–	1,000	43,538	–	44,538
Mr. Zhou Luyong (<i>note b</i>)	–	839	9,908	–	10,747
Mr. Chen Zhaoqiang (<i>note d</i>)	–	650	14,996	–	15,646
Mr. Yue Jialin	–	–	–	–	–
Mr. Lau Yau Cheung (<i>note e</i>)	–	1,113	–	37	1,150
Mr. Michael Joseph Bogue (<i>note f</i>)	–	381	–	–	381
Independent non-executive directors					
Mr. Wong Wing Kuen, Albert	80	–	2,236	–	2,316
Mr. Tsui Robert Che Kwong (<i>note g</i>)	33	–	–	–	33
Mr. Yang Weiming (<i>note h</i>)	20	–	–	–	20
Mr. Chang Chu Fai, Johnson Francis (<i>note i</i>)	59	–	1,490	–	1,549
Mr. Alan Stephen Jones (<i>note j</i>)	52	–	–	–	52
Mr. Robert Moyses Willcocks (<i>note j</i>)	52	–	–	–	52
	<u>296</u>	<u>6,213</u>	<u>187,018</u>	<u>37</u>	<u>193,564</u>

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	Fee	Salaries, Allowances and Benefits in Kind	Employee Share Option Benefits	Retirement Scheme Contribution	2006 Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors					
Mr. Yue Jialin	-	-	-	-	-
Mr. Lau Yau Cheung	-	2,050	-	30	2,080
Mr. Michael Joseph Bogue (<i>note f</i>)	11	-	-	-	11
Independent non-executive directors					
Mr. Wong Wing Kuen, Albert	40	-	-	-	40
Mr. Tsui Robert Che Kwong (<i>note g</i>)	40	-	-	-	40
Mr. Wu Guo Jian (<i>note k</i>)	20	-	-	-	20
Mr. Yang Weiming (<i>note h</i>)	16	-	-	-	16
	<u>127</u>	<u>2,050</u>	<u>-</u>	<u>30</u>	<u>2,207</u>

Notes:

- a) Mr. Cao Zhong was appointed as executive director on 26 April 2007
- b) Mr. Liu Yongshun and Mr. Zhou Luyong were appointed as non-executive directors on 29 May 2007 and re-designated as executive directors on 27 July 2007
- c) Ms. Chong Sok Un was appointed as an executive director on 6 July 2007
- d) Mr. Chen Zhaoqiang was appointed as a non-executive director on 6 July 2007 and re-designated as an executive director on 7 September 2007
- e) Mr. Lau Yau Cheung resigned as an executive director on 31 October 2007
- f) Mr. Michael Joseph Bogue resigned as an executive director on 8 June 2007
- g) Mr. Tsui Robert Che Kwong resigned as an independent non-executive director on 1 November 2007
- h) Mr. Yang Weiming resigned as an independent non-executive director on 27 July 2007
- i) Mr. Chang Chu Fai, Johnson Francis was appointed as independent non-executive director on 6 July 2007
- j) Mr. Alan Stephen Jones and Mr. Robert Moyse Willcocks were appointed as independent non-executive directors on 27 July 2007
- k) Mr. Wu Guo Jian resigned as an independent non-executive director on 8 August 2006

During the year ended 31 December 2007, Mr. Yue Jialin waived his emoluments to the amount of HK\$120,000 (2006: HK\$20,000). The waived emoluments were excluded in the above disclosure.

Apart from the above, there was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2007 and 2006.

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 24 to the financial statements. The fair value of such options, which has been amortised to the income statement, was determined as at the date of the grant and included in the above directors' remuneration disclosures. No share options were granted to the directors in 2006.

Of the five individuals with the highest emoluments in the Group, all (2006: one individual) are directors of the Company whose emoluments are included in the disclosure set out above. The aggregate of the emoluments in respect of the remaining four individuals of the year ended 31 December 2006 whose emolument fell within the band of nil to HK\$1,000,000 are as follows:

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and allowances	–	1,136
Retirement benefits scheme contributions	–	40
	<u>–</u>	<u>40</u>
	<u>–</u>	<u>1,176</u>

Other than the granting of share options to certain directors during the year ended 31 December 2007, no emoluments were paid by the Group to any of the directors or the five highest paid individuals, as an inducement to join or upon joining the Group or as compensation for loss of office during the years ended 31 December 2007 and 2006.

11. Profit/(loss) attributable to equity shareholders of the company

The consolidated profit attributable to equity shareholders of the Company includes a loss of approximately HK\$225,410,000 (2006: profit of HK\$22,313,000) which has been dealt with in the financial statements of the Company.

12. Dividends

No dividends had been paid or declared by the Company during the year (2006: nil).

13. Earnings per share**(a) Basic earnings per share**

The calculation of basic earnings per share is based on the profit for the year of HK\$345,313,000 (2006: HK\$24,982,000) and the weighted average number of 3,532,282,202 (2006: 807,098,630) ordinary shares in issue during the year.

(b) Diluted earnings per share

The earnings used in the calculation of diluted earnings per share are the same as those for the basic earnings per share, as set out above.

The weighted average number of ordinary shares for the purposes of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	2007	2006
Weighted average number of ordinary shares used in the calculation of basic earnings per share	3,532,282,202	N/A
Shares deemed to be issued for no consideration in respect of:		
– warrants	145,452,627	N/A
– share options	–	N/A
	<u>3,677,734,829</u>	<u>N/A</u>

The calculation of the diluted earnings per share did not assume the exercise of the Company's outstanding share options as their exercise prices were higher than the average market price of the Company's shares for the year.

Diluted earnings per share for the year ended 31 December 2006 has not been presented as there were no potential dilutive shares outstanding during that year.

14. Property, plant and equipment

Group	Leasehold Improvement <i>HK\$'000</i>	Office Equipment <i>HK\$'000</i>	Computer <i>HK\$'000</i>	Motor Vehicle <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost					
Additions and at 31 December 2007	1,289	79	456	553	2,377
Accumulated depreciation					
Charge for the year and at 31 December 2007	<u>151</u>	<u>2</u>	<u>26</u>	<u>–</u>	<u>179</u>
Net book value					
At 31 December 2007	<u><u>1,138</u></u>	<u><u>77</u></u>	<u><u>430</u></u>	<u><u>553</u></u>	<u><u>2,198</u></u>

Company	Leasehold Improvement <i>HK\$'000</i>
Cost	
Additions and at 31 December 2007	<u>2</u>
Accumulated depreciation	
Charge for the year and at 31 December 2007	<u>–</u>
Net book value	
At 31 December 2007	<u><u>2</u></u>

15. Investments in subsidiaries

	The Company	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted investments	28,080	–
Amounts due from subsidiaries	1,761,216	152,675
Less: impairment	(62,610)	(62,610)
	1,698,606	90,065
	1,726,686	90,065

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the Directors, the amounts will not be receivable in the next twelve months from the balance sheet date and the amounts are therefore shown as non-current.

Particulars of the Company's principal subsidiaries at 31 December 2007 are set out in note 35.

16. Available-for-sale investments

	The Group	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Listed equity securities, in Hong Kong, at fair value	177,760	–
Listed equity securities, in overseas, at fair value	2,815,666	–
	2,993,426	–
	2,993,426	–

17. Inventories

	The Group	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Goods purchased for resale	–	1,494
	<u> </u>	<u> </u>

18. Trade and other receivables

The Group allows an average credit period of 60 – 90 days to its trade customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management.

The following is an aged analysis of trade receivables at the balance sheet date, based on the invoice date, is as follows:

	The Group	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables		
0 to 30 days	–	3,076
31 to 60 days	–	2,048
61 to 90 days	4,559	2,124
91 to 365 days	611	418
Over 365 days	–	130
	<u> </u>	<u> </u>
	5,170	7,796
Other receivables	646	664
Purchase deposits	226,368	–
Other deposits and prepayment	1,112	–
	<u> </u>	<u> </u>
	<u>233,296</u>	<u>8,460</u>

The aged analysis of trade receivables that are not considered to be impaired is as follows:

	The Group	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Neither past due nor impaired:		
Current	–	–
Past due but not impaired:		
0 to 30 days	–	3,076
31 to 60 days	4,559	2,048
61 to 90 days	611	2,124
91 to 365 days	–	418
Over 365 days	–	130
	<u>5,170</u>	<u>7,796</u>

Receivables that were past due but not impaired relate to customers that have a good track record with the Group which were fully recovered after the balance sheet date. The Group does not hold any collateral over these balances.

19. Trading securities

	The Group	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trading securities, at fair value		
Listed equity securities, in Hong Kong	2,578	1,810
Listed equity securities, in overseas	812,379	225,229
	<u>814,957</u>	<u>227,039</u>

20. Cash and cash equivalents

	The Group	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Pledged bank deposits	10,526	10,098
Cash at bank and in hand	690,644	9,421
Cash held in a securities account maintained in a securities company	<u>4,301</u>	<u>2,861</u>
	705,471	22,380
Less: Pledged bank deposits	<u>(10,526)</u>	<u>(10,098)</u>
Cash and cash equivalents	<u><u>694,945</u></u>	<u><u>12,282</u></u>

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short term deposits during the year are made for varying period of between 1 day and one month depending on the immediate cash requirements of the Group, and earn interest at respective short term time deposits rates. The carrying amount of the cash and cash equivalent approximate to their fair value.

Cash and cash equivalents of HK\$1,718,700 (2006: Nil) are denominated in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

21. Trade and other payables

The following is an aged analysis of trade payables at the balance sheet date:

	The Group	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables		
0 to 30 days	–	–
90 days to 365 days	–	192
over 365 days	–	1,754
	<hr/>	<hr/>
	–	1,946
Other payables	9,018	5,639
	<hr/>	<hr/>
	9,018	7,585
	<u><u>9,018</u></u>	<u><u>7,585</u></u>

All trade and other payables are expected to be settled within one year.

22. Margin financing loan

The margin loan facility was secured by part of available-for-sale investments and trading securities with carrying amount of approximately HK\$3,628,045,000 as at 31 December 2007 (2006: HK\$225,229,000).

23. Share capital

(a) *Authorised and issued share capital*

	2007		2006	
	Number of Shares	Amount HK\$'000	Number of Shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised:				
At 1 January	2,000,000,000	200,000	1,000,000,000	100,000
Increase during the year	<u>6,000,000,000</u>	<u>600,000</u>	<u>1,000,000,000</u>	<u>100,000</u>
At 31 December	<u><u>8,000,000,000</u></u>	<u><u>800,000</u></u>	<u><u>2,000,000,000</u></u>	<u><u>200,000</u></u>
Issued and fully paid:				
At 1 January	1,259,000,000	125,900	413,000,000	41,300
Issue of rights shares	1,259,000,000	125,900	826,000,000	82,600
Issue of shares under placement	1,865,000,000	186,500	–	–
Issue of shares upon exercise of warrants	55,653,550	5,565	–	–
Issue of shares as consideration for acquisition of available-for-sale investment	287,637,505	28,764	–	–
Issue of share upon conversion of convertible bond	<u>–</u>	<u>–</u>	<u>20,000,000</u>	<u>2,000</u>
At 31 December	<u><u>4,726,291,055</u></u>	<u><u>472,629</u></u>	<u><u>1,259,000,000</u></u>	<u><u>125,900</u></u>

Details of the movements in the Company's share capital during the year ended 31 December 2007 are as follows:

- (i) Pursuant to an ordinary resolution passed on 4 January 2007, the authorised share capital of the Company was increased to HK\$800 million by the creation of 6,000 million shares of HK\$0.1 each.

- (ii) The Company completed a rights issue on 1 February 2007, which raised gross proceeds of HK\$377.7 million by issuing 1,259 million rights shares at HK\$0.3 each. As a result of the rights issue, a total of 251,800,000 bonus warrants were allotted and issued. The bonus warrants will be exercisable for a period of three years commencing on 5 February 2007 to 4 February 2010. During the year, part of the bonus warrants issued were exercised for 55,653,550 shares of HK\$0.10 each with an exercise price of HK\$0.30 per warrant, which raised gross proceeds of HK\$16.7 million.
- (iii) On 28 February 2007, the Company completed a placing of 800 million new shares at the price of HK\$0.3 per share, which raised gross proceeds of HK\$240 million.
- (iv) On 20 July 2007, the Company completed a placing of 665 million new shares at price of HK\$1.29 per shares, which raised gross proceeds of HK\$857.8 million.
- (v) On 17 October 2007, the Company completed a placing of 400 million new shares at price of HK\$1.48 per shares, which raised gross proceeds of HK\$592 million.
- (vi) Pursuant to a resolution passed in a special general meeting of the Company held on 27 July 2007, 101,430,066 shares, 95,374,546 shares and 90,832,893 shares with par value of HK\$0.10 each were allotted and issued to Siberian Worldwide Limited, Asia Bright International Limited and First South International Limited respectively for acquisition of totally 862,912,520 shares of China Primary Resources Holdings Limited, which securities are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

(b) Capital management

The Group's objectives of capital management are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, adjust its debt level, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 2006.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by the sum of total equity and net debt. Net debt is calculated as total borrowings (including current and non-current borrowings) less cash and cash equivalents. Capital includes equity attributable to the equity shareholders.

During 2007, the Group's strategy was to maintain a stable gearing ratio. The gearing ratios at 31 December 2007 and 2006 were as follows:

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total borrowings	1,797	141,612
Less: cash and cash equivalents (<i>note 20</i>)	<u>694,945</u>	<u>12,282</u>
Net (cash)/debt	<u><u>(693,148)</u></u>	<u><u>129,330</u></u>
Total equity and net debt	<u><u>4,738,296</u></u>	<u><u>259,306</u></u>
Gearing ratio	N/A	49.9%

The improvement in the gearing ratio results primarily from the proceeds on issue of the Company's new shares by rights issue and share placements.

24. Share options scheme

The Company has a share option scheme (the "Scheme") which was adopted on 22 September 2004 ("Adoption Date") whereby the board of directors of the Company may grant options to eligible persons, including directors of the Company and its subsidiaries, as incentives to directors and eligible employees to subscribe for shares in the Company. The Scheme will expire on 21 September 2014.

Options granted must be taken up within 28 days of the date of grant, upon payment of HK\$1 per grant. Options may be exercised in accordance with the terms of the Scheme at any time during the option period and not more than ten years after the Adoption Date. The option period will be determined by the board of directors and communicated to each grantee. The exercise price is determined by the board of directors, and will not be less than the highest of the closing price of the Company's shares on the date of grant, the nominal value of the Company's shares and the average closing price of the shares for the five business days immediately preceding the date of grant.

The total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme must not exceed 30% of the shares in issue from time to time. The number of shares in respect of which options may be granted to any individual in any 12-month period up to the date of grant is not permitted to exceed 1% of the shares of the Company in issue at the date of grant without approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved by the Company's shareholders in general meeting taken on a poll.

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Details of the share options offered and accepted under the Scheme during the year ended 31 December 2007 and their movement during the year are as follows:

Grantees	Date of Grant	Exercise Period	Exercise Price per Share HK\$	No. of Options Granted During the Year	Outstanding as at 31 December 2007	Closing Price Immediate Before Date of Grant HK\$
Directors						
Mr. Cao Zhong	29 May 2007	29 May 2007 to 28 May 2010 (note 1)	1.20	33,000,000	33,000,000	1.09
	15 August 2007 (note 2)	15 August 2007 to 5 July 2010	1.50	100,000,000	100,000,000	1.02
Mr. Liu Yongshun	27 July 2007 (note 3)	27 July 2007 to 28 May 2010 (note 1)	1.20	150,000,000	150,000,000	1.45
Mr. Zhou Luyong	29 May 2007	29 May 2007 to 28 May 2010 (note 1)	1.20	33,000,000	33,000,000	1.09
Ms. Chong Sok Un	15 August 2007 (note 4)	15 August 2007 to 5 July 2010	1.50	110,000,000	110,000,000	1.02
Mr. Chen Zhaoqiang	6 July 2007	6 July 2007 to 5 July 2010 (note 1)	1.50	33,000,000	33,000,000	1.47
Mr. Wong Wing Kuen, Albert	6 July 2007	6 July 2007 to 5 July 2010	1.50	3,000,000	3,000,000	1.47
Mr. Tsui Robert Che Kwong (note 5)	6 July 2007	6 July 2007 to 5 July 2010	1.50	3,000,000	3,000,000	1.47
Mr. Chang Chu Fai, Johnson Francis	6 July 2007	6 July 2007 to 5 July 2010	1.50	2,000,000	2,000,000	1.47
Others						
Employees (note 6)	6 July 2007	6 July 2007 to 5 July 2010	1.50	9,000,000	9,000,000	1.47
Consultant	6 July 2007	6 July 2007 to 5 July 2010	1.50	10,000,000	10,000,000	1.47
Consultant	3 October 2007	3 October 2007 to 2 October 2010	1.40	25,000,000	25,000,000	1.22
				511,000,000	511,000,000	

During the year, no options were exercised, cancelled or lapsed.

Note:

1. The relevant options are exercisable subject to the following vesting conditions:
 - a) The options granted to Mr. Cao Zhong are exercisable when the share price of the Company is HK\$1.50 or above.
 - b) The options granted to Mr. Liu Yongshun are exercisable as follows:
 - 1/3 of the options granted are exercisable at any time on or after the date of grant up to and including the date of maturity. No part of the options will be exercisable if the closing price of the Company's shares is lower than HK\$1.50;
 - 1/3 of the options granted are exercisable from 29 May 2008 up to and including the date of maturity. No part of the options will be exercisable if the closing price of the Company's shares is lower than HK\$2; and
 - 1/3 of the options granted are exercisable from 29 May 2009 up to and including the date of maturity. No part of the options will be exercisable if the closing price of the Company's shares is lower than HK\$2.50.
 - c) The options granted to Mr. Zhou Luyong and Mr. Chen Zhaoqiang are exercisable as follows:
 - 1/3 of the options granted are exercisable at any time on or after the respective date of grant up to and including the respective date of maturity. No part of the options will be exercisable if the closing price of the Company's shares is lower than HK\$1.50;
 - 1/3 of the options granted are exercisable after one year from the respective grant date up to and including the respective date of maturity. No part of the options will be exercisable if the closing price of the Company's shares is lower than HK\$2; and
 - 1/3 of the options granted are exercisable after two years from the respective grant date up to and including the respective date of maturity. No part of the options will be exercisable if the closing price of the Company's shares is lower than HK\$2.50.
2. 100,000,000 options were granted on 6 July 2007 conditional upon approval at special general meeting which was eventually obtained on 15 August 2007. The closing price of the Company on the last trading day before 6 July 2007 was HK\$1.46.
3. 150,000,000 options were granted on 29 May 2007 conditional upon approval at special general meeting which was eventually obtained on 27 July 2007. The closing price of the Company on the last trading day before 29 May 2007 was HK\$1.09.
4. 110,000,000 options were granted on 6 July 2007 conditional upon approval at special general meeting which was eventually obtained on 15 August 2007. The closing price of the Company on the last trading day before 6 July 2007 was HK\$1.46.

5. With the cessation of the directorship on 31 October 2007, the share options granted to Mr. Tsui Robert Che Kwong was lapsed on 31 January 2008.
6. Included in the share options granted to employees is a total number of 3,000,000 options granted to the spouse of Mr. Lau Yau Cheung, as an employee of the Group.
7. The options are measured using the Binomial Pricing Model. The inputs into the Model are summarised as follows:

Date of grant	29 May 2007	6 July 2007	27 July 2007	15 August 2007	3 October 2007
Expected volatility	66%	74%	75%	73%	67%
Expected life (year)	3	3	3	3	3
Risk-free interest rate	4.24%	4.45%	4.17%	4.13%	3.89%
Expected annual dividend yield	Nil	Nil	Nil	Nil	Nil
Fair value per option (HK\$)	0.509	0.822	0.720	0.396	0.549

8. The volatility measured at the standard deviation of expected share price is based on statistical analysis of daily shares over the period from the date of resumption of trading of the Company's shares on The Stock Exchange of Hong Kong Limited (i.e. 14 July 2006) to the date immediately preceding the grant date. The above calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the share options and the historical volatility of the Company shares set out above.
9. The risk free rate is being yield of 3-year Exchange Fund Note at the date of grant.
10. The Group recognised total expenses of approximately HK\$214,889,000 for the year ended 31 December 2007 in relation to share options granted by the Company.

25. Warrants

On 5 February 2007, the Company issued a total of 251,800,000 bonus warrants (the "Warrants"), as a result of the rights issue completed on 1 February 2007, with an aggregate subscription amount of HK\$75,540,000. Each of the Warrants entitled the warrant-holder to subscribe for one ordinary share of the Company of HK\$0.10 each at the initial subscription price of HK\$0.30 (subject to adjustment (if any) during the period from 5 February 2007 until 4 February 2010 (both dates inclusive). During the year, 55,653,550 Warrants were exercised, which raised gross proceeds of HK\$16.7 million. As at 31 December 2007, there were 196,146,450 Warrants outstanding.

26. Reserves

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page 33 of the financial statements.

Company	Share Premium <i>HK'000</i>	Contributed Surplus <i>HK'000</i>	Share Option Reserve <i>HK'000</i>	Accumulated Losses <i>HK'000</i>	Total <i>HK'000</i>
At 1 January 2006	106,957	60,274	–	(220,923)	(53,692)
Rights shares issuing expenses	(1,487)	–	–	–	(1,487)
Profit for the year	–	–	–	22,313	22,313
At 31 December 2006	<u>105,470</u>	<u>60,274</u>	<u>–</u>	<u>(198,610)</u>	<u>(32,866)</u>
At 1 January 2007	105,470	60,274	–	(198,610)	(32,866)
Issue of rights shares	251,800	–	–	–	251,800
Rights shares issuing expenses	(3,022)	–	–	–	(3,022)
Issue of placing shares	1,503,350	–	–	–	1,503,350
Placing shares issuing expenses	(46,374)	–	–	–	(46,374)
Shares issuing upon exercise of warrants expenses	11,131	–	–	–	11,131
Equity-settled share option expenses	–	–	214,889	–	214,889
Issue of shares for acquisition of available-for-sale investments	165,392	–	–	–	165,392
Loss for the year	–	–	–	(225,410)	(225,410)
At 31 December 2007	<u>1,987,747</u>	<u>60,274</u>	<u>214,889</u>	<u>(424,020)</u>	<u>1,838,890</u>

Nature and purpose of reserves*(i) Special reserve*

The special reserve represents the difference between the nominal value of the aggregate share capital of the subsidiaries acquired and the nominal value of the share capital of the Company issued for the acquisition at the time of a group reorganisation in 1998.

(ii) Contributed surplus

The contributed surplus represents the difference between the consolidated net assets of the subsidiaries acquired and the nominal value of the share capital of the Company issued for the acquisition at the time of a group reorganisation in 1998.

(iii) *Investment revaluation reserve*

The investment revaluation reserve arises on the revaluation of available-for-sale financial assets. Where a revalued financial asset is sold, the portion of the reserve that relates to that financial asset, and is effectively realised, is recognised in profit or loss. Where a revalued financial asset is impaired, the portion of the reserve that relates to that financial asset is recognised in profit or loss.

(iv) *Share option reserve*

The share option reserve comprises the fair value of unexercised share options granted to directors, employees and consultants of the Group recognised in accordance with HKFRS 2. Further information about share-based payments is set out in note 24.

In addition to accumulated profits, under the Companies Act 1981 of Bermuda (as amended), contributed surplus of the Company is also available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, the Company had no reserve available for distribution to shareholders at the balance sheet date.

27. Major non-cash transactions

During the year, 287,637,505 new shares of the Company were issued in exchange for 862,912,520 shares of China Primary Resources Holdings Limited, a company listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, with nominal value of HK\$0.00125 each. Total consideration, based on the market price of the Company's shares at the date of exchange which was HK\$0.225 together with the stamp duty paid, was HK\$194,653,000.

28. Financial risk management**(a) Financial risk factors**

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

(i) Market risk

Currency risk

The Group exposes to currency risk as certain trading securities are denominated in foreign currencies, primarily with respect to Australian dollar ("AUD"). Currency risk arises from future commercial transactions and recognised assets.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the AUD exchange rate, with all other variables held constant, of the Group's net profit (due to change in the fair value of monetary assets and liabilities).

	Increase/ (Decrease) in AUD Rate %	Increase/ (Decrease) in Profit After Tax HK\$'000
2007		
If Australian dollar weakens against Hong Kong dollar	7%	57,158
If Australian dollar strengthens against Hong Kong dollar	(7%)	(57,158)
2006		
If Australian dollar weakens against Hong Kong dollar	7%	15,732
If Australian dollar strengthens against Hong Kong dollar	(7%)	(15,732)

Interest rate risk

The Group's exposure to interest rate risk arises primarily from its borrowings and bank deposits. Borrowings and bank deposits at variable rates expose the company to cash flow interest rate risk.

The Group currently does not have any interest rate hedging policy. The directors monitor the Group's exposure on ongoing basis and will consider hedging interest rate risk should the need arise.

At 31 December 2007, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would increase/decrease the company's profit after tax and retained profits by approximately HK\$3 million (2006: HK\$0.6 million).

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the Group's exposure to interest rate risk for financial instruments in existence at that date. The 50 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

Price risk

The Group is exposed to equity price changes arising from equity investments classified as trading securities (see note 19) and available-for-sale investments (see note 16).

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If equity prices had been 5% higher/lower:

- net profit for the year ended 31 December 2007 would increase/decrease by HK\$40,748,000 (2006: increase/decrease by HK\$11,352,000); and
- other equity reserves would increase/decrease by HK\$149,671,000 (2006: no effect) for the Group as a result of the changes in fair value of available-for-sale investments.

(ii) Credit risk

The Group is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Group is exposed to credit risk are trade and other receivables and bank balances. In order to minimise the credit risk, the Group reviews that recoverable amount of each individual debtor at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. The creditworthiness of these debtors is considered by reviewing their financial strength prior to finalisation of any contract and transaction. In this regard, the directors of the Group consider that the Group's credit risk is significantly reduced.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. At the balance sheet date, the Group has a certain level of concentrations of credit risk as 44% (2006: 81%) and 100% (2006: 100%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. The Group does not provide any guarantees which would expose the Group to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 18.

(iii) *Liquidity risk*

The Group enjoyed a strong financial position at the end of 2007, with cash and cash equivalents amounting to HK\$695 million as at 31 December 2007, a significant increase from HK\$12 million in 2006.

The Group financed its operations and investment activities with internally generated cash flow, balanced with proceeds from the prior issue of rights shares and placing shares.

The table below summaries the maturity profile of the Company's financial liabilities at 31 December 2007 and 2006 based on contractual undiscounted payments. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

As at 31 December 2007

	Carrying Amount	Total Contractual Undiscounted Cash Flow	Within One Year or On Demand
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade and other payables	9,018	9,018	9,018
Margin financing	1,797	1,797	1,797
Income tax payable	237	237	237
	<u>11,052</u>	<u>11,052</u>	<u>11,052</u>

As at 31 December 2006

	Carrying Amount	Total Contractual Undiscounted Cash Flow	Within One Year or On Demand
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade and other payables	7,585	7,585	7,585
Margin financing	141,612	141,612	141,612
Income tax payable	200	200	200
	<u>149,397</u>	<u>149,397</u>	<u>149,397</u>

(b) Fair value estimation

The fair value of financial instruments traded in active markets (such as trading securities and available-for-sale investments) are based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The carrying amounts of the Group's other financial asset except amount due from subsidiaries, and financial liabilities approximate their fair values due to their short maturities. For amounts due from subsidiaries which are unsecured, interest-free and have no fixed terms of repayment, it is not meaningful to disclose their fair values.

29. Commitment

(a) Operating lease – the Group as lessee

	2007 HK\$'000	2006 HK\$'000
Minimum lease payments under operating leases in respect of rented premises during the year	<u>1,584</u>	<u>366</u>

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises, which fall due as follows:

	2007 HK\$'000	2006 HK\$'000
Within one year	2,004	153
After one year but within five years	<u>2,651</u>	<u>–</u>
	<u>4,655</u>	<u>153</u>

Operating lease payments represent rental payable by the Group for its office premises, a director's quarter and a photocopying machine. Leases are negotiated for the term of between two to five years.

(b) Capital commitment

On 20 December 2007, the Company entered into an investment agreement with 平頂山煤業(集團)有限公司(「平頂山煤業」)and 平頂山煤業集團天藍能源發展有限公司(「天藍能源」), to form a limited company which will be incorporated in the PRC with the registered capital of RMB50 million. The interest in the investment from 平頂山煤業, 天藍能源 and the Company are 40%, 20% and 40% respectively. Capital payable by the Company is RMB20 million, which equivalent to approximately HK\$22 million. Up to the date of this report, the incorporation process has not been completed.

30. Material related party transactions

During the year, the Group entered into the following material related party transactions.

Compensation of key management personnel

Remuneration for key management personnel, including amounts paid to the Company's directors and the highest paid employee as disclosed in note 10 is as follows:

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Short-term employee benefits	6,213	2,050
Post-employment benefits	37	30
Share-based payment	183,292	–
	<u>189,542</u>	<u>2,080</u>

31. Pledge of assets

	The Group		The Company	
	2007	2006	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
(a) Margin loan facilities secured by available-for-sale investments	3,628,045	225,229	–	–
(b) Banking facilities of HK\$10 million (2006: HK\$10 million) granted by a bank and secured by bank deposits of the Group	10,526	10,098	–	–
	<u>3,638,571</u>	<u>235,327</u>	<u>–</u>	<u>–</u>

32. Retirement benefits scheme

The Group operates a Mandatory Provident Fund scheme for all qualifying employees of its Hong Kong subsidiaries. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. The Group contributed 5% of the relevant payroll costs to the scheme. Except for one director and one management staff, the Group's contributions are subject to a cap of monthly relevant payroll cost of HK\$20,000.

The total cost charged to the consolidated income statement of HK\$96,100 (2006: HK\$70,200) represents contributions payable to the scheme by the Group at rates specified in the rules of the scheme.

At the balance sheet date, there was approximately HK\$50,000 forfeited contribution, which arose upon employees leaving the retirement benefits scheme and which was available to reduce the contribution payables in the future years.

33. Critical accounting judgment and estimates

In the process of applying the Group's accounting policies, the Group's management has made judgments and estimates based on past experiences, expectations of the future and other information. The key sources of estimation uncertainty and critical judgments that may significantly affect the amounts recognised in the financial statements are disclosed below:

Equity-settled share option expenses

The equity-settled share option expenses are subject to the limitations of the Binomial Pricing Model and the uncertainty in estimates used by management in the assumptions. The estimates include limited early exercise behaviour, expected interval and frequency of open exercise periods in the share option life, and other relevant parameters of the share option model.

Classification of financial assets

Directors shall make significant judgments on classification of financial assets. Different classifications would affect the accounting treatment and the Group's financial position and operating results.

34. Post balance sheet events

On 23 January 2008, the Company, through its direct wholly-owned subsidiary, APAC Resources Strategic Holdings Limited, acquired, by way of placement, 139,000,000 ordinary shares of Metals X Limited, a company listed on ASX, at the price of AUD0.30 per share. The gross consideration is approximately AUD41,700,000, which equivalent to approximately HK\$281,000,000.

35. Particulars of subsidiaries

Name of company	Place of incorporation/ establishment/ and operation	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activities
			Group's effective interest	Held by the company	Held by a subsidiary	
Asia Cheer Trading Limited	Hong Kong	HK\$1 ordinary share	100%	100%		Trading in fabric products and other merchandises and investment holding
First Landmark Limited	British Virgin Islands	US\$1 ordinary share	100%	100%		Investment holding
Sino Chance Trading Limited	Hong Kong	HK\$1 ordinary share	100%	100%		Trading in base metals
Sky Joy Management Limited	Hong Kong	HK\$1 ordinary share	100%	100%		Provision of management services
Net Success Investments Limited	British Virgin Islands	US\$1 ordinary share	100%	100%		Investment holding
Fortune Desire Investments Limited	British Virgin Islands	US\$1 ordinary share	100%	100%		Investment holding
Mount Sun Investments Limited	British Virgin Islands	US\$1 ordinary shares	100%	100%		Investment holding
Super Grand Investments Limited	British Virgin Islands	US\$1 ordinary shares	100%	100%		Investment holding
亞太資源(青島)有限公司	People's Republic of China	US\$29,800,000	100%		100%	Trading of mineral resources
瑞域(上海)投資諮詢有限公司	People's Republic of China	US\$3,600,000	100%	100%		Provision of consultancy service in corporate management, metallurgy technology, investment and development in mineral resources

The above list contains only the particular of subsidiaries which principally affected the results, assets or liabilities of the Group.

4. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2008

Set out below is the unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2008 together with the comparative unaudited figures for the corresponding period in 2007, extracted from 2008 interim report of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

	Notes	Six months ended 30 June	
		2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Unaudited)
Turnover	3	<u>401,659</u>	<u>18,725</u>
Gain on disposal of available-for-sale investments		22,488	16,535
Net gain from sales of trading securities		35,079	–
Revenue from sales of goods		170,215	18,725
Unrealised gain on trading securities		258,773	141,022
Interest income		5,247	981
Other operating income		4,704	63
Purchases		(162,538)	(18,188)
Equity-settled share option expenses		(36,637)	(933)
Salaries and allowances		(7,908)	(1,793)
Operating lease rental on buildings		(1,670)	(405)
Provision for doubtful debt for other receivables		(17,025)	–
Gain on disposal of a subsidiary		–	1,536
Other operating expenses		(11,702)	(7,317)
Finance costs		(3)	(8,089)
Profit before taxation	4	259,023	142,137
Income tax expenses	5	(521)	–
Profit for the period		<u>258,502</u>	<u>142,137</u>
Earnings per share attributable to equity shareholders of the Company	6		
– Basic		<u>5.47 HK cents</u>	<u>4.99 HK cents</u>
– Diluted		<u>5.32 HK cents</u>	<u>4.78 HK cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2008

		30 June	31 December
		2008	2007
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Audited)
Non-current assets			
Property, plant and equipments	7	1,977	2,198
Available-for-sale investments	8	3,250,341	2,993,426
		<u>3,252,318</u>	<u>2,995,624</u>
Current assets			
Trade and other receivables	9	231,008	233,296
Trading securities	10	1,437,784	814,957
Pledged bank deposits	15	88,979	10,526
Cash and cash equivalents	15	329,877	694,945
		<u>2,087,648</u>	<u>1,753,724</u>
Current liabilities			
Other payables		9,603	9,018
Margin financing loan	11	–	1,797
Tax payable		758	237
		<u>10,361</u>	<u>11,052</u>
Net current assets		<u>2,077,287</u>	<u>1,742,672</u>
Total assets less current liabilities		<u><u>5,329,605</u></u>	<u><u>4,738,296</u></u>
Capital and reserves			
Share capital	12	472,657	472,629
Reserves		4,856,948	4,265,667
Total equity attributable to equity holders of the Company		5,329,605	4,738,296
Minority interests		–	–
Total equity		<u><u>5,329,605</u></u>	<u><u>4,738,296</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	Share capital	Share premium account	Special reserve	Investment revaluation reserve	Exchange reserve	Share option reserve	Retained earnings/ (accumulated losses)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2007	125,900	105,470	(14,980)	–	–	–	(86,414)	129,976
Issue of right shares, net	125,900	248,778	–	–	–	–	–	374,678
Issue of placing shares for cash, net	80,000	149,800	–	–	–	–	–	229,800
Issue of shares upon exercise of warrants	4,106	8,212	–	–	–	–	–	12,318
Changes in fair value of available-for-sale investments	–	–	–	477,828	–	–	–	477,828
Equity-settled share option expenses	–	–	–	–	–	933	–	933
Profit for the period	–	–	–	–	–	–	142,137	142,137
At 30 June 2007	<u>335,906</u>	<u>512,260</u>	<u>(14,980)</u>	<u>477,828</u>	<u>–</u>	<u>933</u>	<u>55,723</u>	<u>1,367,670</u>
At 1 January 2008	472,629	1,987,747	(14,980)	1,817,762	1,350	214,889	258,899	4,738,296
Issue of shares upon exercise of warrants	28	56	–	–	–	–	–	84
Changes in fair value of available-for-sale investments	–	–	–	280,199	–	–	–	280,199
Exchange difference arising from translation of accounts of overseas subsidiaries	–	–	–	–	15,887	–	–	15,887
Equity-settled share option expenses	–	–	–	–	–	36,637	–	36,637
Profit for the period	–	–	–	–	–	–	258,502	258,502
At 30 June 2008	<u>472,657</u>	<u>1,987,803</u>	<u>(14,980)</u>	<u>2,097,961</u>	<u>17,237</u>	<u>251,526</u>	<u>517,401</u>	<u>5,329,605</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008

	Six months ended 30 June	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Net Cash From Operating Activities	225	8,654
Net Cash Used In Investing Activities	(379,470)	(692,463)
Net Cash (Used In)/From Financing Activities	<u>(1,710)</u>	<u>690,717</u>
Net (Decrease)/Increase in Cash and Cash Equivalents	(380,955)	6,908
Cash and Cash Equivalents at 1 January	694,945	12,282
Effect of foreign exchange rate changes	<u>15,887</u>	<u>–</u>
Cash and Cash Equivalents at 30 June	<u><u>329,877</u></u>	<u><u>19,190</u></u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	302,127	19,159
Cash held in securities accounts maintained in securities companies	<u>27,750</u>	<u>31</u>
	<u><u>329,877</u></u>	<u><u>19,190</u></u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

1. General

The Company is incorporated as an exempted company with limited liability in Bermuda under the Companies Act 1981 of Bermuda (as amended) and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and the address of its principal office in Hong Kong is 32/F., China Online Centre, 333 Lockhart Road, Wanchai, Hong Kong.

The Company and its subsidiaries (collectively referred to as “the Group”) are principally engaged in the (i) trading in base metals and commodities trading portfolio primarily focused on natural resources and related sectors; (ii) trading in fabric products and other merchandises and (iii) trading and investment of listed securities in the resources and related industries.

These condensed consolidated interim financial statements (“Interim Financial Statements”) are presented in Hong Kong dollars (“HK\$”), which is the Company’s functional and presentation currency. These Interim Financial Statements were approved for issue by the Board of Directors on 22 September 2008.

2. Basis of Preparation and Accounting Policies

These unaudited Interim Financial Statements are prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”), including compliance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

These Interim Financial Statements should be read in conjunction with the 2007 annual report.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2007 annual report. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statement prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”, which term collectively includes HKASs and Interpretations).

In the current period, the Group has applied, for the first time, the following new standards, amendments and interpretations (hereinafter collectively referred to as “new HKFRSs”), issued by the HKICPA, which are effective for the Group’s accounting periods beginning on 1 January 2008.

HK (IFRIC) – INT 11	HKFRS 2 – Group and treasury share transactions
HK (IFRIC) – INT 12	Service concession arrangements
HK (IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interactions

The application of these new HKFRSs did not have any material impact on how the financial statements of the Group are prepared and presented for the current or prior accounting period.

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments and interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Revised)	Presentation of financial statements ¹
HKAS 23 (Revised)	Borrowing costs ¹
HKAS 27 (Revised)	Consolidated and separate financial statements ²
HKAS 32 & 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation ¹
HKFRS 2 (Amendment)	Share-based payment-vesting conditions and cancellations ¹
HKFRS 3 (Revised)	Business combinations ²
HKFRS 8	Operating segments ¹
HK (IFRIC) – Int 13	Customer loyalty programmes ³
HK (IFRIC) – Int 15	Agreements for the construction of real estate ¹
HK (IFRIC) – Int 16	Hedges of a net investment in a foreign operation ⁴

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 July 2009

³ Effective for annual periods beginning on or after 1 July 2008

⁴ Effective for annual periods beginning on or after 1 October 2008

3. Segment Information

Business segments

For management purposes, the Group is currently organised into three operating divisions – trading in base metals, trading in fabric products and other merchandises and trading and investment of listed securities. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

	Trading in base metals <i>HK\$'000</i>	Trading in fabric products and other merchandises <i>HK\$'000</i>	Trading and investment of listed securities <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Six months ended 30 June 2008				
Revenue from external customers	170,215	–	231,444	401,659
Segment result	4,594	442	322,443	327,479
Unallocated corporate expenses				(68,453)
Finance costs				(3)
Profit before taxation				259,023
Taxation				(521)
Profit for the period				258,502

	Trading in base metals <i>HK\$'000</i>	Trading in fabric products and other merchandises <i>HK\$'000</i>	Trading and investment of listed securities <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Six months ended 30 June 2007				
Revenue from external customers	–	18,725	–	18,725
Segment result	–	557	157,557	158,114
Unallocated corporate expenses				(9,424)
Gain on disposal of a subsidiary				1,536
Finance costs				(8,089)
Profit before taxation				142,137
Taxation				–
Profit for the period				142,137

Geographical segments

The following tables provide an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	Six months ended 30 June	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong and PRC	102,956	7,240
Australia	231,444	–
South East Asia	67,259	988
United States of America	–	2,049
Africa	–	8,448
	<u>401,659</u>	<u>18,725</u>

4. Profit Before Taxation

	Six months ended 30 June	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Profit before taxation has been arrived at after charging/(crediting) the following:		
Depreciation	405	26
Exchange gain, net	(4,688)	(20)
Legal and professional fees	3,756	3,201
Consultancy fee	621	632
	<u>621</u>	<u>632</u>
Staff costs, including directors' emoluments		
– salaries and allowance	7,908	1,793
– equity-settled share option expenses	36,637	933
– staff quarter	111	–
– retirement benefits scheme contributions, net of nil forfeited contributions	30	46
	<u>30</u>	<u>46</u>
Total staff costs	<u>44,686</u>	<u>2,772</u>

5. Income Tax Expenses

	Six months ended 30 June	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Hong Kong profits tax provided for the period	–	–
Overseas tax provided for the period	521	–
	<u>521</u>	<u>–</u>

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profit for the six months ended 30 June 2008 (six months period ended 30 June 2007: nil).

No provision for overseas taxation has been made for the six months period ended 30 June 2007 as the subsidiaries operating in the PRC has no assessable income for PRC taxation purpose.

The Group has no significant unprovided deferred taxation at the balance sheet date.

6. Earnings Per Share

- (a) The calculation of the basic earnings per share is based on the profit for the period of approximately HK\$258,502,000 (six months ended 30 June 2007: HK\$142,137,000) and on the weighted average of 4,726,524,901 (six months ended 30 June 2007: 2,850,853,386) shares in issue during the period.

- (b) The weighted average number of ordinary shares for the purpose of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share is as follows:

	Six months ended 30 June	
	2008	2007
Weighted average number of ordinary shares used in the calculation of basic earnings per share	4,726,524,901	2,850,853,386
Shares deemed to be issued for no consideration in respect of:		
– warrants	129,714,824	124,284,222
– share options	–	–
	<u>4,856,239,725</u>	<u>2,975,137,608</u>

The calculation of the diluted earnings per share did not assume the exercise of the Company's outstanding share options as their exercise prices were higher than the average market price of the Company's shares during the period.

7. Property, Plant and Equipments

During the period, the Group's acquisition of property, plant and equipment amounted to HK\$191,000 (six months ended 30 June 2007: HK\$1,446,000).

8. Available-for-sale Investments

	30 June	31 December
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Listed equity securities, in Hong Kong, at fair value	98,372	177,760
Listed equity securities, in overseas, at fair value	<u>3,151,969</u>	<u>2,815,666</u>
	<u>3,250,341</u>	<u>2,993,426</u>

9. Trade and Other Receivables

	30 June 2008	31 December 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Trade receivables	–	5,170
Other receivables	53,522	646
Purchase deposits	176,468	226,368
Other deposits and prepayments	1,018	1,112
	<u>231,008</u>	<u>233,296</u>

The Group allows an average credit period of 60 – 90 days to its trade customers.

The aged analysis of trade receivables that are not considered to be impaired is as follows:

	30 June 2008	31 December 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Neither past due nor impaired:		
Current	–	–
Past due but not impaired:		
0 to 30 days	–	–
31 to 60 days	–	–
61 to 90 days	–	4,559
Over 90 days	–	611
	<u>–</u>	<u>5,170</u>

10. Trading Securities

	30 June 2008	31 December 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Trading securities, at fair value		
Listed equity securities, in Hong Kong	1,898	2,578
Listed equity securities, in overseas	<u>1,435,886</u>	<u>812,379</u>
	<u><u>1,437,784</u></u>	<u><u>814,957</u></u>

11. Margin Financing Loan

The margin financing loan facilities were secured by certain available-for-sale investments and trading securities with carrying amount of approximately HK\$4,167,978,000 as at 30 June 2008 (31 December 2007 (audited) HK\$3,628,045,000).

12. Share Capital

	Number of ordinary shares of HK\$0.10 each	Amount <i>HK\$'000</i>
Authorised:		
At 1 January 2008 and at 30 June 2008	<u><u>8,000,000,000</u></u>	<u><u>800,000</u></u>
Issued and fully paid:		
At 1 January 2008	4,726,291,055	472,629
Issue of shares upon exercise of warrants	<u>280,000</u>	<u>28</u>
At 30 June 2008	<u><u>4,726,571,055</u></u>	<u><u>472,657</u></u>

13. Share Options Scheme

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives or rewards to selected persons (including the Company’s directors, employees of the Group and other eligible participants as defined under the Scheme) who contribute to the Group. The Scheme was adopted on 22 September 2004 and will remain in force for 10 years from the date of adoption until 21 September 2014.

Pursuant to the annual general meeting of the Company held on 6 June 2008, the mandate limit of the Scheme was refreshed to 472,657,105 shares. During the six month period ended 30 June 2008, 3,000,000 share options held by a director and 3,000,000 share options held by a staff (year ended 31 December 2007: nil) were lapsed. As at 30 June 2008, there were 505,000,000 (as at 31 December 2007 (audited): 511,000,000) share options outstanding.

14. Warrants

On 5 February 2007, the Company issued a total of 251,800,000 bonus warrants (the “Warrants”), as a result of the rights issue completed on 1 February 2007, with an aggregate subscription amount of HK\$75,540,000. Each of the Warrants entitled the warrant-holder to subscribe for one ordinary share of the Company of HK\$0.10 each at the initial subscription price of HK\$0.30 (subject to adjustment (if any)) during the period from 5 February 2007 until 4 February 2010 (both dates inclusive).

During the six months period ended 30 June 2008, 280,000 Warrants were exercised for 280,000 ordinary shares (year ended 31 December 2007: 55,653,550 Warrants were exercised for 55,653,550 ordinary shares) of HK\$0.10 each at a price of HK\$0.30. As at 30 June 2008, there were 195,866,450 Warrants outstanding (as at 31 December 2007 (audited): 196,146,450 Warrants outstanding).

15. Cash and Cash Equivalents

	30 June 2008	31 December 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Pledged bank deposits	88,979	10,526
Cash at bank and in hand	302,127	690,644
Cash held in securities accounts maintained in securities companies	<u>27,750</u>	<u>4,301</u>
	418,856	705,471
Less: Pledged bank deposits	<u>(88,979)</u>	<u>(10,526)</u>
Cash and cash equivalents	<u><u>329,877</u></u>	<u><u>694,945</u></u>

16. Commitments**(a) Operating lease – the Group as lessee**

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises, which fall due as follows:

	30 June 2008	31 December 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Within one year	2,004	2,004
In the second to fifth year inclusive	1,649	2,651
	<u>3,653</u>	<u>4,655</u>

Operating lease payments represent rental payable by the Group for its office premises, a director's quarter and a photocopying machine. Leases are negotiated for the term of between two to five years.

(b) Capital commitments

On 20 Dec 2007, the Company entered into an investment agreement with 平頂山煤業(集團)有限公司 (“平頂山煤業”) and 平頂山煤業集團天藍能源發展有限公司 (“天藍能源”), to form a limited company which will be incorporated in the PRC with the registered capital of RMB50 million. The interest in the investment from 平頂山煤業, 天藍能源 and the Company are 40%, 20% and 40% respectively. Capital payable by the Company is RMB20 million, which equivalent to approximately HK\$23 million was settled on 25 July 2008. The incorporation process considered as completed.

17. Pledge of Assets

	30 June 2008 <i>HK\$'000</i> (Unaudited)	31 December 2007 <i>HK\$'000</i> (Audited)
(a) Margin financing loan facilities secured by certain available-for-sale investments and trading securities	4,167,978	3,628,045
(b) Banking facilities of HK\$10 million and USD 60 million (2007: HK\$10 million) granted by banks and secured by bank deposits of the Group	<u>88,979</u>	<u>10,526</u>
	<u><u>4,256,957</u></u>	<u><u>3,638,571</u></u>

18. Related Party Transactions

Key management personnel compensation:

	Six months ended 30 June	
	2008 <i>HK\$'000</i> (Unaudited)	2007 <i>HK\$'000</i> (Unaudited)
Basic salaries and other allowances	4,200	902
Bonuses	–	180
Retirement benefits scheme contributions, net of nil forfeited contributions	<u>–</u>	<u>22</u>
	<u><u>4,200</u></u>	<u><u>1,104</u></u>

19. Post Balance Sheet Events

As announced on 16 July 2008, the Company, through its direct wholly-owned subsidiary, APAC Resources Investments Limited (“**ARI**”), entered into a conditional sale and purchase agreement (“**Conditional Agreement**”) with Leaping Far Investments Limited (“**Leaping Far**”) and pursuant to which ARI has conditionally agreed to purchase 10 issued shares of par value of US\$1 each, representing the entire issued share capital of Good China Limited (“**GCL**”) and accept the assignment of a loan in the amount of US\$16.1 million, equivalent to HK\$125.58 million due by GCL to Leaping Far, at an aggregate consideration of HK\$1,200,000,000. The consideration will be satisfied as to (i) HK\$600,000,000 by cash and (ii) HK\$600,000,000 by allotting and issuing a total of 600,000,000 new ordinary shares of the Company at HK\$1.00 per share as fully paid, to Leaping Far on completion.

GCL is the legal and beneficial owner of the entire issued share capital of Upper China Industrial Limited which in turn owns 49% equity interest in a joint venture company which is engaged in the business of iron ore mining and production of iron ore materials in the PRC.

5. WORKING CAPITAL

After due and careful enquiry, the Directors are of the opinion that upon the completion of the Aggregated Commitments and based on available banking and other facilities and internal resources of the Group, the Group has sufficient working capital for its requirements, currently and for the period ending 12 months from the date of this circular.

6. STATEMENT OF INDEBTEDNESS OF THE GROUP**Borrowings**

At the close of business on 31 October 2008, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had no borrowings.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-Group liabilities, as at the close of business of 31 October 2008, the Group did not have any debt securities issued and outstanding, or authorised or otherwise created but unissued, any term loans (whether secured or unsecured, guaranteed or not), any other borrowings, or indebtedness in the nature of borrowing including bank overdrafts and liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments (whether secured or unsecured, guaranteed or not), any mortgages or charges, or other material contingent liabilities or guarantees.

The Directors confirm that there is no material change in indebtedness and contingent liabilities of the Group since 31 October 2008 up to and including the Latest Practicable Date.

7. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, save as disclosed herein and the section headed "Prospect" of the 2008 interim report of the Group that the performance of the Group's activities in trading and investment of listed securities is measured by mark-to-market accounting standards and, therefore, the continued global financial turmoil will adversely affect the Group's results for the second half of 2008, the Directors are of the view that there is not any material adverse change in the financial or trading position of the Group since 31 December 2007, the date to which the latest published audited accounts of the Company have been made up.

8. FINANCIAL AND TRADING PROSPECTS

As announced on 16 July 2008, the Company, through its wholly-owned subsidiary, APAC Resources Investments Limited (“**ARI**”), entered into a conditional sale and purchase agreement (“**Conditional Agreement**”) with Leaping Far Investments Limited (“**Leaping Far**”) and pursuant to which ARI has conditionally agreed to purchase from Leaping Far the entire issued share capital of Good China Limited (“**GCL**”) (the “**Sale Shares**”) and accept the assignment of loan in the amount of US\$16,100,000 equivalent to HK\$125,580,000 due by GCL to Leaping Far (the “**Loan**”), at an aggregate consideration of HK\$1,200,000,000.

The aggregate consideration in the sum of HK\$1,200,000,000 will be satisfied as to (i) HK\$600,000,000 by cash and (ii) HK\$600,000,000 by the issue to Leaping Far of 600,000,000 new shares of the Company (at HK\$1.00 per share) (the “**Consideration Shares**”) upon completion of the purchase of the Sale Shares by ARI and the assignment of the Loan pursuant to the Conditional Agreement. The Consideration Shares (being 600,000,000 new shares) represents approximately 11.26% of the enlarged issued share capital of the Company upon allotment and issue of the Consideration Shares.

GCL is the legal and beneficial owner of the entire issued share capital of Upper China Industrial Limited which in turn owns 49% equity interests in 灤平縣偉源礦業有限責任公司 (Lan Ping Xian Wei Yuan Mining Co. Ltd.) (the “**Joint Venture Company**”) which is engaged in the business of iron ore mining and production of iron ore materials in the PRC. The main assets of the Joint Venture Company are the iron ore mine and its related infrastructure. In accordance with the business licence of the Joint Venture Company, the business operation of the Joint Venture Company includes exploitation of iron ore, processing and selling of iron ore and iron ore concentrates, selling of steel materials, mining machinery and accessories. Completion of the Conditional Agreement is subject to a number of conditions being fulfilled on or before 13 October 2008, or such other date as may be agreed by ARI and Leaping Far. Other particulars in relation to the transactions contemplated under the Conditional Agreement were disclosed in the Company’s circular of 5 August 2008. The Conditional Agreement was terminated on 3 October 2008.

The performance of the Group’s activities in trading and investment of listed securities is measured by mark-to-market accounting standards and, therefore, the continued global financial turmoil will adversely affect the Group’s results for the second half of 2008. This, coupled with the global financial crisis, economic downturn in the US and the slowing down of the economy in China, will adversely affect the Group principal business activities in trading and investment of listed securities and trading in base metals and necessitate a more cautious view to be taken by the Group in its trading and investments activities. With a strong and healthy financial position, however, the Group is able to take advantage of such market conditions when grossly undervalued investments and business opportunities arise.

The following is the text of an accountants' report from Graham H.Y. Chan & Co., the reporting accountants, on the unaudited pro forma financial information.



GRAHAM H.Y. CHAN & CO.

CERTIFIED PUBLIC ACCOUNTANTS
HONG KONG

Unit 1, 15/F., The Center,
99 Queen's Road Central,
Hong Kong

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES

TO THE DIRECTORS OF APAC RESOURCES LIMITED

We report on the unaudited pro forma statement of assets and liabilities of APAC Resources Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 102 to 103 under the headings of "Pro Forma Financial Information of the Group" in Appendix II of the Company's circular dated 12 December 2008, in connection with the taking up of the shareholding commitment of 32,829,629 new shares and the underwriting commitment of 82,900,000 new shares, (collectively, the Aggregated Commitments) under an underwritten rights issue to be conducted by Mount Gibson Iron Limited (the "Circular"). The unaudited pro forma statement of assets and liabilities has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the taking up of the Aggregated Commitments might have affected the relevant financial information of the Group. The basis of preparation of the unaudited pro forma statement of assets and liabilities is set out on pages 102 to 103 of the Circular.

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma statement of assets and liabilities in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to AG7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma statement of assets and liabilities and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma statement of assets and liabilities beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements ("HKSIR") 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma statement of assets and liabilities with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma statement of assets and liabilities has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma statement of assets and liabilities as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The unaudited pro forma statement of assets and liabilities is for illustrative purposes only, based on the judgments and assumptions of the directors of the Company, and because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 June 2008 or any future date.

Opinion

In our opinion:

- a. the unaudited pro forma statement of assets and liabilities has been properly compiled by the directors of the Company on the basis stated;
- b. such basis is consistent with the accounting policies of the Group; and
- c. the adjustments are appropriate for the purposes of the unaudited pro forma statement of assets and liabilities as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Graham H.Y. Chan & Co.

Certified Public Accountants (Practising)

Hong Kong

12 December 2008

UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the unaudited pro forma statement of assets and liabilities of the Group prepared in accordance with the Listing Rules for the purpose of illustrating the effect of taking up of the shareholding commitment of 32,829,629 new shares (“Shareholding Commitment”) and the underwriting commitment of 82,900,000 new shares (“Underwriting Commitment”) (collectively, the Aggregated Commitments) under an underwritten rights issue to be conducted by Mount Gibson Iron Limited on the financial position of the Group as if the Aggregated Commitments had been completed on 30 June 2008. As it is prepared for illustrative purpose only, and because of its nature, it may not give a true picture of the financial position of the Group following the completion of the Aggregated Commitments.

The unaudited pro forma statement of assets and liabilities of the Group is prepared based on the unaudited condensed consolidated balance sheet of the Group as at 30 June 2008 as set out in Appendix I to the circular and the adjustments described below:

	Unaudited condensed consolidated balance sheet as at 30 June 2008 <i>HK\$'000</i>	Pro forma adjustments for Aggregated Commitments <i>HK\$'000</i> <i>NB</i>	Unaudited pro forma statement of assets and liabilities of the Group as at 30 June 2008 after the Aggregated Commitments <i>HK\$'000</i>
Non-Current Assets			
Property, plant and equipments	1,977		1,977
Available-for-sale investments	3,250,341	334,196	3,584,537
	3,252,318		3,586,514
Current Assets			
Trade and other receivables	231,008		231,008
Trading securities	1,437,784	23,409	1,461,193
Pledged bank deposits	88,979		88,979
Bank balances and cash	329,877	319,877	10,000
	2,087,648		1,791,180
Current Liabilities			
Trade and other payables	9,603		9,603
Margin financing loan	–	28,762	28,762
Tax payables	758		758
	10,361		39,123
Net Current Assets	2,077,287		1,752,057
Net Assets	5,329,605		5,338,571

NB: The adjustments reflect the (i) cost of acquisition of HK\$101,444,000 in respect of the Shareholding Commitment (HK\$78,035,000 as available-for-sale investment and HK\$23,409,000 as trading securities) and HK\$256,161,000 in respect of the Underwriting Commitment (as available-for-sale investment) and (ii) the income of the underwriting commission (HK\$8,966,000) for the Underwriting Commitment. Total consideration (after deduction of underwriting commission) will be partly financed by cash and partially financed by margin financing loan.

After due and careful enquiry, the Directors are of the opinion that upon the completion of the Aggregated Commitments and based on available banking and other facilities and internal resources of the Group, the Group has sufficient working capital for its requirements, currently and for the period ending 12 months from the date of this circular. The above unaudited pro forma statement of assets and liabilities of the Group is a hypothetical scenario because of the uncertainty of allocation of sources of funding as at the date of preparation and with the objective to minimize its funding costs.

Pursuant to Rule 14.67 (4)(a)(i) of the Listing Rules, a circular issued in relation to a major transaction (the subscription of the MG Shares in respect of the Shareholding Commitment and the Underwriting Commitment in aggregate in this case) must contain an accountants' report on the company being acquired which then must relate to a financial period ended six months or less before the circular is issued. The financial information on the company being acquired as contained in the accountants' report must be prepared using accounting policies which are materially consistent with those of the Company.

Mount Gibson is a company listed on the ASX. Accordingly, it is obliged to comply with ASX listing rules in respect of the continuous disclosure regime as it relates to its financial information. No parties should be granted privileged access to Mount Gibson's financial information that is not publicly available. In addition, Mount Gibson has already prepared and published its financial statements for the three years ended 30 June 2008 in full compliance with Australian accounting standards (including Australian equivalents to International Financial Reporting Standards), the Australian Corporations Act and the listing rules of ASX. Based on the above, it is unreasonable and will incur excessive cost to prepare and publish any new or additional financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

Further, the Company being a passive investor has no means to access Mount Gibson's books and records and necessary information for the purposes of preparing the accountant's report on Mount Gibson for the three years ended 30 June 2008. Without detailed financial information from Mount Gibson, the Company and its accountants cannot prepare the line-by-line reconciliation of income statements, balance sheet, statement of changes in equity and cash flow statements of Mount Gibson from Australian accounting standards to HKFRS.

The Company's equity interest in Mount Gibson before and after taking up the Shareholding Commitment is and will be partly classified as trading securities (short term) and partly classified as available-for-sale investment (long term). The additional equity interest in Mount Gibson acquired as a result of taking up the Underwriting Commitment will be classified as available-for-sale investment (long term). Trading securities are stated at fair value initially. At each balance sheet date the fair value is re-measured, with any resultant gain or loss being recognised in the profit and loss. Upon disposal, the difference between the net sales proceeds and the carrying value is included in the income statement. Available-for-sale investments are recognised at cost initially. Subsequent to initial recognition, available-for-sale investments are carried at fair value. Unrealised gain and losses (including transaction costs on acquisition) arising from changes in the fair value are recognised in investment revaluation reserve. Dividends from available-for-sale investments are recognised in profit or loss when the entity's right to receive payment is established. Therefore, the results of the available-for-sale investments are accounted for by the Group on the basis of dividends received and receivable while any unrealised gain and losses (including transaction costs on acquisition) arising from changes in the fair value are recognized in investment revaluation reserve.

Although no accountants' report of Mount Gibson which relates to a financial period ended six months or less before the date of this circular was contained in this circular, the financial statements of Mount Gibson for the three years ended 30 June 2008 have been extracted in this circular.

Given that the financial statements of Mount Gibson have been prepared based on the Australian accounting standards (including the Australian equivalents to International Financial Reporting Standards), the difference between Australian accounting standards and Hong Kong accounting standards has been set out in the letter from the reporting accountants of the Company in this Appendix III, the Directors consider that sufficient information has been included in this circular.

The Company has applied to the Stock Exchange for a waiver of the requirements under Rule 14.67(4)(a)(i) of the Listing Rules such that the accountants' report of Mount Gibson which relates to a financial period ended 6 months or less before this circular is issued need not be included in this circular. The waiver was granted by the Stock Exchange on 2 December 2008 on the conditions that (1) the alternative disclosures as set out in sub-paragraphs (a) to (e) below will be included in this circular; and (2) this circular will be issued and despatched on or before 31 December 2008.

In replacement of the accountants' report of Mount Gibson, the following contents have been included in this circular:

- (a) reasons for not including an accountants' report or preparing a reconciliation of the financial figures of Mount Gibson from Australian accounting standards to HKFRS;
- (b) the fact that Mount Gibson's financial statements for the three years ended 30 June 2008 have not been qualified;
- (c) the audited consolidated financial statements of Mount Gibson for the three years ended 30 June 2008 prepared in accordance with Australian accounting standards (as extracted from the 2006, 2007 and 2008 annual reports of Mount Gibson);
- (d) the directors' reports and auditors' reports of Mount Gibson for the three years ended 30 June 2008 (as extracted from the 2006, 2007 and 2008 annual reports of Mount Gibson); and
- (e) letter from the reporting accountants of the Company summarising the principal differences between Australian accounting standards to HKFRS and the accounting policies between the Company and Mount Gibson.

The auditors of Mount Gibson is Ernst & Young. The financial statements of Mount Gibson for the three years ended 30 June 2008 have not been qualified by the auditors of Mount Gibson.

1. The following is the audited consolidated financial statements of Mount Gibson for the year ended 30 June 2008 prepared in accordance with Australian accounting standards which is extracted from the 2008 annual report of Mount Gibson (all monetary amounts are stated in A\$).

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2008

	NOTES	CONSOLIDATED		COMPANY	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
CONTINUING OPERATIONS					
Sale of goods	2[a]	432,674	162,748	–	–
Other revenue	2[a]	2,500	2,256	3,712	2,840
Total revenue		435,174	165,004	3,712	2,840
Cost of sales	2[d]	(244,635)	(108,955)	–	–
Gross profit		190,539	56,049	3,712	2,840
Other income	2[b]	3,881	2,805	–	1
Administrative expenses	2[d]	(15,030)	(13,020)	(2,712)	(1,543)
Impairment of available-for-sale financial assets		–	(1,506)	–	(1,506)
Exploration expenses	2[d]	(38)	(8)	–	–
Profit/(loss) from Continuing Operations before tax and finance costs		179,352	44,320	1,000	(208)
Finance costs	2[c]	(15,495)	(2,067)	(9,488)	(3)
Profit/(loss) from Continuing Operations before income tax		163,857	42,253	(8,488)	(211)
Income tax benefit/(expense)	3	(50,513)	(13,209)	2,742	(474)
Net profit/(loss) from Continuing Operations for the period after income tax		113,344	29,044	(5,746)	(685)
Profit from discontinued operations after income tax	11[a]	–	18,721	–	91
Net profit/(loss) after tax attributable to members of Mount Gibson		113,344	47,765	(5,746)	(594)
Earnings per share (cents per share)					
• basic earnings per share	26	14.25	7.53		
• diluted earnings per share	26	14.12	7.43		
• basic earnings per share – continuing operations	26	14.25	4.58		
• diluted earnings per share – continuing operations	26	14.12	4.52		

APPENDIX III
FINANCIAL INFORMATION ON MOUNT GIBSON
CONSOLIDATED BALANCE SHEET
As at 30 June 2008

	NOTES	CONSOLIDATED		COMPANY	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
ASSETS					
Current Assets					
Cash and cash equivalents	4	48,658	60,798	4,562	351
Trade and other receivables	5	83,436	9,848	38	490
Inventories	6	71,448	34,581	–	–
Prepayments		1,570	1,049	1	313
Derivative financial assets	7	25,161	5,065	1,559	–
Total Current Assets		230,273	111,341	6,160	1,154
Non-current Assets					
Trade and other receivables	5	1,000	–	116,947	54,722
Available for sale financial assets	8	1,113	1,805	1,113	1,805
Other financial assets	9	–	–	344,509	338,432
Property, plant and equipment	12	188,497	187,768	5	5
Deferred acquisition, exploration, evaluation and development costs	13	25,919	9,027	–	–
Mine properties	14	447,235	370,684	–	–
Deferred income tax assets	3	–	11,875	53,840	36,894
Total Non-current Assets		663,764	581,159	516,414	431,858
TOTAL ASSETS		894,037	692,500	522,574	433,012
LIABILITIES					
Current Liabilities					
Trade and other payables	15	73,406	64,314	2,114	14,214
Interest-bearing loans and borrowings	16	12,415	98,754	–	–
Derivative financial liabilities	17	342	–	342	–
Provisions	18	1,880	1,172	–	–
Total Current Liabilities		88,043	164,240	2,456	14,214
Non-current Liabilities					
Trade and other payables	15	–	–	18,861	29,398
Provisions	18	19,112	18,470	–	–
Interest-bearing loans and borrowings	16	145,858	55,481	101,607	–
Deferred income tax liabilities	3	44,532	–	–	–
Total Non-current Liabilities		209,502	73,951	120,468	29,398
TOTAL LIABILITIES		297,545	238,191	122,924	43,612
NET ASSETS		596,492	454,309	399,650	389,400
EQUITY					
Issued capital	19[a]	397,197	386,766	397,197	386,766
Retained earnings/(accumulated losses)	21	171,205	57,861	(12,306)	(6,560)
Reserves	20	28,090	9,682	14,759	9,194
TOTAL EQUITY		596,492	454,309	399,650	389,400

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2008

	NOTES	CONSOLIDATED		COMPANY	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		357,139	154,441	–	–
Payments to suppliers and employees		(299,319)	(144,931)	(2,479)	(1,509)
Interest paid		(12,067)	(6,420)	(6,440)	(111)
Net cash flows provided by/ (used in) operating activities	4[b]	<u>45,753</u>	<u>3,090</u>	<u>(8,919)</u>	<u>(1,620)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received		2,410	2,644	247	332
Proceeds from disposal of controlled entity, net of cash disposed	11[e]	–	50,354	–	24,892
Purchase of controlled entity	9	–	–	–	(6,275)
Payment for costs associated with acquisition of controlled entity		(14,131)	–	(14,131)	–
Net cash acquired on acquisition of controlled entity	10	–	3,652	–	–
Proceeds from sale of property, plant and equipment		684	3,767	–	–
Purchase of property, plant and equipment		(19,118)	(36,834)	–	–
Payment for deferred exploration and evaluation expenditure		(14,911)	(4,578)	–	–
Payment for mine properties		(18,102)	(37,594)	–	–
Proceeds from disposal of available-for-sale financial assets		–	295	–	295
Purchase of available-for-sale investments		(168)	–	(168)	–
Purchase of convertible note receivable		(1,000)	–	(1,000)	–
Loans from/(to) controlled entities		–	–	(82,545)	(19,148)
Loans from/(to) other entities		236	(280)	236	(280)
Net cash flows provided by/ (used in) in investing activities		<u>(64,100)</u>	<u>(18,574)</u>	<u>(97,361)</u>	<u>(184)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of ordinary shares		10,367	2,010	10,367	2,010
Proceeds from borrowings		105,000	73,404	105,000	–
Repayment of lease liabilities		(17,057)	(6,529)	–	–
Repayment of borrowings		(87,095)	–	–	–
Payment of borrowing costs		(5,008)	–	(4,876)	–
Net cash flows provided by/ (used in)/financing activities		<u>6,207</u>	<u>68,885</u>	<u>110,491</u>	<u>2,010</u>
Net (decrease)/increase in cash and cash equivalents		<u>(12,140)</u>	<u>53,401</u>	<u>4,211</u>	<u>206</u>
Cash and cash equivalents at beginning of period		<u>60,798</u>	<u>7,397</u>	<u>351</u>	<u>145</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	4[a]	<u><u>48,658</u></u>	<u><u>60,798</u></u>	<u><u>4,562</u></u>	<u><u>351</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2008

CONSOLIDATED	Attributable to Equity Holders of the Parent					Total	Minority Interest	Total Equity
	Issued Capital	(Accumulated	Share Based Payments Reserve	Net	Other Reserves			
		Losses)/ Retained Earnings		Gains/(Losses) Reserve				
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
At 1 July 2006	86,851	10,096	5,954	(1,790)	(3,691)	97,420	11,776	109,196
Net unrealised gain on available-for-sale financial assets	-	-	-	1,032	-	1,032	-	1,032
Impairment of available-for-sale financial assets	-	-	-	1,506	-	1,506	-	1,506
Net gains on cash flow hedges	-	-	-	4,506	-	4,506	-	4,506
Deferred income tax on cash flow hedges	-	-	-	(1,291)	-	(1,291)	-	(1,291)
Currency translation differences	-	-	-	-	(386)	(386)	-	(386)
Currency translation differences released on sale of controlled entity	-	-	-	-	885	885	-	885
Cost of share-based payment	-	-	2,957	-	-	2,957	-	2,957
Total income and expense for the period recognised directly in equity	-	-	2,957	5,753	499	9,209	-	9,209
Profit for the period	-	47,765	-	-	-	47,765	-	47,765
Total income and expense for the period	-	47,765	2,957	5,753	499	56,974	-	56,974
Issue of share capital for acquisition of Controlled Entity	297,905	-	-	-	-	297,905	-	297,905
Exercise of options	2,010	-	-	-	-	2,010	-	2,010
Change in Minority interest	-	-	-	-	-	-	(11,776)	(11,776)
At 30 June 2007	386,766	57,861	8,911	3,963	(3,192)	454,309	-	454,309

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY CONTINUED

For the year ended 30 June 2008

	Attributable to Equity Holders of the Parent					Total Equity
	Issued Capital \$'000	(Accumulated Losses)/ Retained Earnings \$'000	Share Based Payments Reserve \$'000	Net Unrealised Gains/(Losses) Reserve \$'000	Other Reserves \$'000	\$'000
At 1 July 2007	386,766	57,861	8,911	3,963	(3,192)	454,309
Net unrealised loss on available-for-sale financial assets	-	-	-	(856)	-	(856)
Net gains on cash flow hedges	-	-	-	19,607	-	19,607
Deferred income tax on cash flow hedges	-	-	-	(5,942)	-	(5,942)
Cost of share-based payment	-	-	5,599	-	-	5,599
Total income and expense for the period recognised directly in equity	-	-	5,599	12,809	-	18,408
Profit for the period	-	113,344	-	-	-	113,344
Total income and expense for the period	-	113,344	5,599	12,809	-	131,752
Deferred income tax on capital raising cost	64	-	-	-	-	64
Exercise of options	10,367	-	-	-	-	10,367
At 30 June 2008	397,197	171,205	14,510	16,772	(3,192)	596,492

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY CONTINUED

For the year ended 30 June 2008

COMPANY	Attributable to Equity Holders of the Parent				Total Equity
	Issued Capital \$'000	Accumulated Losses \$'000	Share Based Payments Reserve \$'000	Net Unrealised Gains/ (Losses) Reserve \$'000	\$'000
At 1 July 2006	86,851	(5,966)	5,954	(2,255)	84,584
Cost of share-based payment	-	-	2,957	-	2,957
Net unrealised gain on available-for-sale financial assets	-	-	-	1,032	1,032
Impairment of available-for-sale financial assets	-	-	-	1,506	1,506
Total income and expense for the period recognised directly in equity	-	-	2,957	2,538	5,495
Loss for the period	-	(594)	-	-	(594)
Total income and expense for the period	-	(594)	2,957	2,538	4,901
Issue of share capital for acquisition of Controlled Entity	297,905	-	-	-	297,905
Exercise of options	2,010	-	-	-	2,010
At 30 June 2007	386,766	(6,560)	8,911	283	389,400
At 1 July 2007	386,766	(6,560)	8,911	283	389,400
Cost of share-based payment	-	-	5,599	-	5,599
Net unrealised loss on available-for-sale financial assets	-	-	-	(856)	(856)
Net gains on cash flow hedges	-	-	-	1,174	1,174
Deferred income tax on cash flow hedges	-	-	-	(352)	(352)
Total income and expense for the period recognised directly in equity	-	-	5,599	(34)	5,565
Loss for the period	-	(5,746)	-	-	(5,746)
Total income and expense for the period	-	(5,746)	5,599	(34)	(181)
Deferred income tax on capital raising cost	64	-	-	-	64
Exercise of options	10,367	-	-	-	10,367
At 30 June 2008	397,197	(12,306)	14,510	249	399,650

NOTES TO THE CONSOLIDATED FINANCIAL REPORT

For the year ended 30 June 2008

1. Summary of significant accounting policies**(a) Corporate information**

The financial report of Mount Gibson for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of the directors on 11 August 2008.

Mount Gibson is a company limited by shares incorporated in Australia whose shares are publicly traded on the ASX.

The nature of operations and principal activities of the consolidated entity are the mining of hematite deposits at Talling Peak and Koolan Island, construction and development of Extension Hill project, and exploration and development of hematite deposits in the Mid-West region of Western Australia.

The address of the registered office is Level 1, 7 Havelock Street, West Perth, WA, 6005.

(b) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, applicable Australian Accounting Standards and other mandatory professional reporting requirements. The financial report has also been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale financial assets that have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to Mount Gibson under ASIC Class Order 98/0100. Mount Gibson is an entity to which the class order applies.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Mount Gibson and its controlled entities.

The financial statements of controlled entities are prepared for the same reporting period as Mount Gibson, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Controlled entities are consolidated from the date on which control is transferred to the consolidated entity and cease to be consolidated from the date on which control is transferred out of the consolidated entity.

Where there is loss of control of a controlled entity, the consolidated financial statements include the results for the part of the reporting period during which Mount Gibson has control.

Minority interests represent the interests in Asia Iron Holdings Limited, not held by the consolidated entity.

Investments in controlled entities are carried in the balance sheet of Mount Gibson at cost less impairment losses, if any.

(d) *Compliance with IFRS*

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (“IFRS”).

(e) *New accounting standards and interpretations*

Except for the amendments arising from AASB 2007-4: Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments, which the consolidated entity has early adopted, Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the consolidated entity for the annual reporting period ending 30 June 2008.

These are outlined in the table on the following three pages.

Reference	Title	Summary	Impact on consolidated entity financial report	Application Date of Standard	Application Date for consolidated entity
AASB Int. 12 (Revised)	Determining whether an Arrangement contains a Lease	The revised Interpretation specifically scopes out arrangements that fall within the scope of AASB Interpretation 12.	No change to accounting policy required. Therefore no impact.	1 January 2008	1 July 2008
AASB 8 and AASB 2007-3	Operating Segments and consequential amendments to other Australian Accounting Standards	New standard replacing AASB 114 <i>Segment Reporting</i> , which adopts a management reporting approach to segment reporting.	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the consolidated entity's financial statements, although it may have an impact on the consolidated entity's segment disclosure.	1 January 2009	1 July 2009
AASB 123 (Revised) and AASB 2007-6	Borrowing costs and consequential amendments to other Australian Accounting Standards	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised.	No change to accounting policy required. Therefore no impact.	1 January 2009	1 July 2009
AASB 101 (Revised) and AASB 2007-8	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	These amendments are only expected to affect the presentation of the consolidated entity's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report. The consolidated entity has not determined at this stage whether to present a single statement of comprehensive income or two separate statements.	1 January 2009	1 July 2009
AASB 2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations	The amendments clarify the definition of 'vesting conditions', introducing the term 'non-vesting conditions' for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.	The consolidated entity has share-based payment arrangements that may be affected by these amendments. However, the consolidated entity has not yet determined the extent of the impact, if any.	1 January 2009	1 July 2009

Reference	Title	Summary	Impact on consolidated entity financial report	Application Date of Standard	Application Date for consolidated entity
AASB 2008-2	Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations arising on Liquidation	The amendments provide a limited exception to the definition of a liability so as to allow an entity that issues puttable financial instruments with certain specified features, to classify those instruments as equity rather than financial liabilities.	These amendments are not expected to have any impact on the consolidated entity's financial report as the consolidated entity does not have on issue or expect to issue any puttable financial instruments as defined by the amendments.	1 January 2009	1 July 2009
AASB 3 (Revised)	Business Combinations	The revised standard introduces a number of changes to the accounting for business combinations, the most significant of which allows entities a choice for each business combination entered into – to measure a non-controlling interest (formerly a minority interest) in the acquiree either at its fair value or at its proportionate interest in the acquiree's net assets. This choice will effectively result in recognising goodwill relating to 100% of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The changes apply prospectively.	The consolidated entity may enter into some business combinations during the next financial year and may therefore consider early adopting the revised standard. The consolidated entity has not yet assessed the impact of early adoption, including which accounting policy to adopt.	1 July 2009	1 July 2009
AASB 127 (Revised)	Consolidated and Separate Financial Statements	Under the revised standard, a change in the ownership interest of a subsidiary (that does not result in loss of control) will be accounted for as an equity transaction.	If the consolidated entity changes its ownership interest in existing subsidiaries in the future, the change will be accounted for as an equity transaction. This will have no impact on goodwill, nor will it give rise to a gain or a loss in the consolidated entity's income statement.	1 July 2009	1 July 2009
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127	Amending standard issued as a consequence of revisions to AASB 3 and AASB 127.	Refer to AASB 3 (Revised) and AASB 127 (Revised) above.	1 July 2009	1 July 2009

Reference	Title	Summary	Impact on consolidated entity financial report	Application Date of Standard	Application Date for consolidated entity
Amendments to International Financial Reporting Standards	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	The main amendments of relevance to Australian entities are those made to IAS 27 deleting the 'cost method' and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity's separate financial statements (i.e., parent company accounts). The distinction between pre-and post-acquisition profits is no longer required. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment. AASB 127 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary (that is, share of equity) rather than its fair value.	Recognising all dividends received from subsidiaries, jointly controlled entities and associates as income will likely give rise to greater income being recognised by the parent entity after adoption of these amendments. In addition, if the consolidated entity enters into any group reorganisation establishing new parent entities, an assessment will need to be made to determine if the reorganisation meets the conditions imposed to be effectively accounted for on a 'carry-over basis' rather than at fair value.	1 January 2009	1 July 2009
Amendments to International Financial Reporting Standards	Improvements to IFRSs	The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs. The IASB has separated the amendments into two parts: Part I deals with changes the IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact.	The consolidated entity has not yet determined the extent of the impact of the amendments, if any.	1 January 2009 except for amendments to IFRS 5, which are effective from 1 July 2009	1 July 2009

Adoption of new accounting standard

The consolidated entity has adopted AASB 7 Financial Instruments: Disclosures and all consequential amendments which became applicable on 1 January 2007. The adoption of this standard has only affected the disclosure in these financial statements. There has been no affect on profit and loss or the financial position of the entity.

(f) Foreign currency translation

Both the functional and presentation currency of Mount Gibson and its Australian controlled entities is Australian dollars (A\$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All such exchange differences are taken to the Income Statement in the consolidated financial report.

(g) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(h) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less any provision for impairment.

A provision for impairment of trade receivables is made when there is objective evidence that the consolidated entity will not be able to collect the debts. Indicators of impairment would include financial difficulties of the debtor, likelihood of the debtor's insolvency and default in payment. Any impairment is recognised in the Income Statement.

The majority of sales revenue is invoiced and received in US dollars.

Generally, on presentation of shiploading documents and provisional invoice, the customer settles 90%-95% of the provisional sales invoice value within 10 days of receipt of shiploading documents and provisional invoice and the remaining 5%-10% is settled within 30 days of presentation of the final invoice. The final price is adjusted based on the final analyses of weight, chemical and physical composition, and moisture content.

(i) Inventories

Inventories are valued at the lower of cost and net realisable value.

Cost comprises direct material, labour and expenditure in getting such inventories to their existing location and condition, based on weighted average costs incurred during the period in which such inventories were produced.

Consumable materials for plant and equipment, which were previously recognised directly in the profit and loss, are now recognised as inventory. Consumable stocks are carried at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(j) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation

The cost of owned property, plant and equipment directly engaged in mining operations is written off over its expected economic life on a units-of-production method, in the establishment of which, due regard is given to the life of the related area of interest. Plant and equipment under hire purchase or finance lease directly engaged in mining operations is written down to its residual value over the period of the hire purchase or finance lease. Other assets which are depreciated or amortised on a basis other than the units-of-production method typically are depreciated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings	5-20 years
Motor vehicles	4-5 years
Office equipment	3-5 years
Leasehold improvements	Shorter of lease term or useful life of 5-10 years
Koolan Island major fleet hire purchase	5 years

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

(k) Mine properties

Mine properties represent the accumulation of all acquisition, exploration, evaluation and development expenditure incurred by or on behalf of the consolidated entity in relation to areas of interest in which mining of mineral resource has commenced. When further development expenditure, including waste development, is incurred in respect of a mine property after the commencement of production, such expenditure is carried forward as part of the cost of that mine property only when substantial future economic benefits are established, otherwise such expenditure is classified as part of the cost of production.

Amortisation is provided on the units-of-production method, with separate calculations being made for each mineral resource. Estimated future capital and waste development costs to be incurred in accessing the reserves and measured resources are taken into account in determining amortisation charges. The units-of-production method results in an amortisation charge proportional to the depletion of the economically recoverable mineral resources (comprising proven and probable reserves plus where appropriate, a portion of measured resources).

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Should the carrying value of the expenditure not yet amortised exceed its estimated recoverable amount in any year, the excess is written off to the income statement.

(l) Acquisition, exploration, evaluation and development costs*Acquisition costs*

Exploration and evaluation costs arising from acquisitions are carried forward where exploration and evaluation activities have not, at balance date, reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves.

Exploration and evaluation costs

Costs arising from exploration and evaluation activities are expensed as incurred, except where, at balance date, it is expected that the expenditure will be recouped by future exploitation or sale of the area of interest, in which case the expenditure is capitalised.

Development costs

Costs arising from development activities are capitalised as incurred to the extent that such costs, together with any costs arising from acquisition, exploration and evaluation carried forward in respect of the area of interest, are expected to be recouped through future exploitation or sale of the area of interest.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Where uncertainty exists as to the future viability of certain areas, the value of the area of interest is written off to the income statement or provided against.

(m) Rehabilitation costs

Long-term environmental obligations are based on the consolidated entity's environmental management plans, in compliance with current environmental and regulatory requirements.

Full provision is made based on the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to the balance sheet date. Increases due to additional environmental disturbances, relating to the development of an asset, are capitalised and amortised over the remaining lives of the area of interest.

Annual increases in the provision relating to the change in the net present value of the provision are accounted for in the income statement as borrowing costs.

The estimated costs of rehabilitation are reviewed annually and adjusted as appropriate for changes in legislation, technology or other circumstances. Cost estimates are not reduced by potential proceeds from the sale of assets.

(n) Recoverable amount of assets

At each reporting date, the consolidated entity assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the consolidated entity makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. Recoverable amount is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less cost to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is also made at each reporting date as to whether there is any indication that a previously recognised impairment loss may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(o) *Financial assets*

Financial assets are classified into the following specified categories: ‘held-to-maturity’ investments, ‘loans and receivables’, and ‘available-for-sale financial assets’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

[i] Held-to-maturity investments

Commercial bills and bonds with fixed or determinable payments and fixed maturity dates that the consolidated entity has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

[ii] Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as ‘loans and receivables’.

Trade receivables, loans and other receivables are recorded at amortised cost, using the effective interest rate method, less impairment. Interest is recognised by applying the effective interest rate method.

[iii] Available-for-sale financial assets

Available-for-sale financial assets are non derivatives that are either designated as available for sale or not classified in any of the other categories. They are included in Non-Current Assets unless the consolidated entity intends to dispose of the investment within 12 months of the balance sheet date.

After initial recognition, investments, which are classified as available-for-sale, are measured at fair value. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The fair value of investments that are actively traded in organised markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

For investments with no active market, fair value is determined using valuation techniques. Such valuation techniques include using recent arm's length transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. Where fair value cannot be reliably measured for certain unquoted investments, these investments are measured at cost.

(p) *Non-current assets and disposal groups held for sale and discontinued operations*

Non-current assets and disposal groups are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction. They are not depreciated or amortised. For an asset or disposal group to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the income statement.

(q) *Trade and other payables*

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year that are unpaid and arise when the consolidated entity becomes obliged to make future payments in respect of the purchase of these goods and services

(r) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

Gains and losses are recognised in the profit or loss when the liabilities are derecognised.

(s) Provisions

Provisions are recognised when the consolidated entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

A provision for dividends is not recognised as a liability unless the dividends have been declared, determined or publicly recommended on or before the reporting date.

(t) Share-based payment transactions

The consolidated entity provides benefits to employees (including directors) of the consolidated entity in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (“equity-settled transactions”).

Options

There is currently a directors, Officers, Employees and Other Permitted Persons option plan.

The cost of these options is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a binomial model.

In valuing these options, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Mount Gibson.

Performance rights

At the commencement of the 2008 financial year, Mount Gibson established the Mount Gibson Iron Limited Performance Rights Plan (“PRP”). The PRP enables Mount Gibson to provide its executives with long term incentives which create a link between the delivery of value to shareholders, financial performance and rewarding and retaining the executives.

The cost of these performance rights is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a Monte-Carlo simulation model.

The vesting of these performance rights is subject to a relative Total Shareholder Return (“TSR”) hurdle to be measured at 30 June 2010 and 31 December 2010. Mount Gibson’s TSR performance will be ranked relative to a comparator group consisting of resource companies listed on ASX.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (“vesting date”).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the consolidated entity, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

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

(u) Employee benefits*Wages, salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Superannuation

Contributions made by the consolidated entity to employee superannuation funds, which are defined contribution plans, are charged as an expense when incurred.

(v) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

(w) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating Leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense in the income statement on a straight-line basis over the lease term.

Contingent rentals are recognised as an expense in the financial year in which they are incurred.

Finance Leases

Leases which effectively transfer substantially all the risks and benefits incidental to ownership of the leased item to the consolidated entity are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

Capitalised leased assets are depreciated over the estimated useful life of the asset or where appropriate, over the estimated life of the mine.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

(x) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably.

Interest

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

(y) Income tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(z) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

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

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(aa) Derivative financial instruments and hedging

The consolidated entity uses foreign currency contracts to hedge its risks associated with foreign currency fluctuations and interest rate swaps to hedge against interest rate movements. Such derivative financial instruments are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured to fair value.

Any gains and losses arising from changes in the fair value of derivatives, except those that qualify as cash flow hedges, are taken directly to net profit or loss for the year.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For the purpose of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

Cash flow hedges – forward foreign currency contracts

In relation to cash flow hedges (forward foreign currency contracts) to hedge firm commitments which meet the conditions for a special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

When the hedged firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

The consolidated entity tests each of the designated cash flow hedges for effectiveness on a monthly basis both retrospectively and prospectively using regression analysis. A minimum of 50 data points is used for regression analysis and if the testing falls within the 80:125 range, the hedge is considered highly effective and continues to be designated as a cash flow hedge.

At each balance date, the consolidated entity measures ineffectiveness using the ratio offset method. For foreign currency cash flow hedges if the risk is over hedged, the ineffective portion is taken immediately to other income or expense in the income statement.

Cash flow hedges – interest rate swaps

In relation to interest swaps hedged against fixed rate borrowings, the settlement dates coincide with the dates on which interest is payable on the underlying debt. All interest rate swaps matched directly against the appropriate loans and interest expense are considered highly effective, and are settled on a net basis. The swaps are measured at fair value and all gains and losses attributable to the hedged risk are taken directly to equity and reclassified into profit and loss when the interest expense is recognised. Any ineffective portion is taken to other expenses in the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting.

At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

(bb) *Financial instruments issued by the consolidated entity*

[i] 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.

[ii] 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.

(cc) Financial liabilities*[i] Financial liabilities at fair value through profit and loss*

Financial liabilities at fair value through profit and loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

[ii] Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

(dd) Issued capital

Issued and paid up capital is recognised at the fair value of the consideration received by the consolidated entity. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction in the proceeds received.

(ee) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of Mount Gibson, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(ff) Significant accounting judgements, estimates and assumptions

Significant accounting judgements, estimates and assumptions have been made as follows:

[i] Mine rehabilitation provision

The consolidated entity assesses its mine rehabilitation provision annually in accordance with the accounting policy stated in Note 1(m). Significant judgement is required in determining the provision for mine rehabilitation as there are many transactions and other factors that will affect the ultimate liability payable to rehabilitate the mine site. Factors that will affect this liability include future development, changes in technology, commodity price changes and changes in interest rates. When these factors change or become known in the future, such difference will impact the mine rehabilitation provision in the period in which they change or become known.

[ii] Units of production method of depreciation

The consolidated entity applies the units of production method of depreciation of its mine assets based on ore tonnes mined. These calculations require the use of estimates and assumptions. Significant judgement is required in assessing the available reserves and resources and the production capacity of the operations to be depreciated under this method. Factors that are considered in determining reserves and resources and production capacity are the consolidated entity's history of converting resources to reserves and the relevant time frames, the complexity of metallurgy, markets and future developments. The consolidated entity uses proved and probable reserves to depreciate assets on a unit of production basis. However where a mineral property has been acquired and an amount has been attributed to the fair value of resources not yet designated as reserves the additional resources have been taken into account. When these factors change or become known in the future, such differences will impact pre-tax profit and carrying values of assets.

[iii] Determination of mineral resources and ore reserves

The consolidated entity estimates its mineral resources and ore reserves in accordance with the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004 (the 'JORC code'). The information on mineral resources and ore reserves were prepared by or under the supervision of Competent Persons as defined in the JORC code. The amounts presented are based on the mineral resources and ore reserves determined under the JORC code.

There are numerous uncertainties inherent in estimating mineral resources and ore reserves and assumptions that are valid at the time of estimation may change significantly when new information becomes available.

Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated. Such changes in the reserves could impact on depreciation and amortisation rates, asset carrying values, deferred stripping costs and provisions for decommissioning and restoration.

[iv] Impairment of capitalised exploration and evaluation expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the consolidated entity decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors which could impact the future recoverability include the level of proved, probable and inferred mineral resources, future technological changes which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, this will reduce profits and net assets in the period in which this determination is made.

In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent that it is determined in the future that this capitalised expenditure should be written off, this will reduce profits and net assets in the period in which this determination is made.

[v] Impairment of capitalised mine development expenditure

The future recoverability of capitalised mine development expenditure is dependent on a number of factors, including the level of proved, probable and inferred mineral resources, future technological changes which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised mine development expenditure is determined not to be recoverable in the future, this will reduce profits and net assets in the period in which this determination is made.

[vi] Impairment of property, plant and equipment

Property, plant and equipment is reviewed for impairment if there is any indication that the carrying amount may not be recoverable. Where a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of 'value in use' (being the net present value of expected future cash flows of the relevant cash generating unit) and 'fair value less costs to sell'.

In determining value in use, future cash flows are based on:

- Estimates of the quantities of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- Future production levels;
- Future commodity prices; and
- Future cash costs of production and capital expenditure.

Variations to the expected future cash flows, and timing thereof, could result in significant changes to any impairment losses recognised, if any, which could in turn impact future financial results.

[vii] Deferred Waste

The consolidated entity has adopted a policy of deferring waste development costs and amortising them in accordance with the life-of-mine strip ratio. Significant judgement is required in determining this ratio for each mine. Factors that are considered include:

- Any proposed changes in the design of the mine;
- Estimates of the quantities of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- Future production levels;
- Future commodity prices; and
- Future cash costs of production and capital expenditure.

[viii] Recoverability of potential deferred income tax assets

The consolidated entity recognises deferred income tax assets in respect of tax losses to the extent that the future utilisation of these losses is considered probable. Assessing the future utilisation of these losses requires the consolidated entity to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, this could result in significant changes to the deferred income tax assets recognised, which would in turn impact future financial results.

[ix] Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted and applying an estimated probability that they will vest. The fair value is determined by an external valuer using a binomial model, with the assumptions detailed in Note 25. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

[x] Financial guarantees

The fair value of financial guarantee contracts have been assessed using the interest differential approach.

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
NOTES	\$'000	\$'000	\$'000	\$'000
2. Revenue and expenses				
[a] Revenue				
Sale of ore	409,349	156,020	–	–
Realised gain on foreign exchange hedges	23,325	6,728	–	–
	<u>432,674</u>	<u>162,748</u>	<u>–</u>	<u>–</u>
Other revenue				
Finance income – other persons/ corporations	2,500	2,256	247	332
Finance income – intercompany loans	–	–	3,465	2,508
	<u>2,500</u>	<u>2,256</u>	<u>3,712</u>	<u>2,840</u>
[b] Other income				
Realised gain on foreign exchange	664	–	–	–
Net gain on sale of plant and equipment	54	–	–	–
Net unrealised gain on foreign exchange	3,163	2,764	–	–
Other income	–	41	–	1
	<u>3,881</u>	<u>2,805</u>	<u>–</u>	<u>1</u>

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
NOTES	\$'000	\$'000	\$'000	\$'000
[c] Finance costs				
Finance charges on loans	11,142	4,370	9,488	3
Less: finance charges on loans capitalised	—	(3,010)	—	—
	<u>11,142</u>	<u>1,360</u>	<u>9,488</u>	<u>3</u>
Finance charges payable under finance leases	4,353	2,122	—	—
Less: finance charges on leases capitalised	—	(1,446)	—	—
	<u>4,353</u>	<u>676</u>	<u>—</u>	<u>—</u>
Unwinding of discount on rehabilitation provision	—	31	—	—
	<u>15,495</u>	<u>2,067</u>	<u>9,488</u>	<u>3</u>
[d] Expenses included in the Income Statement				
Depreciation of Non-Current Assets				
• Plant and equipment	8,902	2,078	—	—
• Plant and equipment under lease	10,793	4,103	—	—
• Buildings	5,281	885	—	—
• Buildings under lease	48	51	—	—
	<u>25,024</u>	<u>7,117</u>	<u>—</u>	<u>—</u>
• Less: depreciation capitalised	(16)	(2,400)	—	—
	<u>25,008</u>	<u>4,717</u>	<u>—</u>	<u>—</u>

APPENDIX III
FINANCIAL INFORMATION ON MOUNT GIBSON

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
<i>NOTES</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Amortisation of deferred waste	135,989	55,508	–	–
Amortisation of other mine properties	29,358	3,141	–	–
Acquisition accrual reversal	(5,319)	–	–	–
Share-based payments expense	5,599	2,957	–	–
Operating lease rental – minimum lease payments	25,988	19,766	–	–
Exploration expenditure written off	38	8	–	–
Government royalties	31,048	10,702	–	–
Salaries, wages expense and other employee benefits	29,312	18,451	–	–
Net loss on sale of plant and equipment	–	501	–	–
Bad debts	–	44	–	44
Net (gain)/loss on cash flow hedges	(390)	511	(286)	–
Net loss on disposal of available-for-sale-financial-assets	3	183	–	183
Impairment of available-for-sale financial assets	–	1,506	–	1,506

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
NOTES	\$'000	\$'000	\$'000	\$'000
3. Income tax				
Major components of income tax expense for the years ended 30 June 2008 and 2007 are:				
Income Statement				
<i>Current income tax</i>				
Current income tax charge	-	-	-	-
<i>Deferred income tax</i>				
Relating to origination and reversal of temporary differences	50,513	21,286	(2,742)	474
Benefit from previously unrecognised tax loss used to reduce deferred tax expense/temporary differences	-	-	-	-
Income tax expense/(benefit) reported in income statement	<u>50,513</u>	<u>21,286</u>	<u>(2,742)</u>	<u>474</u>
Statement of Changes in Equity				
<i>Current income tax</i>				
Current income tax on exchange difference on loan	-	-	-	-
<i>Deferred income tax</i>				
Capital raising costs	(48)	164	(64)	-
Remeasurement of foreign exchange contracts	5,590	1,292	-	-
Interest rate swap contracts	352	-	352	-
Deferred income tax benefit reported in equity	<u>5,894</u>	<u>1,456</u>	<u>288</u>	<u>-</u>

	NOTES	CONSOLIDATED		COMPANY	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Reconciliation of income tax expense/(benefit)					
A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the years ended 30 June 2008 and 2007 is as follows:					
Accounting profit/(loss) before income tax					
		163,857	69,052	(8,488)	(120)
• At the statutory income tax rate of 30% (2007: 30%)		49,157	20,715	(2,546)	(36)
• Adjustments on formation of a tax consolidated group		–	(774)	–	–
• Previously unrecognised tax losses now recognised		–	–	–	58
• Temporary differences not brought to account as a deferred tax asset		1	452	1	452
• Expenditure not allowed for income tax purposes		1,683	893	–	–
• Adjustments in respect of deferred income tax of previous years		233	–	(124)	–
• Charge to equity		(561)	–	(73)	–
Income tax expense/(benefit)		<u>50,513</u>	<u>21,286</u>	<u>(2,742)</u>	<u>474</u>
Effective income tax rate		30.8%	30.8%	(32.3%)	(395%)
Income tax expense reported in income statement		50,513	13,209	(2,742)	474
Income tax attributable to discontinued operation	11	–	8,077	–	–
		<u>50,513</u>	<u>21,286</u>	<u>(2,742)</u>	<u>474</u>

Tax Consolidation

Mount Gibson and its 100% owned controlled entities have formed a tax consolidated group. Members of the consolidated entity have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned controlled entities on a group allocation approach. The agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At balance date, the possibility of default is remote. The head entity of the tax consolidated group is Mount Gibson Iron Limited.

Tax effect accounting by members of the tax consolidated group

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement provides for the allocation of current taxes to members of the tax consolidated group. Deferred taxes are allocated to members of the tax consolidated group in accordance with a group allocation approach which is consistent with the principles of AASB 112 Income Taxes.

The allocation of taxes under the tax funding agreement is recognised as an increase/decrease in the controlled entities intercompany accounts with the tax consolidated group head company, Mount Gibson Iron Limited. In this regard Mount Gibson has assumed the benefit of tax losses from controlled entities in the current year of \$14,492,208 (2007: \$26,020,750) as of the balance date. The nature of the tax funding agreement is such that no tax consolidation contributions by or distributions to equity participants are required.

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2008	2007	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
CONSOLIDATED						
Accrued liabilities	(174)	(131)	-	-	(174)	(131)
Borrowing costs	(1,009)	(718)	-	-	(1,009)	(718)
Capital raising costs	(6,392)	(10,036)	-	-	(6,392)	(10,036)
Deferred income	-	-	40,863	7,825	40,863	7,825
Doubtful debts provision	-	(105)	-	-	-	(105)
Exploration expenditure	-	-	3,464	2,709	3,464	2,709
Foreign exchange contracts	(327)	(275)	8,387	2,336	8,060	2,061
Interest rate swaps	(103)	-	468	-	365	-
Interest receivable	-	-	268	427	268	427
Inventory	-	-	1,121	396	1,121	396
Lease liability	(4,284)	(999)	-	-	(4,284)	(999)
Mine properties	-	-	51,524	24,991	51,524	24,991
Prepaid expenditure	-	-	16	4	16	4
Property, plant and equipment	-	4,266	10,249	-	10,249	4,266
Provisions	(6,298)	(5,893)	-	-	(6,298)	(5,893)
Tax losses	(53,241)	(36,672)	-	-	(53,241)	(36,672)
Tax (assets) liabilities	(71,828)	(50,563)	116,360	38,688	44,532	(11,875)
Set off of tax	71,828	38,688	(71,828)	(38,688)	-	-
Net tax (assets) liabilities	-	(11,875)	44,532	-	44,532	(11,875)

APPENDIX III
FINANCIAL INFORMATION ON MOUNT GIBSON

	Balance					Balance
	1 July	Recognised	Recognised	Disposal	Recognised	30 June
	2006	in Income	in Equity	of AIHL	for Aztec	2007
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Movement in temporary differences during the financial year ended 30 June 2007						
Accrued liabilities	(218)	97	–	–	(10)	(131)
Borrowing costs	(7)	(711)	–	–	–	(718)
Capital raising costs	(266)	1,929	164	–	(11,863)	(10,036)
Deferred income	3,689	4,136	–	–	–	7,825
Doubtful debts provision	(162)	57	–	–	–	(105)
Exploration expenditure	13,363	(6,629)	–	(4,206)	181	2,709
Fair value increase	(1,662)	9,566	–	(7,904)	–	–
Foreign exchange contracts	322	164	1,292	–	283	2,061
Interest receivable	202	225	–	–	–	427
Inventory	–	325	–	–	71	396
Lease liability	(1,301)	302	–	–	–	(999)
Mine properties	3,950	27,974	–	–	(6,933)	24,991
Prepaid expenditure	5	(1)	–	–	–	4
Property, plant and equipment	3,562	(1,959)	–	32	2,631	4,266
Provisions	(350)	(5,508)	–	–	(35)	(5,893)
Tax losses	(16,443)	(8,681)	–	5,541	(17,089)	(36,672)
	<u>4,684</u>	<u>21,286</u>	<u>1,456</u>	<u>(6,537)</u>	<u>(32,764)</u>	<u>(11,875)</u>

	Balance					Balance
	1 July 2007	Recognised	Recognised			30 June
	<i>\$'000</i>	in Income	in Equity			2008
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>			<i>\$'000</i>
Movement in temporary differences during the financial year ended 30 June 2008						
Accrued liabilities	(131)	(43)	–			(174)
Borrowing costs	(718)	(291)	–			(1,009)
Capital raising costs	(10,036)	3,692	(48)			(6,392)
Deferred income	7,825	33,038	–			40,863
Doubtful debts provision	(105)	105	–			–
Exploration expenditure	2,709	755	–			3,464
Foreign exchange contracts	2,061	409	5,590			8,060
Interest rate swaps	–	13	352			365
Interest receivable	427	(159)	–			268
Inventory	396	725	–			1,121
Lease liability	(999)	(3,285)	–			(4,284)
Mine properties	24,991	26,533	–			51,524
Prepaid expenditure	4	12	–			16
Property, plant and equipment	4,266	5,983	–			10,249
Provisions	(5,893)	(405)	–			(6,298)
Tax losses	(36,672)	(16,569)	–			(53,241)
	<u>(11,875)</u>	<u>50,513</u>	<u>5,894</u>			<u>44,532</u>

	Assets		Liabilities		Net	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
COMPANY						
Accrued liabilities	(45)	(37)	-	-	(45)	(37)
Borrowing costs	(510)	(6)	-	-	(510)	(6)
Capital raising costs	(364)	(136)	-	-	(364)	(136)
Doubtful debts provision	(43)	(43)	-	-	(43)	(43)
Interest rate swaps	(103)	-	468	-	365	-
Tax losses	(53,243)	(36,672)	-	-	(53,243)	(36,672)
Tax (assets) liabilities	(54,308)	(36,894)	468	-	(53,840)	(36,894)
Set off of tax	468	-	(468)	-	-	-
Net tax (assets) liabilities	(53,840)	(36,894)	-	-	(53,840)	(36,894)

	Balance	Recognised in Income \$'000	Recognised in Equity \$'000	Transfers Out (In) \$'000	Balance
	1 July 2006 \$'000				30 June 2007 \$'000
Movement in temporary differences during the financial year ended 30 June 2007					
Accrued liabilities	(7)	(30)	-	-	(37)
Borrowing costs	(8)	2	-	-	(6)
Capital raising costs	(266)	130	-	-	(136)
Provisions	(169)	126	-	-	(43)
Tax losses	(10,897)	246	-	(26,021)	(36,672)
	(11,347)	474	-	(26,021)	(36,894)

	Balance	Recognised in Income \$'000	Recognised in Equity \$'000	Transfers Out (In) \$'000	Balance
	1 July 2007 \$'000				30 June 2008 \$'000
Movement in temporary differences during the financial year ended 30 June 2008					
Accrued liabilities	(37)	(8)	-	-	(45)
Borrowing costs	(6)	(504)	-	-	(510)
Capital raising costs	(136)	(165)	(63)	-	(364)
Provisions	(43)	-	-	-	(43)
Interest rate swaps	-	13	352	-	365
Tax losses	(36,672)	(2,078)	-	(14,493)	(53,243)
	(36,894)	(2,742)	289	(14,493)	(53,840)

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000
Unrecognised deferred tax assets				
Deferred tax assets have not been recognised in respect of the following items:				
Provision for write down of investments	624	487	624	487
Exploration rights	–	122	–	–
Tax losses	311	786	311	45
	<u>935</u>	<u>1,395</u>	<u>935</u>	<u>532</u>

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
NOTES	\$'000	\$'000	\$'000	\$'000

4. Cash and cash equivalents

Cash at bank and in hand	33,930	28,540	4,562	351
Short-term deposits	14,728	32,258	–	–
	<u>48,658</u>	<u>60,798</u>	<u>4,562</u>	<u>351</u>

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
NOTES	\$'000	\$'000	\$'000	\$'000
[a] Reconciliation of cash				
For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:				
Cash at bank and in hand	33,930	28,540	4,562	351
Short-term deposits	14,728	32,258	–	–
	<u>48,658</u>	<u>60,798</u>	<u>4,562</u>	<u>351</u>
[b] Reconciliation of the net profit/ (loss) after tax to the net cash flows from operations				
Net profit/(loss) after tax	113,344	47,765	(5,746)	(594)
<i>Adjustments for:</i>				
Depreciation of non-current assets	25,008	4,717	–	–
Amortisation of deferred waste	135,989	55,508	–	–
Amortisation of other mine properties	29,358	3,141	–	–
Net (profit)/loss on disposal of property, plant and equipment	(54)	501	–	–
Net exchange differences	(502)	512	(287)	–
Interest received	(2,500)	(2,256)	(247)	(332)
Exploration expenses written off	38	8	–	–
Share based payments	5,599	2,957	–	–
Intra-group interest income	–	–	(3,465)	(2,508)
Bad debts	–	44	–	44
Impairment of investments	–	1,506	–	1,506
Borrowing costs	2,481	–	2,345	–
Profit from disposal of controlled entity	–	(18,721)	–	(91)
Net loss on disposal of available-for-sale financial assets	3	183	3	183
Capitalised expenses	(5,319)	(10,325)	–	(3)

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
NOTES	\$'000	\$'000	\$'000	\$'000
<i>Changes in assets and liabilities</i>				
(Increase)/decrease in trade and other receivables	(74,468)	(534)	27	(16)
(Increase) in inventory	(36,867)	(16,673)	–	–
(Increase)/decrease in prepayments and deposits	(837)	(94)	1	(312)
Decrease in deferred tax assets	–	–	–	474
(Increase) in capitalised deferred waste	(223,113)	(102,570)	–	–
Increase in creditors and accruals	25,883	23,783	1,002	208
Increase/(decrease) in GST paid	459	(172)	190	(179)
Increase/(decrease) in deferred income tax liabilities	50,513	13,326	(2,742)	–
Increase in employee benefits	738	484	–	–
Net Cash Flow				
(used in)/from Operating Activities	45,753	3,090	(8,919)	(1,620)

[c] Non-cash financing activities

During the financial year, the consolidated entity acquired property, plant and equipment with an aggregate fair value of \$6,860,022 (2007: \$56,371,647) by means of finance leases and hire purchase agreements. During the financial year, the consolidated entity disposed of property, plant and equipment with an aggregate fair value of \$1,320,021 (2007: \$3,771,433) that were financed by means of finance leases.

	NOTES	CONSOLIDATED		COMPANY	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
5. Trade and other receivables					
Current					
Trade debtors	<i>[a][i]</i>	78,493	3,954	–	10
Allowance for impairment	<i>[b]</i>	–	(350)	–	–
		<u>78,493</u>	<u>3,604</u>	<u>–</u>	<u>10</u>
Sundry debtors	<i>[a][ii]</i>	1,522	2,222	–	17
Other receivables		<u>3,421</u>	<u>4,022</u>	<u>38</u>	<u>463</u>
		<u>83,436</u>	<u>9,848</u>	<u>38</u>	<u>490</u>
Non-Current					
Other receivables – controlled entities	<i>[a][iii]</i>	–	–	116,092	54,867
Allowance for impairment		–	–	(145)	(145)
Convertible note receivable	<i>[a][iv]</i>	<u>1,000</u>	<u>–</u>	<u>1,000</u>	<u>–</u>
		<u>1,000</u>	<u>–</u>	<u>116,947</u>	<u>54,722</u>

[a] Terms and conditions

Terms and conditions relating to the above financial instruments:

- [i] Details of terms and conditions of trade debtors and credit sales are set out in note 1(h).
- [ii] Sundry debtors are non-interest bearing and have repayment terms between 30 and 90 days.
- [iii] Except for amounts payable by Mount Gibson Mining Limited of \$51,763,184, on which interest is charged at 7% pa, receivables from controlled entities are non-interest bearing with no fixed repayment date and are repayable on demand.
- [iv] Convertible note held in Resources Mining Corporation Limited, convertible into 31,250,000 ordinary shares. The convertible note is unsecured, interest free and due on 19 December 2009.

[b] Impaired or past due financial assets

A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. At 30 June 2008, trade debtors of \$nil (2007: \$349,988) in the consolidated entity and \$nil (2007: \$nil) in Mount Gibson were impaired. The impairment losses have been included in administrative expenses in the income statement.

At 30 June 2008, trade debtors of \$348,111 (2007: \$1,185,790) in the consolidated entity and \$nil (2007: \$10,000) in Mount Gibson were past due but not impaired. These relate to a number of customers for whom there is no recent history of default and other indicators of impairment.

With respect to trade debtors that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

	<u>CONSOLIDATED</u>		<u>COMPANY</u>	
	2008	2007	2008	2007
<i>NOTES</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Movements in the provision for impairment were as follows:				
Balance at the beginning of the year	350	–	–	–
Charge for the year	–	350	–	–
Amounts written off	<u>(350)</u>	<u>–</u>	<u>–</u>	<u>–</u>
Balance at the end of the year	<u>–</u>	<u>350</u>	<u>–</u>	<u>–</u>
The ageing of debtors past due but not impaired is as follows:				
Less than 30 days overdue	–	22	–	–
Between 30 and 60 days overdue	280	288	–	–
Between 60 and 90 days overdue	23	1	–	–
Greater than 90 days overdue	<u>45</u>	<u>875</u>	<u>–</u>	<u>10</u>
	<u>348</u>	<u>1,186</u>	<u>–</u>	<u>10</u>

	NOTES	CONSOLIDATED		COMPANY	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
6. Inventories					
Consumables – at cost		9,473	4,984	–	–
Ore – at cost		61,975	29,597	–	–
		<u>71,448</u>	<u>34,581</u>	<u>–</u>	<u>–</u>
7. Derivative financial assets					
Current					
Foreign currency forward contracts and options	34[b][i]	23,602	5,065	–	–
Interest rate swap contracts	34[c][i]	1,559	–	1,559	–
		<u>25,161</u>	<u>5,065</u>	<u>1,559</u>	<u>–</u>
8. Available-for-sale financial assets					
Shares – unlisted at fair value		–	3	–	3
Shares – listed at fair value		1,113	1,802	1,113	1,802
		<u>1,113</u>	<u>1,805</u>	<u>1,113</u>	<u>1,805</u>
Available-for-sale financial assets consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate. A 10% change in the market price of the listed shares will increase or decrease the fair value by \$111,297 (2007: \$180,225).					
9. Other financial assets					
Non-Current					
Investments in controlled entities – at cost		–	–	344,509	338,432

10. Interest in subsidiaries

Name	Country of Incorporation	Percentage of Equity Interest Held by the consolidated entity		Investment	
		2008	2007	2008	2007
		%	%	\$'000	\$'000
Mount Gibson Mining Limited	Australia	100	100	26,187	20,588
WHTK Pty Ltd	Australia	100	100	–	–
Geraldton Bulk Handling Pty Ltd	Australia	100	100	–	–
Aztec Resources Limited	Australia	100	100	318,322	317,844
• Koolan Iron Ore Pty Ltd	Australia	100	100	–	–
• Koolan Shipping Pty Ltd	Australia	100	100	–	–
• Brockman Minerals Pty Ltd	Australia	100	100	–	–
				344,509	338,432

ACQUISITION OF AZTEC RESOURCES LIMITED

On 24 July 2006, Mount Gibson announced its intention to acquire Aztec.

The acquisition was implemented by means of an off-market scrip takeover bid by Mount Gibson for all shares in Aztec. Under the bid, Mount Gibson offered Aztec shareholders 1 new share for every 3 Aztec shares.

Mount Gibson gained effective control of Aztec on 30 November 2006.

At the end of the offer period on 22 December 2006, Mount Gibson's voting power in Aztec was 91.28% and as the applicable thresholds had been reached, Mount Gibson commenced the compulsory acquisition process to acquire all the remaining fully paid ordinary shares in Aztec which it did not already own.

Mount Gibson completed compulsory acquisition of the remaining Aztec shares on 9 February 2007. A total of 378,491,182 new shares in Mount Gibson were issued to Aztec shareholders.

A summary of the consideration paid by Mount Gibson and the fair value of identifiable assets and liabilities of Aztec as at the date of acquisition are provided below.

\$'000

Consideration

Issue of Mount Gibson Iron Limited shares to Aztec shareholders	297,905
Costs of the Offer	<u>19,834</u>

Total consideration 317,739

The net cash flow on acquisition is summarised as follows:

Net cash acquired with subsidiary	9,927
Costs associated with the acquisition	<u>(6,275)</u>
	<u><u>3,652</u></u>

	Recognised on acquisition	Carrying value prior to acquisition
	<i>\$'000</i>	<i>\$'000</i>
Net Assets of Aztec as at 30 November 2006		
Cash	9,927	9,927
Receivables	2,571	2,571
Prepayments	83	83
Inventories	141	141
Property, plant and equipment	84,985	84,985
Deferred acquisition, exploration, evaluation and development costs	282	282
Mine Properties	248,356	85,062
Deferred tax asset	32,764	–
Trade and other payables	(15,081)	(15,081)
Interest bearing liabilities	(18,561)	(18,561)
Provision – employee entitlements	(153)	(153)
Provision – rehabilitation	(12,329)	(10,000)
Hire purchase liabilities	<u>(15,246)</u>	<u>(15,246)</u>
	<u><u>317,739</u></u>	<u><u>124,010</u></u>

If the combination had taken place at the beginning of the period, the profit before tax from continuing operations for the consolidated entity would have been \$27 million and revenue from continuing operations would have been \$166 million.

Entities subject to Class Order relief

Pursuant to Class Order 98/1418, relief has been granted to Mount Gibson Mining Limited, Aztec Resources Limited and Koolan Iron Ore Pty Ltd from the Corporations Act 2001 requirements for the preparation, audit and lodgement of their financial reports.

As a condition of the Class Order, Mount Gibson Iron Limited, Mount Gibson Mining Limited, Aztec Resources Limited and Koolan Iron Ore Pty Ltd (“Closed Group”) entered into a Deed of Cross Guarantee on 1 May 2008. The effect of this deed is that Mount Gibson Iron Limited has guaranteed to pay any deficiency in the event of winding up of these controlled entities or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that Mount Gibson Iron Limited is wound up or if it does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee.

The consolidated income statement and balance sheet of the Closed Group are as follows:

Consolidated Income Statement

	CONSOLIDATED	
	2008	2007
	<i>\$'000</i>	<i>\$'000</i>
Continuing operations		
Sale of goods	432,674	162,748
Other revenue	2,476	2,243
Total revenue	435,150	164,991
Cost of sales	(239,786)	(103,390)
Gross profit	195,364	61,601
Other income	3,880	2,805
Administrative expenses	(15,013)	(12,943)
Impairment of available-for-sale financial assets	–	(1,506)
Exploration expenses	(36)	(8)
Profit from Continuing Operations before tax and finance costs	184,195	49,949
Finance costs	(15,495)	(2,067)
Profit from Continuing Operations before income tax	168,700	47,882
Income tax (expense)	(51,966)	(14,898)
Net profit from Continuing Operations for the period after income tax	116,734	32,984
Profit from discontinued operations after income tax	–	18,721
Net profit After Tax attributable to members of Mount Gibson	116,734	51,705

Consolidated Balance Sheet

	CONSOLIDATED	
	2008	2007
	<i>\$'000</i>	<i>\$'000</i>
ASSETS		
Current assets		
Cash and cash equivalents	47,679	59,781
Trade and other receivables	82,662	9,158
Inventories	71,448	34,581
Prepayments	1,569	1,048
Derivative financial assets	25,161	5,065
Total current assets	228,519	109,633
Non-current assets		
Available for sale financial assets	1,113	1,805
Other receivables	11,699	8,118
Property, plant and equipment	184,710	183,482
Deferred acquisition, exploration, evaluation and development costs	25,919	9,027
Mine properties	447,141	370,591
Deferred income tax assets	–	12,152
Total non-current assets	670,582	585,175
TOTAL ASSETS	899,101	694,808
LIABILITIES		
Current liabilities		
Trade and other payables	71,520	62,803
Interest-bearing loans and borrowings	12,415	11,303
Derivative financial liabilities	342	–
Provisions	1,827	1,136
Total current liabilities	86,104	75,242

	CONSOLIDATED	
	2008	2007
	<i>\$'000</i>	<i>\$'000</i>
Non-current liabilities		
Provisions	19,112	18,470
Interest-bearing loans and borrowings	145,858	142,932
Deferred income tax liabilities	43,939	–
Total non-current liabilities	<u>208,909</u>	<u>161,402</u>
TOTAL LIABILITIES	<u>295,013</u>	<u>236,644</u>
NET ASSETS	<u><u>604,088</u></u>	<u><u>458,164</u></u>
EQUITY		
Issued capital	397,197	386,766
Retained earnings/(accumulated losses)	178,450	61,716
Reserves	28,441	9,682
TOTAL EQUITY	<u><u>604,088</u></u>	<u><u>458,164</u></u>

11. Discontinued operations – sale of Asia Iron Holdings Limited

On 17 November 2006 the consolidated entity sold its 73% interest in Asia Iron Holdings Limited (“Asia Iron”) to Sinom Investments and ceased to consolidate Asia Iron. That business is reported as a discontinued operation in this financial report. The financial information presented below in respect of Asia Iron represents the period 1 July 2006 to 17 November 2006.

[a] Profit from discontinued operations

The financial information presented below in respect of Asia Iron represents the period 1 July 2006 to 17 November 2006 (30 June 2007 column) and for the twelve month period to 30 June 2006.

	<i>Note</i>	30 June 2008 <i>\$'000</i>	30 June 2007 <i>\$'000</i>
Asia Iron			
Other revenue		—	4
Total revenue		—	4
Cost of sales		—	—
Gross profit		—	4
Other income		—	368
Other expenses		—	(242)
Profit/(Loss) of Asia Iron before tax and finance costs		—	130
Finance costs		—	(16)
Profit/(Loss) of Asia Iron before income tax		—	114
Income tax (expense)/benefit		—	—
Net Profit of Asia Iron for the period after income tax		—	114
Gain on deconsolidation of Asia Iron	<i>[b]</i>	—	26,684
Related income tax	<i>[b]</i>	—	(8,077)
Net Profit after income tax recognised on disposal of Asia Iron		—	18,607
Net Profit from discontinued operations after income tax		—	18,721
Earnings per share (cents per share):			
– basic earnings per share – discontinued operations		—	3.82
– diluted earnings per share – discontinued operations		—	3.79

[b] Details of the gain on deconsolidation of Asia Iron

	<i>Note</i>	30 June 2007 \$'000
Consideration received or receivable on disposal:		
– Cash received		52,500
– less: transaction costs		<u>(492)</u>
Net disposal consideration		<u>52,008</u>
MGI and MGM share of Asia Iron net assets disposed	<i>[c]</i>	24,439
FX translation reserve at disposal date		<u>885</u>
		<u>25,324</u>
Gain on deconsolidation before income tax		26,684
Related income tax expense		<u>(8,077)</u>
Gain on deconsolidation of Asia Iron after income tax		<u><u>18,607</u></u>

[c] Carrying amounts of Asia Iron assets and liabilities

The major classes of assets and liabilities of Asia Iron measured at the lower of carrying amount and fair value, were as follows:

	21 August 2006 \$'000
Assets	
Cash	1,654
Trade and other receivables	209
Prepayments	72
Property, plant and equipment	3,149
Deferred acquisition, exploration, evaluation and development costs	40,303
Deferred tax assets	<u>1,367</u>
	<u>46,754</u>

21 August 2006

\$'000

Liabilities

Trade and other payables	(1,286)
Interest bearing liabilities	(1,500)
Deferred tax liabilities	<u>(7,904)</u>

Liabilities directly associated with assets classified as held for sale	<u>(10,690)</u>
---	-----------------

Net assets of discontinued operations disposed	36,064
Less: Minority interest	<u>(11,625)</u>

Net assets attributable to disposal of Asia Iron 24,439

[d] Assets and liabilities associated with discontinued operation

As at 30 June 2008, there are no assets or liabilities in the Balance Sheet relating to the discontinued operation.

[e] Cash flow information

The net cash flow on disposal of Asia Iron is presented below:

30 June 2007

\$'000

Net cash inflow on disposal

Net cash consideration received on disposal	[b]	52,008
Less cash and cash equivalents balances disposed	[c]	<u>(1,654)</u>

Net inflow of cash on disposal 50,354

Net cash flows of Asia Iron

In respect of the discontinued operation of Asia Iron, the following net cash flows are included in the Condensed Cash Flow statement

Operating activities	(211)
Investing activities	(960)
Financing activities	<u>—</u>

Net cash flows (used by)/from discontinued operation (1,171)

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
NOTES	\$'000	\$'000	\$'000	\$'000
12. Property, plant and equipment				
Freehold-land – at cost	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>
Plant and equipment – at cost	82,670	91,636	–	–
Accumulated depreciation	<u>(12,553)</u>	<u>(3,702)</u>	<u>–</u>	<u>–</u>
	<u>70,117</u>	<u>87,934</u>	<u>–</u>	<u>–</u>
Plant and equipment under lease				
– at cost	83,545	78,005	–	–
Accumulated depreciation	<u>(17,078)</u>	<u>(7,169)</u>	<u>–</u>	<u>–</u>
	<u>66,467</u>	<u>70,836</u>	<u>–</u>	<u>–</u>
Buildings – at cost	48,923	30,316	–	–
Accumulated depreciation	<u>(7,341)</u>	<u>(2,124)</u>	<u>–</u>	<u>–</u>
	<u>41,582</u>	<u>28,192</u>	<u>–</u>	<u>–</u>
Buildings under lease – at cost	522	522	–	–
Accumulated depreciation	<u>(340)</u>	<u>(292)</u>	<u>–</u>	<u>–</u>
	<u>182</u>	<u>230</u>	<u>–</u>	<u>–</u>
Capital works in progress – at cost	<u>10,144</u>	<u>571</u>	<u>–</u>	<u>–</u>
Total property, plant and equipment				
– at cost	225,809	201,055	5	5
Total accumulated depreciation	<u>(37,312)</u>	<u>(13,287)</u>	<u>–</u>	<u>–</u>
	<u>188,497</u>	<u>187,768</u>	<u>5</u>	<u>5</u>

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
NOTES	\$'000	\$'000	\$'000	\$'000

[a] Assets pledged as security

The value of assets pledged as security are:

Land	5	5	-	-
Plant and equipment	70,117	87,934	-	-
Plant and equipment under lease	66,467	70,836	-	-
Buildings	41,582	28,192	-	-
Buildings under lease	182	230	-	-
Capital works in progress	10,144	571	-	-
	<u>188,497</u>	<u>187,768</u>	<u>-</u>	<u>-</u>

[b] Reconciliations

Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current and previous financial year:

Plant and equipment

Carrying amount at the beginning of the year

Carrying amount at the beginning of the year	87,934	8,843	-	-
Additions	7,775	1,778	-	-
Additions through acquisition of entities	-	1,020	-	-
Transfers	(16,603)	78,526	-	-
Disposals	(87)	(12)	-	-
Disposals – discontinued operations	-	(143)	-	-
Depreciation expense	<u>(8,902)</u>	<u>(2,078)</u>	<u>-</u>	<u>-</u>
Carrying amount at the end of the year	<u>70,117</u>	<u>87,934</u>	<u>-</u>	<u>-</u>

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
NOTES	\$'000	\$'000	\$'000	\$'000
<i>Plant and equipment under lease</i>				
Carrying amount at the beginning of the year	70,836	3,071	–	–
Additions	6,860	56,371	–	–
Additions through acquisition of entities	–	19,122	–	–
Disposals	(436)	(3,625)	–	–
Depreciation expense	(10,793)	(4,103)	–	–
Carrying amount at the end of the year	66,467	70,836	–	–
<i>Buildings</i>				
Carrying amount at the beginning of the year	28,192	5,712	–	–
Additions	2,151	682	–	–
Additions through acquisition of entities	–	1,091	–	–
Transfers	16,603	21,600	–	–
Disposals	(83)	(8)	–	–
Depreciation expense	(5,281)	(885)	–	–
Carrying amount at the end of the year	41,582	28,192	–	–
<i>Buildings under lease</i>				
Carrying amount at the beginning of the year	230	281	–	–
Depreciation expense	(48)	(51)	–	–
Carrying amount at the end of the year	182	230	–	–
<i>Capital works in progress</i>				
Carrying amount at the beginning of the year	571	2,576	–	–
Additions	9,573	34,369	–	–
Additions through acquisition of entities	–	63,752	–	–
Transfers	–	(100,126)	–	–
Carrying amount at the end of the year	10,144	571	–	–

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
NOTES	\$'000	\$'000	\$'000	\$'000
13. Deferred acquisition, exploration, evaluation and development costs				
Deferred acquisition, exploration, evaluation and development costs carried forward in respect of mining areas of interest:				
Extension Hill Hematite	22,692	8,317	–	–
Koolan Island	3,227	710	–	–
	<u>25,919</u>	<u>9,027</u>	<u>–</u>	<u>–</u>
Reconciliation				
Carrying amount at beginning of the year	9,027	4,176	–	–
Additions	16,930	4,859	–	–
Exploration expenditure written off	(38)	(8)	–	–
Carrying amount at the end of the year	<u>25,919</u>	<u>9,027</u>	<u>–</u>	<u>–</u>

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective mining areas. Amortisation of costs carried forward for the development phase is not recognised pending commencement of production.

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
NOTES	\$'000	\$'000	\$'000	\$'000
14. Mine properties				
Mine development expenditure	711,267	469,369	–	–
Accumulated amortisation	(264,032)	(98,685)	–	–
	<u>447,235</u>	<u>370,684</u>	<u>–</u>	<u>–</u>
Reconciliation				
Carrying amount at beginning of the year	370,684	51,567	–	–
Additions	18,785	28,310	–	–
Additions through acquisition of entities	–	248,356	–	–
Deferred waste capitalised during the year	223,113	101,100	–	–
Amortisation expensed – deferred waste	(135,989)	(55,508)	–	–
Amortisation expensed – other	(29,358)	(3,141)	–	–
Carrying amount at the end of the year	<u>447,235</u>	<u>370,684</u>	<u>–</u>	<u>–</u>
15. Trade and other payables				
Current				
Trade creditors	25,709	16,510	418	106
Accruals and other payables	47,697	47,804	1,696	14,108
	<u>73,406</u>	<u>64,314</u>	<u>2,114</u>	<u>14,214</u>
Current trade creditors and other payables are non-interest bearing and are normally settled on 30 day terms.				
Non-current				
Other payables – controlled entities	<u>–</u>	<u>–</u>	<u>18,861</u>	<u>29,398</u>
Non current payables to controlled entities are non-interest bearing with no fixed repayment date.				

	NOTES	CONSOLIDATED		COMPANY	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
16. Interest – bearing loans and borrowings					
Current					
Lease liability	[a]	3,961	2,638	–	–
Hire purchase facility	[b]	8,454	8,665	–	–
Project Debt	[c]	–	87,451	–	–
		<u>12,415</u>	<u>98,754</u>	<u>–</u>	<u>–</u>
Non-current					
Lease liability	[a]	10,320	6,399	–	–
Hire purchase facility	[b]	33,931	49,082	–	–
Corporate Debt	[e]	105,000	–	105,000	–
Capitalised corporate debt facility costs		<u>(3,393)</u>	<u>–</u>	<u>(3,393)</u>	<u>–</u>
		<u>145,858</u>	<u>55,481</u>	<u>101,607</u>	<u>–</u>
Financing facilities available					
At reporting date, the following financing facilities had been negotiated and were available:					
Total facilities:					
• Finance leases	[a]	14,281	9,037	–	–
• Hire purchase facility	[b]	42,385	57,747	–	–
• Project Debt facility	[c]	–	100,000	–	–
• Contingent Instrument facility	[d]	25,000	5,488	25,000	–
• Bank multiple advance	[d]	–	20,474	–	–
• Corporate Debt	[e]	<u>175,000</u>	<u>–</u>	<u>175,000</u>	<u>–</u>
		<u>256,666</u>	<u>192,746</u>	<u>200,000</u>	<u>–</u>

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
NOTES	\$'000	\$'000	\$'000	\$'000
Facilities used at reporting date:				
• Finance leases	14,281	9,037	–	–
• Hire purchase facility	42,385	57,747	–	–
• Project Debt facility	–	87,451	–	–
• Contingent Instrument facility	13,816	5,488	13,184	–
• Bank multiple advance	–	–	–	–
• Corporate Debt	105,000	–	105,000	–
	<u>175,482</u>	<u>159,723</u>	<u>118,184</u>	<u>–</u>
Facilities unused at reporting date:				
• Finance leases	–	–	–	–
• Hire purchase facility	–	–	–	–
• Project Debt facility	–	12,549	–	–
• Contingent Instrument facility	11,184	–	11,816	–
• Bank multiple advance	–	20,474	–	–
• Corporate Debt	70,000	–	70,000	–
	<u>81,184</u>	<u>33,023</u>	<u>81,816</u>	<u>–</u>

Terms and conditions relating to the above financial facilities:

- [a] Finance leases are repayable monthly with final instalments due in July 2012. Interest is charged at an average rate of 8.35%. Secured by first mortgage over the leased assets.
- [b] Hire purchase arrangements have been entered into by Koolan Iron Ore Pty Ltd via a Master Lease agreement with Komatsu Corporate Finance Pty Limited and National Australia Bank Limited. Hire purchase amounts are repayable monthly with final instalments due in April 2012. Interest is charged at an average rate of 7.43%. Secured by first mortgage over the assets the subject of the hire purchase agreement and a guarantee from Mount Gibson Iron Limited. This facility is drawn and repayable in US\$ for Komatsu and A\$ for NAB.

[c] The project finance facility was with a banking syndicate comprising Westpac Banking Corporation, Bank of Scotland (Australia) Limited and Bank of Tokyo-Mitsubishi UFJ Ltd. The \$100 million facility consisted of:

- Senior debt facility of \$54 million (drawn in US\$);
- Cost overrun facility of \$10 million (drawn in US\$);
- Working capital facility of \$30 million; and
- Environmental bond facility of \$6 million.

The security pledge for these facilities was a fixed and floating charge over all the assets and undertakings of Koolan Iron Ore Pty Ltd with a guarantee from Aztec Resources Limited. Interest was charged at an average rate of 7.22%.

As set out in [e] below, this project finance facility was repaid in full and cancelled by the drawdown of the Corporate Debt facility on 6 September 2007.

[d] This facility was with HSBC Bank Australia Limited. The security pledge for these facilities was a fixed and floating charge over all the assets and undertakings of Mount Gibson Mining Limited, Mount Gibson Iron Limited and Geraldton Bulk Handling Pty Ltd.

As set out in [e] below, this facility was repaid in full and cancelled by the drawdown of the Corporate Debt facility on 6 September 2007.

[e] In June 2007 Mount Gibson mandated HSBC Australia Limited and National Australia Bank Limited as the joint lead Arranger and Underwriting Banks for a \$200 million debt facility to fund the refinance of the existing project finance facility in [c] above and the HSBC facility in [d] above and provide additional debt funding for the Koolan Island and Extension Hill iron ore developments. The facility documentation was signed on 28 August 2007 with drawdown on 6 September 2007.

The \$200 million facility consists of:

- Senior debt facility of \$175 million comprising 2 tranches:
 1. Tranche 1 of \$125 million;
 2. Extension Hill tranche of \$50 million which is only drawable against the Extension Hill DSO project after certain conditions precedent have been satisfied including EPA approval and Company Board approval for the project to proceed. These conditions precedent to drawdown will be satisfied in the near term; and
- Contingent Instrument facility of \$25 million (including guarantees, performance bonds).

At 30 June 2010 a review of the facility will be undertaken to determine the amortisation period and final debt repayment date which will be no later than 30 June 2012.

The average interest rate on the debt facility is 8.99%.

The security pledge for these facilities is a fixed and floating charge over all the assets and undertakings of Mount Gibson Iron Limited, Mount Gibson Mining Limited, Geraldton Bulk Handling Limited, Koolan Iron Ore Pty Ltd and Aztec Resources Limited together with mining mortgages over the mining tenements owned by Mount Gibson Mining Limited and Koolan Iron Ore Pty Ltd and the contractual rights of Mount Gibson Mining Limited to mine hematite at Extension Hill.

	NOTES	CONSOLIDATED		COMPANY	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
17. Derivative financial liabilities					
Current					
Interest rate swap contracts	34[c][i]	342	–	342	–
18. Provisions					
Current					
Employee benefits		1,780	1,072	–	–
Road resealing		100	100	–	–
		<u>1,880</u>	<u>1,172</u>	<u>–</u>	<u>–</u>
Non-current					
Employee benefits		59	28	–	–
Decommissioning rehabilitation		19,053	18,442	–	–
		<u>19,112</u>	<u>18,470</u>	<u>–</u>	<u>–</u>
Movement in provisions:					
Road Resealing					
Carrying amount at beginning of the year		100	12	–	–
Provision for period		200	188	–	–
Amounts utilised during the period		(200)	(100)	–	–
		<u>100</u>	<u>100</u>	<u>–</u>	<u>–</u>
Carrying amount at end of the year		100	100	–	–
Decommissioning Rehabilitation					
Carrying amount at beginning of the year		18,442	688	–	–
Unwinding of discount on rehabilitation provision		–	31	–	–
Revaluation of rehabilitation provision		611	5,394	–	–
Acquisition of Controlled Entity		–	12,329	–	–
		<u>19,053</u>	<u>18,442</u>	<u>–</u>	<u>–</u>
Carrying amount at end of the year		19,053	18,442	–	–
19. Issued capital					
[a] Ordinary shares					
Issued and fully paid		<u>397,197</u>	<u>386,766</u>	<u>397,197</u>	<u>386,766</u>

	NOTES	2008		2007	
		Number of Shares	\$'000	Number of Shares	\$'000
[b] Movement in ordinary shares on issue					
Beginning of the financial year		787,786,821	386,766	402,058,719	86,851
Shares issued for controlled entity	[i]	–	–	378,491,182	297,905
Issue of shares		–	–	–	–
Exercise of options		16,054,000	10,367	7,236,920	2,010
Deferred income tax on capital raising cost		–	64	–	–
End of the financial year		<u>803,840,821</u>	<u>397,197</u>	<u>787,786,821</u>	<u>386,766</u>

[i] Issued to Aztec Resources Limited shareholders in exchange for business combination of \$297,905,196.

[c] Terms and conditions of contributed equity

Ordinary shares have the right to receive dividends as declared, and in the event of winding up Mount Gibson, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of Mount Gibson.

Effective from 1 July 1998, the Corporation legislation in place abolished the concept of authorised capital and par values. Accordingly, Mount Gibson does not have authorised capital nor par value in respect of its issued shares.

[d] Share options

As at balance date the following Options over unissued Shares were on issue:

Exercise Price	Vesting date/Exercise Period	2008 Number	2007 Number
50 cents	Vested 31 Dec 2006 – exercise on or before 31 Dec 2007	–	5,000,000
55 cents	Vested 31 Dec 2007 – exercise on or before 31 Dec 2008	100,000	5,000,000
78 cents	Vested 31 Dec 2007 – exercise on or before 31 Dec 2009	475,000	–
89 cents	Vested 31 Dec 2007 – exercise on or before 31 Dec 2009	2,646,000	–
90 cents	Vesting on 1 July 2008 – exercise on or before 30 June 2010	2,000,000	2,000,000
90 cents	Vesting on 24 Oct 2008 – exercise on or before 23 Oct 2010	3,000,000	3,000,000
110 cents	Vesting on 24 Oct 2010 – exercise on or before 23 Oct 2012	2,000,000	2,000,000
		10,221,000	17,000,000

In addition, as at 30 June 2008, there were 8,475,000 (2007: 8,625,000) options granted but not issued under the Employee Share Scheme. The options were granted on the basis that the employees must complete employment service to 31 December 2008 before the options vest, at which time they will be issued to the respective employees. Once vested, these options will be exercisable at \$2.99 each and expire on 31 December 2009. As at the date of this report, none of these options had vested.

Share options carry no right to dividends and no voting rights.

[e] Performance rights

Mount Gibson has established the Mount Gibson Iron Limited Performance Rights Plan. The rights were granted at no cost to the executives and will convert into ordinary shares on completion by the executive of three years' continuous service, subject to satisfaction of specified performance hurdles related to Mount Gibson's Total Shareholder Return ("TSR") measured against the TSR of a comparator group of companies over the same period.

As at 30 June 2008 there were 283,942 performance rights on issue (2007: Nil).

		<u>CONSOLIDATED</u>		<u>COMPANY</u>	
		2008	2007	2008	2007
	<i>NOTES</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
20. Reserves					
Option premium reserve	<i>[a]</i>	14,510	8,911	14,510	8,911
Net unrealised gains/(losses) reserve	<i>[b]</i>	16,772	3,963	249	283
Other reserves	<i>[c]</i>	<u>(3,192)</u>	<u>(3,192)</u>	<u>–</u>	<u>–</u>
		<u>28,090</u>	<u>9,682</u>	<u>14,759</u>	<u>9,194</u>

[a] Option premium reserve

The option premium reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration.

Balance at the beginning of the year	8,911	5,954	8,911	5,954
Share based payments	<u>5,599</u>	<u>2,957</u>	<u>5,599</u>	<u>2,957</u>
Balance at the end of the year	<u>14,510</u>	<u>8,911</u>	<u>14,510</u>	<u>8,911</u>

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
NOTES	\$'000	\$'000	\$'000	\$'000
22. Minority interests				
Opening balance	-	11,776	-	-
Disposal by the consolidated entity of shares in Asia Iron Holdings Limited	-	(11,776)	-	-
Closing balance	-	-	-	-

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
NOTES	\$'000	\$'000	\$'000	\$'000

23. Expenditure commitments**[a] Exploration Expenditure Commitments***[i]*

Minimum obligations not provided for in the financial report and are payable:

• Not later than one year	625	791	-	-
• Later than one year but not later than five years	2,237	2,175	-	-
	<u>2,862</u>	<u>2,966</u>	<u>-</u>	<u>-</u>

[b] Operating Lease Commitments*[ii]*

Minimum lease payments

• Not later than one year	7,709	16,010	-	-
• Later than one year but not later than five years	4,885	2,302	-	-
	<u>12,594</u>	<u>18,312</u>	<u>-</u>	<u>-</u>

	NOTES	CONSOLIDATED		COMPANY	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
[c] Finance Lease and Hire Purchase Commitments	[iii]				
Minimum lease payments					
• Not later than one year		16,157	15,652	–	–
• Later than one year but not later than five years		50,277	64,956	–	–
• Later than five years		–	200	–	–
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total minimum lease payments		66,434	80,808	–	–
Future finance charges		(9,769)	(14,024)	–	–
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
		56,665	66,784	–	–
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total lease liability accrued for:					
Current					
Finance leases and hire purchase facility		12,415	11,303	–	–
Non-current					
Finance leases and hire purchase facility		44,250	55,481	–	–
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
		56,665	66,784	–	–
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
[d] Property, plant and equipment commitments	[iv]				
Commitments contracted for at balance date but not recognised as liabilities					
• Not later than one year		66,820	–	–	–
• Later than one year but not later than five years		–	–	–	–
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
		66,820	–	–	–
		<u> </u>	<u> </u>	<u> </u>	<u> </u>

- [i] In order to maintain current rights to explore and mine the tenements at Tallering Peak, Koolan Island, and Extension Hill the consolidated entity is required to perform minimum exploration work to meet the expenditure requirements specified by the Department of Industry and Resources.
- [ii] Operating leases:
- operating lease for office space with an initial lease term of 5 years; and
 - operating lease for machinery has an average term of 1.4 years and expires in December 2008.
- [iii] Finance leases and hire purchases have an average term of 4.5 years with the option to purchase the asset at the completion of the lease term for a pre-agreed amount. The average discount rates implicit in the finance leases and hire purchases are 8.35% and 7.43% respectively. Secured lease liabilities are secured by a charge over the leased assets.
- [iv] The consolidated entity had contractual commitments to purchase property, plant and equipment principally relating to:
- construction and development of the Extension Hill project of \$41 million; and
 - Koolan Island Main Pit seawall, dewatering and footwall rehabilitation of \$25 million.

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
<i>NOTES</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>

24. Employee benefits

The aggregate employee benefits liability is comprised of:

Accrued wages, salaries and on-costs	421	720	–	–
Provisions	1,839	1,100	–	–
	<u>2,260</u>	<u>1,820</u>	<u>–</u>	<u>–</u>

	NOTES	CONSOLIDATED		COMPANY	
		2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000

25. Share-based payment plans

[a] *Recognised share-based payment expenses*

Expense arising from equity-settled share-based payment transactions

2[d]	5,599	2,957	-	-
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The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2008 and 2007.

[b] *Employee share scheme*

An employee share scheme has been established where Mount Gibson may, at the discretion of the Board, grant options over the ordinary shares of Mount Gibson. The options, issued for nil consideration, are granted in accordance with performance guidelines established by the directors of Mount Gibson. All directors, officers and employees are eligible for this scheme.

Information with respect to the number of options granted and issued under the employee share scheme is as follows:

	2008		2007	
	No. of Options	Weighted average exercise price (cents)	No. of Options	Weighted average exercise price (cents)
Balance at beginning of year	17,000,000	70.3	25,080,632	57.4
– granted and issued	9,275,000	85.1	-	-
– forfeited	-	-	(843,712)	52.9
– exercised	(16,054,000)	64.6	(7,236,920)	27.8
Balance at year end	10,221,000	92.8	17,000,000	70.3
Exercisable at year end	3,221,000	87.3	10,000,000	52.5

In addition, as at 30 June 2008, there were 8,475,000 (2007: 8,625,000) options granted but not issued under the Employee Share Scheme. The options were granted on the basis that the employees must complete employment service to 31 December 2008 before the options vest, at which time they will be issued to the respective employees. Once vested, these options will be exercisable at \$2.99 each and expire on 31 December 2009. As at the date of this report, none of these options had vested.

The remaining contractual life for the options on issue as at 30 June 2008 is between 1 and 5 years (2007: 1 and 5 years).

The range for exercise prices for options on issue at the end of the year was \$0.55-\$2.99 (2007: \$0.50-\$1.10).

The fair value of the equity-settled share options granted under the option plan is estimated as at the date of grant using a binomial model taking into account the terms and conditions upon which the options were granted.

As at 30 June 2008 there were 283,942 performance rights on issue (2007: Nil) under the Mount Gibson Iron Limited Performance Rights Plan. The rights were granted at no cost to the executives and will convert into ordinary shares on completion by the executive of three years' continuous service, subject to satisfaction of specified performance hurdles related to Mount Gibson's Total Shareholder Return ("TSR") measured against the TSR of a comparator group of companies over the same period.

The fair value of the performance rights is estimated as at the date of grant using a Monte-Carlo simulation model taking into account the terms and conditions upon which the performance rights were granted.

26. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of Mount Gibson by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of Mount Gibson by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

	<u>CONSOLIDATED</u>	
	2008 \$'000	2007 \$'000
Profits used in calculating basic and diluted earnings per share	113,344	47,765
	Number of Shares	Number of Shares
Weighted average number of ordinary shares used in calculating basic earnings per share	795,508,824	634,647,892
Effect of dilution		
– Share options	<u>7,182,397</u>	<u>8,082,090</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u><u>802,691,221</u></u>	<u><u>642,729,982</u></u>

Conversions, calls, subscriptions or issues after 30 June 2008

Since the end of the financial year no options have been converted to ordinary shares. There have been no other conversions to, calls of, or subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of this report.

27. Dividends paid and proposed

No amounts have been paid, declared or recommended by Mount Gibson by way of dividend since the commencement of the year.

28. Contingent liability

The Corporate Debt banks have provided a controlled entity with performance bonds totalling \$13,815,907 relating to performance of environmental obligations and rail upgrades.

29. Key management personnel disclosures

*[a] Details of Key Management Personnel**[i] Directors*

N Hamilton	Chairman
L Tonkin	Managing director
C Readhead	Non-Executive director
I Macliver	Non-Executive director
A Jones	Non-Executive director
P Bilbe	Non-Executive director (resigned 21 November 2007)
M Horn	Non-Executive director (resigned 1 May 2008)
A Rule	Chief Financial Officer and alternate director from 30 June 2007

[ii] Executives

D Quinlivan	Chief Operating Officer
R Mencil	General Manager – Tallering Peak
R Jordinson	General Manager – Koolan Island

[b] Compensation of Specified Key Management Personnel

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
Short-term	3,582,086	2,689,553	476,298	296,057
Post employment	143,521	142,447	29,602	7,877
Share-based payment	1,182,679	1,962,429	–	801,634
	<u>4,908,286</u>	<u>4,794,429</u>	<u>505,900</u>	<u>1,105,568</u>

[c] Option holdings of Key Management Personnel

30 June 2008	Balance at	Granted as	Options	Net Change	Balance at	Vested at 30 June 2008		
	Beginning of				End of Period	Total	Not	Exercisable
	Period	Remuneration	Exercised		30 June 2008		Exercisable	Exercisable
	1 July 2007							
Directors								
N Hamilton	-	-	-	-	-	-	-	-
L Tonkin	5,000,000	-	-	-	5,000,000	-	-	-
C Readhead	-	-	-	-	-	-	-	-
I Macliver	-	-	-	-	-	-	-	-
A Jones	-	-	-	-	-	-	-	-
P Bilbe <i>[i]</i>	-	-	-	-	-	-	-	-
M Horn <i>[ii]</i>	-	-	-	-	-	-	-	-
A Rule <i>[iii]</i>	2,000,000	-	-	-	2,000,000	-	-	-
Executives								
D Quinlivan	-	-	-	-	-	-	-	-
R Mencil	250,000	100,000	-	-	350,000	250,000	-	250,000
R Jordinson	-	100,000	-	-	100,000	-	-	-
Total	7,250,000	200,000	-	-	7,450,000	250,000	-	250,000

[i] Mr Bilbe resigned as a director on 21 November 2007

[ii] Mr Horn resigned as a director on 1 May 2008

[iii] Mr Rule resigned as Finance director on 30 June 2007 to become Chief Financial Officer and alternate director to Mr Tonkin

30 June 2007	Balance at	Granted as	Options	Net Change	Balance at	Vested at 30 June 2007		
	Beginning of				End of Period	Total	Not	Exercisable
	Period	Remuneration	Exercised		30 June 2007		Exercisable	Exercisable
	1 July 2006							
Directors								
N Hamilton	-	-	-	-	-	-	-	-
W Willis <i>[iv]</i>	1,000,000	-	(1,000,000)	-	-	-	-	-
B Johnson <i>[v]</i>	5,000,000	-	-	(5,000,000)	-	-	-	-
L Tonkin	5,000,000	-	-	-	5,000,000	-	-	-
C Readhead	500,000	-	(500,000)	-	-	-	-	-
I Macliver	500,000	-	(500,000)	-	-	-	-	-
A Jones	-	-	-	-	-	-	-	-
P Bilbe	-	-	-	-	-	-	-	-
M Horn	-	-	-	-	-	-	-	-
A Rule	2,000,000	-	-	-	2,000,000	-	-	-
Executives								
K Malaxos <i>[vi]</i>	350,000	-	(350,000)	-	-	-	-	-
R Mencil	-	250,000	-	-	250,000	-	-	-
Q Granger	-	-	-	-	-	-	-	-
D Quinlivan	-	-	-	-	-	-	-	-
R Jordinson	-	-	-	-	-	-	-	-
Total	14,350,000	250,000	(2,350,000)	(5,000,000)	7,250,000	-	-	-

[iv] Mr Willis resigned as a director on 24 April 2007

[v] Mr Johnson resigned as a director on 30 June 2007

[vi] Mr Malaxos resigned on 18 December 2006

[d] Shareholding of Key Management Personnel

	Balance 1 July 2007	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 2008
30 June 2008	Ord	Ord	Ord	Ord	Ord
Directors					
N Hamilton	185,000	–	–	–	185,000
L Tonkin	–	–	–	–	–
C Readhead	1,067,500	–	–	(500,000)	567,500
I Macliver	1,500,000	–	–	(500,000)	1,000,000
A Jones	100,000	–	–	–	100,000
P Bilbe [i]	52,033	–	–	(52,033)	–
M Horn [ii]	–	–	–	–	–
A Rule [iii]	50,000	–	–	–	50,000
Executives					
D Quinlivan	–	–	–	–	–
R Mencil	–	–	–	–	–
R Jordinson	–	–	–	26,000	26,000
Total	<u>2,954,533</u>	<u>–</u>	<u>–</u>	<u>(1,026,033)</u>	<u>1,928,500</u>

[i] Mr Bilbe resigned as a director on 21 November 2007

[ii] Mr Horn resigned as a director on 1 May 2008

[iii] Mr Rule resigned as Finance director on 30 June 2007 to become Chief Financial Officer and alternate director to Mr Tonkin

APPENDIX III
FINANCIAL INFORMATION ON MOUNT GIBSON

	Balance 1 July 2006 Ord	Granted as Remuneration Ord	On Exercise of Options Ord	Net Change Other Ord	Balance 30 June 2007 Ord
Directors					
N Hamilton	–	–	–	185,000	185,000
W Willis <i>[iv]</i>	1,480,000	–	1,000,000	(2,480,000)	–
B Johnson <i>[v]</i>	–	–	–	–	–
L Tonkin	–	–	–	–	–
C Readhead	727,500	–	500,000	(160,000)	1,067,500
I MacIver	1,000,000	–	500,000	–	1,500,000
A Jones	–	–	–	100,000	100,000
P Bilbe	–	–	–	52,033	52,033
M Horn	–	–	–	–	–
A Rule	–	–	–	50,000	50,000
Executives					
K Malaxos <i>[vi]</i>	25,000	–	–	(25,000)	–
R Mencil	–	–	–	–	–
Q Granger	–	–	–	–	–
D Quinlivan	–	–	–	–	–
R Jordinson	–	–	–	–	–
Total	<u>3,232,500</u>	<u>–</u>	<u>2,000,000</u>	<u>(2,277,967)</u>	<u>2,954,533</u>

[iv] Mr Willis resigned as a director on 24 April 2007

[v] Mr Johnson resigned as a director on 30 June 2007

[vi] Mr Malaxos resigned on 18 December 2006

All equity transactions with key management personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

[e] Performance Rights holding by Key Management Personnel

30 June 2008	Balance 1 July 2007	Granted as Remuneration	Vested during Year	Balance 30 June 2008
Directors				
N Hamilton	–	–	–	–
L Tonkin	–	161,681	–	161,681
C Readhead	–	–	–	–
I Macliver	–	–	–	–
A Jones	–	–	–	–
P Bilbe <i>[i]</i>	–	–	–	–
M Horn <i>[ii]</i>	–	–	–	–
A Rule <i>[iii]</i>	–	121,261	–	121,261
Executives				
D Quinlivan	–	–	–	–
R Mencil	–	–	–	–
R Jordinson	–	–	–	–
Total	–	282,942	–	282,942

[i] Mr Bilbe resigned as a director on 21 November 2007

[ii] Mr Horn resigned as a director on 1 May 2008

[iii] Mr Rule resigned as Finance director on 30 June 2007 to become Chief Financial Officer and alternate director to Mr Tonkin

Performance Rights granted as part of Remuneration have been independently valued using the Black-Scholes methodology to produce a Monte-Carlo simulation model which allows the incorporation of the market based performance hurdles that must be met before the Performance Rights vest. The value per option at grant date is calculated using the following assumptions:

Grant date	18-Apr-08
Share price at grant date	\$2.72
Risk free interest rate	6.29%
Volatility factor	52%
Performance period start date	1-Jul-07
Performance period end date	30-Jun-10

The vesting of these Performance Rights is subject to a relative Total Shareholder Return (“TSR”) hurdle to be measured at 30 June 2010 and 31 December 2010. Mount Gibson’s TSR performance will be ranked relative to a comparator group consisting of resource companies listed on ASX. The vesting scale is as follows:

Percentile Rank Achieved	Proportion of Target Award Vesting
>76th percentile	100%
>51st percentile and <76th percentile	Pro rata allocation
51st percentile	50%
<51st percentile	0%

[f] Loans to Specified Key Management Personnel

There were no loans to key management personnel during the year.

[g] Other Transactions and Balances with Key Management Personnel

Services

Pullinger Readhead Lucas, of which Mr CL Readhead is a partner, provided legal services to Mount Gibson and consolidated entity. The fees, paid under normal commercial terms and conditions, were \$6,043 (2007: \$187) and \$6,043 (2007: \$187) respectively.

Amounts recognised at the reporting date in relation to other transactions:

	CONSOLIDATED	
	2008	2007
	\$'000	\$'000
Assets and Liabilities		
<i>Current Liabilities</i>		
Trade Creditors	—	—
Total Liabilities	<u>—</u>	<u>—</u>
Revenues and Expenses		
Corporate expenses	6	—
Total Expenses	<u>6</u>	<u>—</u>

30. Related party disclosure***Ultimate parent***

Mount Gibson Iron Limited is the ultimate Australian parent company.

Wholly-owned group transactions

Loans were made by Mount Gibson to wholly owned subsidiaries. Interest of \$3,465,181 (2007: \$2,507,739) was charged on the loan to Mount Gibson Mining Limited at 7%pa during the year. All other loans are interest free, have no fixed repayment date and are repayable on demand. Included in the loans are:

- repayment of the Koolan project finance facility of \$87,094,764 funded by Mount Gibson by way of drawdown of the Corporate Debt facility on 6 September 2007;
- transfers of deferred tax asset and deferred tax liability balances to Mount Gibson from each of the wholly owned subsidiaries as a consequence of the tax consolidation group of \$14,425,341 (2007: \$29,467,928);
- share based payment expense incurred by Mount Gibson for options issued by Mount Gibson to employees that are employed by wholly owned subsidiaries of \$5,598,360 (2007: \$3,041,750).

Loans were made to Mount Gibson by wholly owned subsidiaries for transfers of deferred tax asset and deferred tax liability balances to Mount Gibson from wholly owned subsidiaries as a consequence of the tax consolidation group of \$18,361,000 (2007: \$29,398,000). They are interest free, have no fixed repayment date and are repayable on demand.

Director-related entity transactions

There are no director-related entity transactions other than those specified in Note 29.

31. Auditors' remuneration

	CONSOLIDATED		COMPANY	
	2008	2007	2008	2007
Amounts received or due and receivable by Ernst & Young for:				
• An audit or review of the financial report of the entity and any other entity in the consolidated entity	186,800	166,235	186,800	118,375
• Other services in relation to the entity and any other entity in the consolidated entity	49,336	31,750	46,761	31,750
	<u>236,136</u>	<u>197,985</u>	<u>233,561</u>	<u>150,125</u>

32. Segment information

The consolidated entity operates primarily in the mining sector, through the exploration, evaluation and development of its iron ore deposits in the Mid West region of Western Australia.

33. Events after the balance sheet date

As at the date of this report there are no significant events after balance date of Mount Gibson or of the consolidated entity that require adjustment of or disclosure in this report.

34. Financial instruments**[a] Financial risk management objectives**

The consolidated entity's principal financial instruments, other than derivatives, comprise bank loans, finance leases and hire purchase contracts, cash and short-term deposits.

The main purpose of these financial instruments is to raise finance for the consolidated entity's operations.

The consolidated entity has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The consolidated entity also enters into derivatives transactions, principally forward currency contracts and interest rate swaps. The purpose is to manage the currency risks and interest rate risks arising from the consolidated entity's operations and its sources of finance.

The main risks arising from the consolidated entity's financial instruments are foreign currency risk, interest rate risk, credit risk, commodity price risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

[b] Foreign currency risk

As a result of receipts being denominated in US dollars ("USD"), the consolidated entity's cash flow can be affected significantly by movements in the USD/AUD exchange rates. The consolidated entity uses derivative financial instruments to manage specifically identified foreign currency exposures by hedging a proportion of these forecast sales transactions in accordance with the risk management policy. The primary objective of using derivative financial instruments is to reduce the volatility of earnings attributable to changes in USD/AUD, and to protect against undue adverse movements in these rates.

The hire purchase liabilities for the mining equipment at Koolan are denominated in USD.

It is the consolidated entity's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

The consolidated entity uses the following derivative instruments to manage foreign currency risk:

Instrument	Type of Hedging	Objective
Forward exchange contracts	Committed	Hedge sales receipts against cash flow volatility arising from the fluctuating USD/AUD exchange rates.
Collars	Committed	Hedge sales receipts against cash flow volatility arising from the fluctuating USD/AUD exchange rates by limiting exposure to exchange rates within a certain range of acceptable rates.

[i] Forward exchange contracts – cash flow hedges

The consolidated entity has entered into forward exchange contracts at reporting date designed as a hedge of anticipated future receipts that will be denominated in USD. This hedge has been treated as effective, in accordance with AASB 139.

At balance date the following foreign exchange contracts were outstanding:

	2008			2007			Fair Value AUD \$'000	
	Average Contract Rate	Contract Value USD \$'000	Contract Value AUD \$'000	Average Contract Rate	Contract Value USD \$'000	Contract Value AUD \$'000		
Forward Exchange Contracts								
– within one year	0.8801	345,000	392,020	23,602	0.7404	8,000	10,805	1,359
Collar Option								
– within one year		–	–	–		24,000	33,405	3,706
Call strike price 0.750/0.745								
Put strike price 0.715/0.711/0.724								
Total		345,000	392,020	23,602		32,000	44,210	5,065

Movement in forward exchange contract cash flow hedge reserve

	CONSOLIDATED		COMPANY	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Opening balance	5,169	663	-	-
Charged to equity	18,433	4,506	-	-
Closing balance	<u>23,602</u>	<u>5,169</u>	<u>-</u>	<u>-</u>
Cash flow hedge ineffectiveness recognised immediately in profit and loss (included in other expenses)	105	511	-	-

[ii] Foreign currency sensitivity

The following table details the effect on profit and equity after tax to a 10% change in the Australian dollar against the USD from the spot rate at 30 June 2008 and 30 June 2007.

	Consolidated		Equity (Hedge Reserve)	
	Net Profit 2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
10% appreciation in the AUD spot rate with all other variables held constant	(3,337)	6,416	31,995	3,388
10% depreciation in the AUD spot rate with all other variables held constant	4,078	(7,841)	(39,106)	(3,986)

The sensitivity analysis of the consolidated entity's exposure to the foreign currency risk at balance date has been determined based on the change in fair value due to foreign exchange movement based on exposures at balance sheet date. A positive number indicates an increase in profit and equity. All mark-to-market movements in cash flow hedges have been assumed to go to equity as the profit and loss impact for any ineffectiveness unwinds over the derivatives' life.

Mount Gibson does not have a foreign currency exposure.

[c] Interest rate risk

The consolidated entity's exposure to market interest rates relates primarily to the consolidated entity's long-term debt obligations.

The consolidated entity's policy is to manage its interest costs using a mix of fixed and variable rate debt, and to keep between 50% and 75% of its borrowings at fixed rates of interest. The consolidated entity has entered into interest rate swaps, in which the consolidated entity agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations.

The consolidated entity constantly analyses its interest rate exposure. Within this analysis, consideration is given to potential renewals of existing positions, alternative financing, alternative hedging positions and the mix of fixed and variable interest rates.

At balance date, the consolidated entity and Mount Gibson's exposure to interest rate risks on financial assets and financial liabilities are as follows:

	Floating		Fixed interest rate maturing in:				Non-interest		Total carrying amount		Weighted Average	
	interest rate		1 year or less		Over 1 to 5 years		bearing		per		Interest	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%	%
CONSOLIDATED												
<i>i) Financial assets</i>												
Cash	33,926	60,673	14,725	90	-	-	7	35	48,658	60,798	6.36	6.80
Trade and other receivables	-	-	-	-	-	-	83,436	9,848	83,436	9,848	-	-
Unlisted shares	-	-	-	-	-	-	-	3	-	3	-	-
Listed shares	-	-	-	-	-	-	1,113	1,802	1,113	1,802	-	-
Convertible notes	-	-	-	-	-	-	1,000	-	1,000	-	-	-
Derivatives	-	-	-	-	-	-	25,161	5,065	25,161	5,065	-	-
Total financial assets	33,926	60,673	14,725	90	-	-	110,717	16,753	159,368	77,516		
<i>ii) Financial liabilities</i>												
Trade and other payables	-	-	-	-	-	-	73,406	64,314	73,406	64,314	-	-
Derivatives	-	-	-	-	-	-	342	-	342	-	-	-
Lease liabilities	-	-	3,961	2,638	10,320	6,399	-	-	14,281	9,037	8.35	8.24
Hire purchase	-	-	8,454	8,665	33,931	49,082	-	-	42,385	57,747	7.43	7.14
Corporate debt	30,500	-	-	-	74,500	87,451	-	-	105,000	87,451	8.99	7.62
Total financial liabilities	30,500	-	12,415	11,303	118,751	142,932	73,748	64,314	235,414	218,549		

	Floating		Fixed interest rate maturing in:				Non-interest		Total carrying amount		Weighted Average	
	interest rate		1 year or less		Over 1 to 5 years		bearing		per		Interest	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%	%
COMPANY												
<i>i) Financial assets</i>												
Cash	4,562	351	-	-	-	-	-	-	4,562	351	6.65	7.37
Trade and other receivables	-	-	-	-	-	-	38	490	38	490	-	-
Related party receivable	-	-	-	-	51,763	51,744	64,184	2,978	115,947	54,722	7.00	7.00
Derivatives	-	-	-	-	-	-	1,559	-	1,559	-	-	-
Investment in subsidiaries	-	-	-	-	-	-	344,509	338,432	344,509	338,432	-	-
Unlisted shares	-	-	-	-	-	-	-	3	-	3	-	-
Listed shares	-	-	-	-	-	-	1,113	1,802	1,113	1,802	-	-
Convertible notes	-	-	-	-	-	-	1,000	-	1,000	-	-	-
Total financial assets	4,562	351	-	-	51,763	51,744	412,403	343,705	468,728	395,800		
<i>ii) Financial liabilities</i>												
Trade and other payables	-	-	-	-	-	-	2,114	14,214	2,114	14,214	-	-
Derivatives	-	-	-	-	-	-	342	-	342	-	-	-
Related party loans	-	-	-	-	-	-	18,861	29,398	18,861	29,398	-	-
Corporate debt	30,500	-	-	-	74,500	-	-	-	105,000	-	8.99	-
Total financial liabilities	30,500	-	-	-	74,500	-	21,317	43,612	126,317	43,612		

[i] Interest rate swaps – cash flow hedges

The corporate debt facility of the consolidated entity currently bears an average variable interest rate of 8.99%. In order to protect against rising interest rates the consolidated entity has entered into interest rate swap contracts under which it has a right to pay interest at fixed rates. Swaps in place cover approximately 71% (2007: nil) of the principal outstanding and will expire on 30 June 2010. The fixed interest rates range between 6.98% and 8.08% (2007: nil) and the variable rate is 1.5% (2007: nil) above the 90 day bank bill rate, which at balance date was 9.39% (2007: nil).

At 30 June 2008, the notional principal amount and period of expiry on the interest rate swap contracts are as follows:

	CONSOLIDATED		COMPANY	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
1-2 years	74,500	–	74,500	–
	<u>74,500</u>	<u>–</u>	<u>74,500</u>	<u>–</u>
Current assets (<i>Note 7</i>)	1,559	–	1,559	–
Current liabilities (<i>Note 17</i>)	(342)	–	(342)	–
	<u>1,217</u>	<u>–</u>	<u>1,217</u>	<u>–</u>

The interest rate swaps require settlement of net interest payable each 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt. All swaps are matched directly against the appropriate loans and interest expense and as such are considered highly effective. They are settled on a net basis. The swaps are measured at fair value and all gains and losses attributable to the hedged risk are taken directly to equity and re-classified into profit and loss when the interest expense is recognised.

Movement in interest rate swap contract cash flow hedge reserve

	CONSOLIDATED		COMPANY	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
Opening balance	–	–	–	–
Transferred to interest expense	(286)	–	(286)	–
Charged to equity	1,460	–	1,460	–
Closing balance	<u>1,174</u>	<u>–</u>	<u>1,174</u>	<u>–</u>
Cash flow hedge ineffectiveness recognised immediately in profit and loss (included in other expenses)	–	–	–	–

[ii] Interest rate sensitivity

The following table details the effect on profit and equity after tax to a 1% change in the interest rates at 30 June 2008 and 30 June 2007.

	Consolidated				Company			
	Net Profit		Equity		Net Profit		Equity	
	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000	2008 \$'000	2007 \$'000
1% increase in interest rate with all other variables held constant	(735)	(612)	1,203	-	(735)	-	1,203	-
1% decrease in interest rate with all other variables held constant	735	612	(1,232)	-	735	-	(1,232)	-

The sensitivity analysis of the consolidated entity's exposure to the interest rate risk at balance date has been determined based on the change in fair value due to foreign exchange movement based on exposures at balance sheet date. A positive number indicates an increase in profit and equity. All mark-to-market movements in cash flow hedges have been assumed to go to equity as the profit and loss impact for any ineffectiveness unwinds over the derivatives' life.

[d] Credit risk

The consolidated entity's maximum exposures to credit risk at balance date in relation to each class of recognised financial assets, other than derivatives, is the carrying amount of those assets as indicated in the balance sheet.

In relation to derivative financial instruments, whether recognised or unrecognised, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement. The consolidated entity's maximum credit risk exposure in relation to forward exchange contracts is the full amount of the foreign currency it will be required to pay or purchase when settling the forward exchange contract, should the counterparty not pay the currency it is committed to deliver to Mount Gibson. At reporting date the net amount was A\$23,602,077 (2007: \$5,065,313).

Credit risk has arisen from the consolidated entity invoicing customers in late June 2008 an incremental amount subsequent to the Hamersley Benchmark iron ore price being set as a higher price for both lump and fines. All contracts with customers refer to the Hamersley Benchmark iron ore price, with the new price being applied from "price setting date" of 1 April 2008. This has resulted in an increase in trade debtors of \$63,544,979. The consolidated entity believes these will be fully recoverable.

The consolidated entity minimises concentrations of credit risk in relation to trade receivables by undertaking transactions with a number of customers and by the use of letters of credit which guarantee 90% of receivable amount at the time of sale. There are no significant concentrations of credit risk within the consolidated entity.

Credit risk from balances with banks and financial institutions is managed by Treasury in accordance with a Board approved policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Mount Gibson Board on an annual basis, and may be updated throughout the year subject to approval of the Mount Gibson Board. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through potential counterparty failure. No material exposure is considered to exist by virtue of the possible non performance of the counterparties to financial instruments.

[e] Commodity price risk

The consolidated entity's exposure to commodity price risk is significant. Iron ore prices are set each year and apply from 1 April to 31 March the following year. Revenue on sales is recognised based on provisional priced sales and is subject to final adjustments between 30 to 120 days after delivery of the commodity. There are no readily available financial instruments available to hedge the iron ore price.

[f] Liquidity risk and capital risk management

The consolidated entity's objective is to maintain a balance between continuity of funding and flexibility through the use of its corporate debt facility, finance leases and hire purchase contracts. The consolidated entity manages liquidity risk by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities.

The consolidated entity's capital risk management objectives are to safeguard the business as a going concern, to maximise returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure in order to reduce the cost of capital.

Mount Gibson does not have a target debt/equity ratio, but has a policy of maintaining a flexible financing structure so as to be able to take advantage of new investment opportunities that may arise.

At 30 June 2008, the consolidated entity had unutilised standby credit facilities totalling \$82 million (2007: \$33 million).

APPENDIX III
FINANCIAL INFORMATION ON MOUNT GIBSON

The table below analyses the consolidated entity and Mount Gibson's financial liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. As the amounts disclosed in the table are the contractual undiscounted cash flows, these balances will not necessarily agree with the amounts disclosed in the balance sheet.

	30 June 2008					30 June 2007				
	Less than 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total	Less than 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Consolidated										
<i>Financial Liabilities</i>										
Trade and other payables	73,406	-	-	-	73,406	64,314	-	-	-	64,314
Lease liabilities	2,552	2,511	11,564	-	16,627	1,734	1,524	7,082	200	10,540
Hire purchases	5,976	5,118	38,713	-	49,807	6,242	6,151	57,875	-	70,268
Corporate debt	4,554	4,480	114,033	-	123,067	88,697	-	-	-	88,697
Derivatives	145	-	-	-	145	-	-	-	-	-
	<u>86,633</u>	<u>12,109</u>	<u>164,310</u>	<u>-</u>	<u>263,052</u>	<u>160,987</u>	<u>7,675</u>	<u>64,957</u>	<u>200</u>	<u>233,819</u>
Company										
<i>Financial Liabilities</i>										
Trade and other payables	2,114	-	-	-	2,114	3,414	10,800	-	29,398	43,612
Corporate debt	4,554	4,480	114,033	-	123,067	-	-	-	-	-
	<u>6,668</u>	<u>4,480</u>	<u>114,033</u>	<u>-</u>	<u>125,181</u>	<u>3,414</u>	<u>10,800</u>	<u>-</u>	<u>29,398</u>	<u>43,612</u>

[g] Fair value of financial assets and financial liabilities

The carrying amounts and fair values of the financial assets and financial liabilities for the consolidated entity and Mount Gibson are shown below.

The fair value representing the mark-to-market of a financial asset or a financial liability is the amount at which the asset could be exchanged or liability settled in a current transaction between willing parties after allowing for transaction costs.

The fair values of cash, short-term deposits, trade and other receivables, trade and other payables and other short-term borrowings approximate their carrying values, as a result of their short maturity or because they carry floating rates of interest.

APPENDIX III

FINANCIAL INFORMATION ON MOUNT GIBSON

The fair values of derivative financial instruments are sourced from an independent valuation by Mount Gibson's treasury advisor, Oakvale Capital ("Oakvale"). Oakvale's valuation techniques use prevailing market inputs sourced from Reuters/Bloomberg to determine an appropriate mid price valuation.

	Consolidated				Company			
	2008		2007		2008		2007	
	Carrying Amount \$'000	Fair Value \$'000	Carrying Amount \$'000	Fair Value \$'000	Carrying Amount \$'000	Fair Value \$'000	Carrying Amount \$'000	Fair Value \$'000
Financial assets – current								
Cash	33,930	33,930	28,540	28,540	4,562	4,562	351	351
Short-term deposits	14,728	14,728	32,258	32,258	–	–	–	–
Trade debtors	78,493	78,493	3,604	3,604	–	–	10	10
Other receivables	4,943	4,943	6,244	6,244	38	38	480	480
Derivatives	25,161	25,161	5,065	5,065	–	–	–	–
	<u>157,255</u>	<u>157,255</u>	<u>75,711</u>	<u>75,711</u>	<u>4,600</u>	<u>4,600</u>	<u>841</u>	<u>841</u>
Financial assets – non current								
Other receivables	1,000	1,000	–	–	116,947	116,947	54,722	54,722
Available-for-sale assets	1,113	1,113	1,805	1,805	1,113	1,113	1,805	1,805
	<u>2,113</u>	<u>2,113</u>	<u>1,805</u>	<u>1,805</u>	<u>118,060</u>	<u>118,060</u>	<u>56,527</u>	<u>56,527</u>
Financial liabilities – current								
Trade and other payables	73,406	73,406	64,314	64,314	2,114	2,114	14,214	14,214
Lease liabilities	12,415	12,415	11,303	11,303	–	–	–	–
Senior debt	–	–	87,451	87,451	–	–	–	–
Derivatives	342	342	–	–	–	–	–	–
	<u>86,163</u>	<u>86,163</u>	<u>163,068</u>	<u>163,068</u>	<u>2,114</u>	<u>2,114</u>	<u>14,214</u>	<u>14,214</u>
Financial liabilities – non current								
Other payables	–	–	–	–	18,861	18,861	29,398	29,398
Lease liabilities	44,251	44,251	55,481	55,481	–	–	–	–
Corporate debt	105,000	105,000	–	–	105,000	105,000	–	–
	<u>149,251</u>	<u>149,251</u>	<u>55,481</u>	<u>55,481</u>	<u>123,861</u>	<u>123,861</u>	<u>29,398</u>	<u>29,398</u>
Net financial assets/(financial liabilities)	<u>(76,046)</u>	<u>(76,046)</u>	<u>(141,033)</u>	<u>(141,033)</u>	<u>(3,315)</u>	<u>(3,315)</u>	<u>13,756</u>	<u>13,756</u>

2. **The following is the directors' report and auditors' report of Mount Gibson which is extracted from the 2008 annual report of Mount Gibson (all monetary amounts are stated at A\$).**

Your directors submit their report for the year ended 30 June 2008 for Mount Gibson Iron Limited ("Company") and the consolidated entity incorporating the entities that it controlled during the financial year ("consolidated entity").

DIRECTORS

The names and details of Mount Gibson's directors in office during the financial period and until the date of this report are set out below. directors were in office for the entire period unless otherwise stated.

Names, Qualifications, Experience and Special Responsibilities

Neil D. Hamilton

LLB, AICD

Chairman, Independent Non-Executive director

Mr Hamilton was appointed Non-Executive Chairman on 24 April 2007. Mr Hamilton is a lawyer with more than 23 years experience as a director of public companies. Mr Hamilton is the Chairman of the Nomination, Remuneration and Governance Committee of Mount Gibson and has overall responsibility for Corporate Governance. Mr Hamilton is the Chairman of IRESS Market Technology Limited and Northern Iron Limited and Non-Executive director of Insurance Australia Limited, Metcash Limited and Programmed Maintenance Services Limited. During the past three years Mr Hamilton served as a director of Integrated Group Limited.

Luke Tonkin

B.E., MAusIMM, AICD

Managing director

Mr Tonkin was appointed as Managing director on 25 October 2005. Mr Tonkin has extensive experience in the resource industry traversing multi-commodities of gold, nickel, tantalum, tin and lithium. He has held General Management roles within some of Australia's largest, more complex operations namely WMC's Kambalda Nickel Operations, St Ives Gold Operations and Leinster Nickel Operations. Mr Tonkin's most recent role was Chief Executive Officer of Sons of Gwalia, the world's largest tantalum producer and third largest Australian listed gold producer, assisting administrators restructure Mount Gibson. Mr Tonkin has a proven track record of implementing large-scale investment, divestment, transition and integration plans. During the past three years Mr Tonkin has not served as a director of any other listed companies.

Craig L. Readhead

B. Juris, LL.B, AICD

Independent Non-Executive director

Mr Readhead has spent the last 30 years practising in the resources law area and is a partner of law firm Pullinger Readhead Lucas. Mr Readhead is a member of the Nomination, Remuneration and Governance Committee and the Audit and Risk Management Committee. Mr Readhead has had a significant legal role in the development of a number of mining projects within Australia, Africa and South East Asia. He is Chairman of Heron Resources Ltd and Galaxy Resources Ltd and is a Non-Executive director of Frankland River Olive Company Limited and India Resources Ltd, and is past President of the Australian Mining and Petroleum Law Association, and past Vice-President of the Association of Mining and Exploration Companies. During the past three years Mr Readhead has also served as Chairman of Nickelore Limited and Agincourt Resources Ltd.

Ian A. Macliver

B.Comm, CA, F Fin, AICD

Independent Non-Executive director

Mr Macliver is Managing director of Grange Consulting Group Pty Ltd, which provide specialist corporate advisory services to both listed and unlisted companies. Mr Macliver is Chairman of the Audit and Risk Management Committee and a member of the Nomination, Remuneration and Governance Committee. He has many years experience as a senior executive and director of both resource and industrial companies with particular responsibility for capital raising and other corporate initiatives. Mr Macliver is Chairman of Stratatel Ltd and is a Non-Executive director of Port Bouvard Ltd, Empire Beer Group Ltd and Otto Energy Ltd. During the past three years Mr Macliver has also served as a director of BioProspect Ltd.

Alan S. Jones*CA**Non-Executive director*

Mr Jones was appointed as a Non-Executive director on 28 July 2006. Mr Jones is a chartered accountant with extensive senior management and board experience in listed and unlisted Australian public companies, particularly in the construction, engineering, finance and investment industries. Mr Jones is a member of the Audit and Risk Management Committee. He is a Non-Executive director of Mulpha Australia Limited, Sun Hung Kai & Co. Limited (Hong Kong), Allied Group Limited (Hong Kong), Allied Properties Limited (Hong Kong), APAC Resources Limited and IFC Capital Limited. Mr Jones has been involved in the successful merger and acquisition of a number of public companies in Australia and internationally. During the past three years Mr Jones has not served as a director of any other listed companies.

Alan D. Rule*B.Comm, B.Acc, CA, MAICD**Alternate director**Chief Financial Officer*

Mr Rule was appointed Finance director of Mount Gibson on 1 July 2005 and resigned as Finance director on 30 June 2007 to become Chief Financial Officer of Mount Gibson. Mr Rule is the alternate director to Mr Tonkin. He is a chartered accountant with extensive experience in the mining industry in Australia. He held the position of Chief Financial Officer of Western Metals Limited and more recently St Barbara Mines Limited. He has considerable experience in international financing of mining projects and implementation of accounting controls and systems. Mr Rule was previously Finance director of Asia Iron Holdings Limited. Mr Rule is a Non-Executive director of Resource Mining Corporation Limited. During the past three years Mr Rule has not served as a director of any other public company.

Mark P. M. Horn

M.A., LLB(Hons), Dip.B.Admin, FSI(Dip)

Barrister of the Honourable Society of Lincoln’s Inn

Mr Horn resigned as a Non-Executive director on 1 May 2008.

Peter R. Bilbe

B.E. (Mining) (Hons), MAusIMM

Mr Bilbe was an executive of Mount Gibson until 30 September 2007, he subsequently resigned as a director on 21 November 2007.

COMPANY SECRETARY

Angela Dent

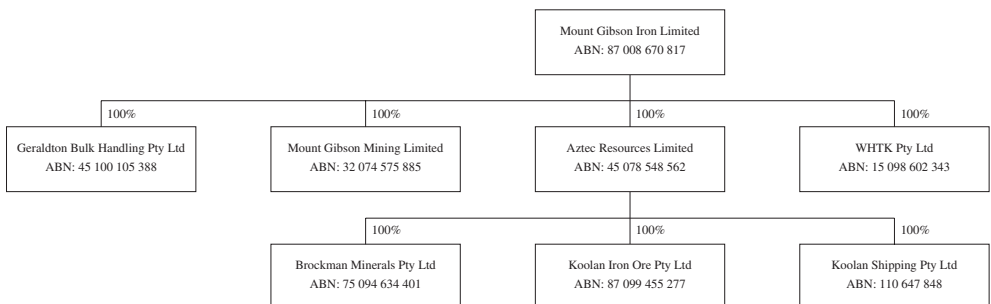
BBus, CA

Ms Dent consults to a number of public and private companies, as a Management Accountant and Company Secretary. She has experience in financial and management accounting, and statutory requirements, in Australia and South East Asia.

CORPORATE INFORMATION

Corporate Structure

Mount Gibson Iron Limited is a company limited by shares that is incorporated and domiciled in Australia. It is the ultimate parent entity and has prepared a consolidated financial report incorporating the entities that it controlled during the financial year. The structure of the consolidated entity as at 30 June 2008 was as follows:



Nature of Operations and Principal Activities

The principal activities of the entities within the consolidated entity are:

- mining of hematite deposits at Talling Peak;
- mining of hematite deposits at Koolan Island;
- construction and development of hematite mining operations at Extension Hill; and
- exploration and development of hematite deposits at Koolan Island and in the Mid-West region of Western Australia.

Employees

The consolidated entity employed 222 employees as at 30 June 2008 (2007: 183 employees).

Future Funding

As at the date of this report the consolidated entity has sufficient funds or access to debt funding to develop and mine the Talling Peak, Koolan Island and Extension Hill iron deposits.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**Debt Facility**

In June 2007 Mount Gibson mandated HSBC Australia Limited and National Australia Bank Limited as the joint lead Arranger and Underwriting Banks for a \$200 million debt facility to fund the refinance of the existing project finance facility and the HSBC facility and provide additional debt funding for the Koolan Island and Extension Hill iron ore developments. The facility documentation was signed on 28 August 2007 with drawdown on 6 September 2007. See Note 16 for further details.

Koolan Island Hematite Project

Koolan production and operations ramped up to achieve 3 million tonnes per annum (“Mtpa”) annualised production during the period.

Extension Hill Direct Shipping Ore Project

During the year the consolidated entity completed and the Mount Gibson Board approved the Detailed Feasibility Study into the feasibility of producing and selling 3 Mtpa of hematite ore from the Extension Hill Direct Shipping Ore project. Development and construction commenced in October 2007 with first shipments of ore scheduled for the June quarter of 2009.

REVIEW AND RESULTS OF OPERATIONS**Operating Results for the Period**

A summary of the operating results for the consolidated entity is set out below:

	CONSOLIDATED	
	2008	2007
	<i>\$'000</i>	<i>\$'000</i>
Operating profit from Continuing Operations		
before tax	163,857	42,253
Taxation (expense)	<u>(50,513)</u>	<u>(13,209)</u>
Operating profit from Continuing Operations		
after tax	113,344	29,044
Profit from discontinued operations		
after income tax	<u>–</u>	<u>18,721</u>
Net profit after tax attributable to		
Members of Mount Gibson	<u><u>113,344</u></u>	<u><u>47,765</u></u>

Tallering Peak Hematite Operations

The Tallering Peak mine continued to improve operational performance during the financial year with waste and ore material movements increasing. Ore tonnes mined increased 31% compared with the corresponding period last year. Overall Tallering Peak achieved record annual ore production, crushing, transport and sales for the financial year. Ore shipments were restricted until early April 2008 by ongoing congestion and poor loading rates at the Geraldton Port.

The Geraldton Port Authority (“GPA”) commissioned its dedicated iron ore ship loader at Berth 5 in late March 2008. The new Berth 5 ship loader has achieved significant improvements in loading rates in the June 2008 quarter. Ore stockpiles at 30 June 2008 totalled 1.9 Mt. The commissioning of the Berth 5 ship-loader in March 2008 and the rail unloader (expected in the June 2009 quarter) is critical to building iron ore export capacity from the Geraldton Port.

Annual crushing performance increased 24% compared with the corresponding period last year which established a crusher throughput record for Tallering Peak. Annual records were also achieved for road haulage and rail haulage which established benchmark performance criteria for the 2008/09 financial year in which haulage will continue to improve with rail upgrades, additional rolling stock and increased storage capacity at the Geraldton Port particularly in the second half of the 2008/09 financial year.

Tallering Peak is being mined in a number of staged cut backs throughout the life of mine. As these stages progressed during the financial year mining bench areas increased resulting in improvements in mine productivity and ultimately record annual material movements. Multiple mine stages has exposed multiple ore sources allowing the optimal feed blend to the crushing circuit for fines and lump ore production. Staged cut backs of the Tallering Main Range ore sources will continue in 2008/09 with supplementary ore supply being produced from the T5 open cut. Total material movement and ore production is forecast to reduce slightly in 2008/09, allowing Mount Gibson to draw down marginally on substantial ore stockpiles which have been generated during the previous year.

APPENDIX III
FINANCIAL INFORMATION ON MOUNT GIBSON

Continued infill and extensional exploration drilling at Talling Peak has significantly enhanced Mount Gibson's knowledge of the Talling Peak geological resource and has allowed mine production to be planned with a high level of confidence. Ore mined during the year versus the Reserve resulted in a 98% tonnes and 100% grade reconciliation. Exploration will focus on extending the resource and reserve base over the next two years at Talling Peak.

PRODUCTION SUMMARY FOR 12 MONTHS		Sept Qtr 2007 '000	Dec Qtr 2007 '000	Mar Qtr 2008 '000	Jun Qtr 2008 '000	YTD 2008 '000	YTD 2007 '000	% Incr/ (Decr)
Mining								
- Waste mined	bcm	2,470	2,744	2,422	2,353	9,989	9,600	4%
- Ore mined	wmt	825	943	914	1,159	3,841	2,932	31%
Crushing								
- Lump	wmt	502	450	488	565	2,005	1,645	22%
- Fines	wmt	280	323	340	416	1,359	1,066	27%
		782	773	828	981	3,364	2,711	24%
Transported to Mullewa Railhead								
- Lump	wmt	482	388	504	484	1,858	1,577	18%
- Fines	wmt	177	309	251	401	1,138	1,033	10%
		659	697	755	885	2,996	2,610	15%
Transported to Geraldton Port								
- Lump	wmt	423	382	475	452	1,732	1,425	22%
- Fines	wmt	74	280	140	259	753	976	(23%)
		497	662	615	711	2,485	2,401	3%
Shipping								
- Lump	wmt	515	340	484	436	1,775	1,375	29%
- Fines	wmt	103	252	182	256	793	937	(15%)
		618	592	666	692	2,568	2,312	11%

In accordance with Mount Gibson's stated accounting policy, deferred waste expenditure for the period has been capitalised in the consolidated entity's balance sheet and will be amortised over the expected life of the mine. Significant expenditure on waste development at Tallering Peak during the financial year was as follows:

		12 Months ended 30 June 2008	12 Months ended 30 June 2007	12 Months ended 30 June 2006
Waste mined	mill bcm	9.9	9.6	6.5
Deferred waste capitalised	\$ mill	97.60	93.24	54.20
Amortisation of deferred waste	\$ mill	80.66	53.57	17.77

Koolan Island Hematite Project

Koolan Island which is located in the Buccaneer Archipelago of Yampi Sound in Western Australia was opened by BHP in 1965 and operated until 1993. BHP mined approximately 68 million tonnes of high grade hematite ore from five pits at Koolan – Main, Mullet, Eastern, Barramundi and Acacia.

In early 2000, Aztec Resources Limited ("Aztec") acquired Koolan Island and in May 2003 an exploration licence was granted over Koolan Island. During 2003, Aztec undertook a review of available BHP data, carried out site inspections and committed to an exploration/feasibility study programme in 2004. Exploration drilling commenced in February 2004 and the bankable feasibility study was completed in August 2005. Mount Gibson acquired Aztec in February 2007.

The orebodies are tabular, high-grade hematite bodies which are estimated to produce a 30% Lump 70% Fines product with consistently high grades from the Main Ore body (>67% Fe). Initial production from established satellite pits has produced approximately 40% Lump 60% Fines product.

Recommencement of open pit mining and stockpiling of ore on the ROM pad occurred in the December quarter 2006. Construction of the shiploader, jetty facilities and crushing and screening plant were completed and commissioned in May 2007 with the first ore shipment taking place in June 2007. At the forecast production rate of 4 Mtpa (production ramps to this rate over the period to the June 2010 quarter), and based on existing ore reserves, production is expected to continue for at least eight years to 2015 with potential to increase resources as a consequence of the planned exploration drilling to be undertaken over the next two to three years.

Mount Gibson completed its first full year of production from Koolan Island in which ore sources were established, mine development and infrastructure enhanced and installed facilities elevated to required capacity. Initial production from Koolan Island is sourced from Eastern, Barramundi, Acacia and Mullet pits whilst preparatory access works are completed at Main Pit prior to the cut back and eventual production from this high grade premium ore source. Initial development of the satellite ore sources was established during the year and multiple stages of current ore sources commenced. The initial development of Eastern, Barramundi, Acacia and Mullet pits has allowed productivity to improve as bench areas are expanded. Main West, an extension to the Main Pit also commenced during the year and will form part of the stage one cut back of Main Pit. Cut backs of the southern wall of Main Pit in the Crusher Hill and Blinker Hill areas also commenced during the year providing fill material for Main Pit seawall construction.

Seawall construction, pit dewatering and footwall rehabilitation projects commenced during the year and will be ongoing through 2008/09 as Koolan Island prepares to access high quality Main Pit hematite ore. All Main pit access projects will progress in parallel allowing stage 1 of Main Pit to develop below sea level.

A total of 28,676 metres of reverse circulation drilling was completed on Koolan Island during the year and focused primarily on infilling the current resource within planned open pits. This program will continue in 2008/09 to provide an appropriate drill spacing for resource estimation. Drilling to date has reduced the resource section spacing to 50 metres or better in most areas. Detailed geostatistical analysis of the assay data has shown that ore grade and thickness can vary rapidly and identified areas require increased drill hole density to provide meaningful data for detailed ongoing mine planning and evaluation.

Two diamond drill holes were also completed during the year targeting the Main Pit hematite horizon east and centrally of the ultimate Main Pit design. Despite anticipated poor core recoveries due to the friable nature of much of the mineralisation, the drill holes intersected typical Koolan Island Main orebody hematite width, grade and physical characteristics. Both holes continued through a major synclinal fold and intersected high grade hematite mineralisation in the Acacia limb. Both drill holes demonstrated that the Main Pit ore horizon continues for at least 300 metres below the base of the ultimate Main Pit and appears to continue around the synclinal fold into the Acacia Limb. There is at least 1km of untested dip extent along the Acacia Limb between the fold closure and the Acacia Pit.

APPENDIX III
FINANCIAL INFORMATION ON MOUNT GIBSON

A further 10,000 metres of diamond drilling is planned to continue testing of the deep Main Pit extensions and the Acacia Limb in 2008/09 ultimately targeting a significant increase in Koolan Island Resources.

PRODUCTION SUMMARY FOR 12 MONTHS	Unit	Sept Qtr 2007 '000	Dec Qtr 2007 '000	Mar Qtr 2008 '000	Jun Qtr 2008 '000	YTD 2008 '000	YTD 2007 '000	% Incr/ (Decr) '000
Mining								
- Waste mined	bcm	1,779	2,143	2,076	2,531	8,529	1,748	388%
- Ore mined	wmt	695	885	669	798	3,047	559	445%
Crushing								
- Lump	wmt	347	336	229	379	1,291	146	784%
- Fines	wmt	339	403	374	566	1,682	128	1,214%
		686	739	603	945	2,973	274	985%
Shipping								
- Lump	wmt	406	274	259	367	1,306	74	1,665%
- Fines	wmt	248	452	310	584	1,594	76	1,997%
		654	726	569	951	2,900	150	1,833%

Significant expenditure on waste development at Koolan Island during the financial year was as follows:

		12 Months ended 30 June 2008	12 Months ended 30 June 2007
Waste mined	mill bcm	8.5	1.7
Deferred waste capitalised	\$ mill	125.51	7.86
Amortisation of deferred waste	\$ mill	55.32	1.94

Extension Hill Direct Shipping Ore Project

During the period the consolidated entity completed and the Mount Gibson Board approved the Detailed Feasibility Study (“DFS”) into the feasibility of producing and selling 3 Mtpa of hematite ore from the Extension Hill Direct Shipping Ore (“DSO”) project.

The DFS validated the broad strategies and parameters assumed for the June 2006 study and evaluated multiple operating options with related costs, timing and risks. The study demonstrated that the project will provide strong financial returns in a short time-frame, with minimal technical risks and relatively low capital requirements.

The DSO project will have very similar operational characteristics to Mount Gibson’s Talling Peak operation with the added advantage of a much lower strip ratio of less than 1:1 (waste tonnes: ore tonnes) compared with Talling Peak’s strip ratio of 6:1. Ore mined from Extension Hill will be crushed and screened on site, transported by sealed road 85km to Perenjori and loaded onto rail wagons for a 235km journey to the Geraldton Port. Ore will be stored at the Geraldton Port at Mount Gibson’s ore storage facilities being constructed at the new Berth 5 iron ore ship loading facility and loaded from Berth 5 for export.

WA Environment Minister Templeman issued Ministerial Statement 753 on 24 September 2007 thereby finalising State government environmental approval of the Mt Gibson Iron Ore Mine and Infrastructure Project. Commonwealth government approval for the Project was received on 18 December 2007.

Environmental Management Plans (“EMPs”) for the Project required by Ministerial Statement 753 were submitted to the Department of Environment and Conservation (“DEC”) and Environmental Protection Authority (“EPA”). The EPA recently confirmed acceptance of the EMPs and State approval of the EMPs has now been received. Federal approval is expected by mid September 2008. As Federal approval of the EMPs is required prior to ‘ground disturbing activities’ timely access to the Project site remains a critical project milestone.

Various other regulatory approvals are now progressing as a consequence of receipt of EMP State approval.

An application to transport processed hematite ore from the Extension Hill mine site to Mount Gibson’s facilities at Geraldton Port was lodged with the EPA. The application is proceeding through the Assessment on Referred Information (“ARI”) process nominated by the EPA.

The commencement of operations at Extension Hill remains on schedule for the June quarter of 2009 whilst an upgrade of rail unloading facilities necessary to ensure greater utilisation of the latent capacity at the Geraldton Port remains with the Geraldton Port Authority to construct. Construction of the rail unloading facility is expected to commence in October 2008.

Review of Financial Condition

During the course of the financial year a number of events impacted on the financial condition of the consolidated entity as follows:

- Shareholders funds increased by 31% to \$597 million:
 - Holders of 16,054,000 options exercised their options resulting in \$10 million in equity funding for Mount Gibson
- In June 2007 Mount Gibson mandated HSBC Australia Limited and National Australia Bank Limited as the joint lead Arranger and Underwriting Banks for a \$200 million debt facility to fund the refinance of the existing debt facilities and the Koolan Island and Extension Hill iron ore developments (see Note 16).
- Acquisition of property, plant and equipment with an aggregate fair value of \$7 million that were financed by means of finance leases.
- Increase in trade receivables as a result of price increase of 79% for fines and 96% for lump ore from 1 April 2008 which was announced to ASX 24 June 2008.
- Mine properties increased by \$73 million primarily due to deferred waste capitalised as a result of increase in waste mined at Tallering Peak and Koolan Island.

Cash on hand at year end was \$49 million with debt of \$105 million drawn down under a Corporate Debt facility and \$57 million in equipment finance leases and hire purchase liabilities.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Other than as referred to in the Review and Results of Operations and in this report, further information as to likely developments in the operations of the consolidated entity and likely results of those operations would, in the opinion of the directors, be speculation and not in the best interest of Mount Gibson.

SIGNIFICANT EVENTS AFTER BALANCE DATE

As at the date of this report there are no significant events after balance date of Mount Gibson or of the consolidated entity that require adjustment of or disclosure in this report.

SHARE OPTIONS**Unissued shares**

Details of Options over Ordinary Shares in Mount Gibson on issue as at balance date and at the date of this report are:

Exercise price	Exercise date/Period	OPTIONS ON ISSUE AT	
		Balance date	Date of report
55 cents	On or before 31 December 2008	100,000	100,000
78 cents	On or before 31 December 2009	475,000	375,000
89 cents	On or before 31 December 2009	2,646,000	2,421,000
90 cents	On or before 30 June 2010	2,000,000	2,000,000
90 cents	On or before 23 October 2010	3,000,000	3,000,000
110 cents	On or before 23 October 2012	<u>2,000,000</u>	<u>2,000,000</u>
	Total	<u>10,221,000</u>	<u>9,896,000</u>

In addition, as at 30 June 2008, there were 8,475,000 (2007: 8,625,000) options granted but not issued under the Employee Share Scheme. The options were granted on the basis that the employees must complete employment service to 31 December 2008 before the options vest, at which time they will be issued to the respective employees. Once vested, these options will be exercisable at \$2.99 each and expire on 31 December 2009. As at the date of this report, none of these options had vested.

Option holders do not have any right, by virtue of the Option, to participate in any share issue of Mount Gibson.

Shares issued as a result of the exercise of options

During the financial year, 16,054,000 options were exercised to acquire fully paid ordinary shares in Mount Gibson at a weighted average exercise price of \$0.65. Since the end of the financial year, no options have been exercised.

DIVIDENDS

No dividends were paid during the period and no recommendation is made as to dividends.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Mount Gibson has, during the financial period, entered into deeds of access and indemnity with each director. These deeds provide access to documentation and indemnification against liability for loss suffered, as a result of any act or omission, to the extent permitted by the *Corporations Act 2001*, from conduct of the consolidated entity's business.

During the financial year, Mount Gibson has paid premiums in respect of a contract insuring all the directors of Mount Gibson against costs incurred in defending proceedings except for conduct involving:

- a wilful breach of duty; or
- a contravention of sections 182 or 183 of the *Corporations Act 2001*, as permitted by section 199B of the *Corporations Act 2001*.

The total amount of insurance contract premiums paid was \$74,899. This amount has not been included in directors' and executives' remuneration.

REMUNERATION REPORT (AUDITED)

This report outlines the remuneration arrangements in place for directors and Key Management Personnel of the consolidated entity in accordance with the requirements of the *Corporations Act 2001* and its Regulations.

For the purposes of this report Key Management Personnel of the consolidated entity are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of Mount Gibson and the consolidated entity, directly or indirectly, including any directors of Mount Gibson.

Nomination, Remuneration and Governance Committee (“NRGC”)

The NRGC of the Board of directors of Mount Gibson is responsible for determining and reviewing remuneration arrangements for the Board and Key Management Personnel.

The NRGC assesses the appropriateness of the nature and amount of remuneration of Key Management Personnel on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality, high performing Board and Executive team.

Remuneration Policy

The Remuneration Policy of Mount Gibson and its Controlled Entities has been put in place to ensure that:

- remuneration policies and systems support Mount Gibson’s wider objectives and strategies;
- Directors’ and Senior Executives’ remuneration is aligned to the long-term interests of Shareholders within an appropriate control framework; and
- there is a clear relationship between the Executives’ performance and remuneration.

Remuneration Structure

In accordance with best practice corporate governance, the structure of Non-Executive director, Executive director and Senior Executive management remuneration is separate.

Non-Executive Director Remuneration***Objective***

The Board seeks to set aggregate remuneration at a level which provides Mount Gibson with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to Shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-Executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 26 November 2007 when Shareholders approved an aggregate remuneration of \$750,000 per year.

Each Non-Executive director receives a fee for being a director of Mount Gibson.

Non-Executive directors should be adequately remunerated for their time and effort and the risks involved. Non-Executive directors are remunerated to recognise the responsibilities, accountabilities and associated risks of directors.

All Non-Executive directors' performance and remuneration is reviewed on an annual basis by the Chairman.

Non-Executive directors' fixed remuneration will comprise the following elements:

- cash remuneration; and
- superannuation contributions made by Mount Gibson.

Non-Executive directors are eligible to receive options under Mount Gibson Employee Option Scheme, subject to approval by Shareholders.

Board operating costs do not form part of Non-Executive directors' remuneration.

Non-Executive directors have long been encouraged by the Board to hold shares in Mount Gibson (purchased by the director on market). It is considered good governance for directors to have a stake in Mount Gibson on whose board they sit.

Executive Directors' and Senior Executives' Remuneration***Objective***

Mount Gibson aims to reward Executive directors and Senior Executives with a level and mix of remuneration commensurate with their position and responsibilities within Mount Gibson and so as to:

- reward the Executive directors and Senior Executives for company and individual performance against targets set by reference to appropriate benchmarks;
- align the interest of the Executive directors and Senior Executives with those of Shareholders;
- link reward with the strategic goals and performance of Mount Gibson; and
- ensure total remuneration is competitive by market standards.

Fixed Remuneration

The components of the Executive directors and Senior Executives fixed remuneration are determined individually and may include:

- cash remuneration;
- accommodation and travel benefits;
- motor vehicle, parking and other benefits; and
- reimbursement of entertainment, home office and telephone expenses.

The Executive directors' remuneration is reviewed on an annual basis by the Non-Executive directors. The Senior Executives' remuneration is reviewed on an annual basis by the Managing director.

In determining the remuneration package, the NRCG reviews the individual's remuneration with the use of market data for positions with comparable companies. Where appropriate, the package is adjusted so as to keep pace with market trends and ensure continued remuneration competitiveness. In conducting a comparative analysis, Mount Gibson's expected performance for the year is considered in the context of Mount Gibson's capacity to fund remuneration budgets. From time to time, a review of the total remuneration package by an independent consultant in this field is undertaken to provide an independent reference point.

Variable Remuneration*Short-term Incentive (“STI”)*

The Executive directors and Senior Executives may receive variable remuneration in the form of STI. STI are linked to general performance targets and provide rewards for materially improved Company performance. The total potential STI available is at the Board’s discretion but is measured to provide sufficient incentive to the Executive directors and Senior Executives to achieve the operational targets and such that the cost to the consolidated entity is reasonable in the circumstances. Actual STI payments granted depend on the extent to which specific operating targets set at the beginning of the financial year are met. These targets consist of a number of Key Performance Indicators (“KPIs”) covering both financial and non-financial, corporate and individual performance measures. The STIs are based on achieving the following measures where these are applicable to the specific Executive:

- performance of the consolidated entity in meeting its objectives which include contribution to net profit after tax, risk management and leadership/team contribution;
- financial performance of the consolidated entity;
- increase in market capitalisation of the consolidated entity; and
- such other matters determined by the NRGC in its discretion.

These measures have been selected to align the interests of Executives with shareholders representing the key drivers for short term success of the business and providing a framework for delivering long term value.

The consolidated entity has predetermined benchmarks that must be met in order to trigger payments under the STI scheme. On an annual basis, the individual performance of each Senior Executive is reviewed by the NRGC, which is in line with their responsibilities, after consideration of the Executive’s performance against KPIs. This process usually occurs within two months after the reporting date. NRGC then determines the amount of STI to be allocated to each executive. Payments made are delivered as a cash bonus in the following reporting period.

STI bonus for 2007 and 2008 financial years

For the 2007 financial year, 100% of the STI cash bonus of \$350,000 as previously accrued in that period vested to executives and was paid in the 2008 financial year. For the 2008 financial year 100% of the STI cash bonus totalling \$581,600 has been approved and vested to Senior Executives. \$431,600 was paid in the current financial year.

Long-term Incentive (“LTI”) for 2008 financial year

At the commencement of the 2008 financial year, Mount Gibson established the Mount Gibson Iron Limited Performance Rights Plan (“PRP”). The PRP enables Mount Gibson to provide its executives with long term incentives which create a link between the delivery of value to shareholders, financial performance and rewarding and retaining the executives. Under the PRP, the Board may invite eligible executives to apply for performance rights, which are an entitlement to receive ordinary shares in Mount Gibson, subject to satisfaction by the executive of performance and vesting conditions set by the Board.

Performance rights were issued by Mount Gibson in respect of the 2008 financial year. The employment contracts for the Managing director, Mr Tonkin, and the Chief Financial Officer, Mr Rule, incorporate payment of a long term incentive for the 2008 and successive financial years. Under their employment contracts, Mr Tonkin and Mr Rule will each be invited to apply for, and Mount Gibson will grant (subject to all applicable shareholder approvals being first obtained) a number of performance rights equivalent to one third of their respective base salaries (including superannuation) divided by the volume weighted average price of Mount Gibson’s shares as traded on ASX for the 30 day period to 30 June for the relevant year.

The rights will be granted at no cost to the executives and will convert into ordinary shares on completion by the executive of three years' continuous service, subject to satisfaction of specified performance hurdles related to Mount Gibson's Total Shareholder Return ("TSR") measured against the TSR of a comparator group of companies over the same period. Mount Gibson received shareholder approval for the issue of the performance rights to Mr Tonkin and Mr Rule at its 2007 AGM.

Employment Contracts

As at the date of this report, the consolidated entity had entered into employment contracts with the following Executive director and Senior Executive:

Luke Tonkin

The key terms of his contract include:

- Commenced 1 July 2008 with no set term;
- Annual Salary Package increase by minimum of CPI from 1 July every year;
- STI Bonus of up to one third of Annual Salary Package;
- LTI Bonus of up to one third of Annual Salary Package; and
- If Mount Gibson wishes to terminate the contract other than if Mr Tonkin is guilty of any grave misconduct, serious or persistent breach of the terms of the contract or wilful neglect in the discharge of the Duties, Mount Gibson is obliged to pay out 12 months Annual Salary Package plus any other accrued entitlements and bonuses. If Mr Tonkin wishes to terminate the contract, he must provide six months notice.

Alan Rule

The key terms of his contract include:

- Commenced 1 July 2008 with no set term;
- Annual Salary Package increase by minimum of CPI from 1 July every year;
- STI Bonus of up to one third of Annual Salary Package;

- LTI Bonus of up to one third of Annual Salary Package; and
- If Mount Gibson wishes to terminate the contract other than if Mr Rule is guilty of any grave misconduct, serious or persistent breach of the terms of the contract or wilful neglect in the discharge of the Duties, Mount Gibson is obliged to pay out 12 months Annual Salary Package plus any other accrued entitlements and bonuses. If Mr Rule wishes to terminate the contract, he must provide six months notice.

Remuneration of Key Management Personnel for the year ended 30 June 2008

	Short Term			Post Employment		Share Based Payment	Total	% Performance Related
	Salary and Fees	Non Monetary	Cash Bonuses	Super-annuation	Retirement Benefits	Options		
	\$	\$	\$	\$	\$	\$	\$	
<i>Directors</i>								
N Hamilton	172,844	–	–	15,556	–	–	188,400	0%
L Tonkin	592,083	1,414	210,600	48,289	–	715,163	1,567,549	59%
C Readhead	85,000	–	–	–	–	–	85,000	0%
I MacIver	82,560	–	–	7,440	–	–	90,000	0%
A Jones	73,394	–	–	6,606	–	–	80,000	0%
P Bilbe	45,125	–	205,000	4,061	–	–	254,186	81%
M Horn	62,500	–	–	–	–	–	62,500	0%
A Rule [#]	412,844	1,414	150,000	37,156	–	368,710	970,124	53%
Sub-total directors	1,526,350	2,828	565,600	119,108	–	1,083,873	3,297,759	
<i>Executives</i>								
D Quinlivan <i>Chief Operating Officer</i>	683,644	1,414	–	–	–	–	685,058	0%
R Mencil <i>General Manager – Tallering Peak</i>	271,250	–	16,000	24,413	–	62,903	374,566	21%
R Jordinson <i>General Manager – Koolan Island</i>	515,000	–	–	–	–	35,903	550,903	7%
Sub-total executives	1,469,894	1,414	16,000	24,413	–	98,806	1,610,527	
Totals	2,996,244	4,242	581,600	143,521	–	1,182,679	4,908,286	

[#] Mr Rule is the Chief Financial Officer of the Mount Gibson Group and is an alternate director for Mr Tonkin.

The following directors resigned during the year:

Mr Bilbe 21 November 2007

Mr Horn 1 May 2008

Options granted as part of remuneration for the year ended 30 June 2008

	Grant Date	Exercise Price	Grant Number	Value per Option at Grant Date	Value of Options Granted During the Year \$	Vesting Date	Exercised Number	Value of Option Lapsed at Date	Total Value of Options Exercised and Lapsed During Year	% of Remuneration
R Mencil	9-Jan-08	\$2.99	100,000	0.7387	73,870	31-Dec-08	N/A	N/A	N/A	20%
R Jordinson	9-Jan-08	\$2.99	100,000	0.7387	73,870	31-Dec-08	N/A	N/A	N/A	13%

These options were granted but not yet issued on the basis that the executives must complete their employment service to 31 December 2008 before they vest.

Options granted as part of Senior Executive emoluments have been valued using the binomial option pricing model. The value per option at grant date is calculated using the following assumptions:

Grant date	9-Jan-08
Share price at grant date	\$2.80
Exercise price	\$2.99
Risk free interest rate	6.53%
Volatility factor	53%
Expiry date	31-Dec-09

Performance Rights granted as part of remuneration for the year ended 30 June 2008

	Grant Date	Performance Period Start	Performance Period End	Grant Number	Value per Right at Grant Date \$	Value of Performance Rights Granted During the Year \$	% of Remuneration
L Tonkin	18-Apr-08	18-Apr-08	30-Jun-10	161,681	\$2.61	421,987	27%
A Rule	18-Apr-08	18-Apr-08	30-Jun-10	121,261	\$2.61	316,491	33%

Performance Rights granted as part of remuneration have been independently valued using the Black-Scholes methodology to produce a Monte-Carlo simulation model which allows the incorporation of the market based performance hurdles that must be met before the Performance Rights vest. The value per option at grant date is calculated using the following assumptions:

Grant date	18-Apr-08
Share price at grant date	\$2.72
Risk free interest rate	6.29%
Volatility factor	52%
Performance period start date	1-Jul-07
Performance period end date	30-Jun-10

The vesting of these Performance Rights is subject to a relative Total Shareholder Return (“TSR”) hurdle to be measured at 30 June 2010 and 31 December 2010. Mount Gibson’s TSR performance will be ranked relative to a comparator group consisting of resource companies listed on ASX. The vesting scale is as follows:

Percentile Rank Achieved	Proportion of Target Award Vesting
>76th percentile	100%
>51st percentile and <76th percentile	Pro rata allocation
51st percentile	50%
<51st percentile	0%

Shares issued on exercise of options for the year ended 30 June 2008

There were no shares issued on exercise of options by the directors and executives during the year ended 30 June 2008.

Remuneration of Key Management Personnel for the year ended 30 June 2007

	Short Term			Post Employment		Share Based Payment	Total	% Performance Related
	Salary and Fees	Non Monetary	Cash Bonuses	Super-annuation	Retirement Benefits	Options		
	\$	\$	\$	\$	\$	\$	\$	
Directors								
N Hamilton	16,514	-	-	1,486	-	-	18,000	0%
W Willis	85,772	-	-	2,428	-	-	88,200	0%
B Johnson	40,000	2,734	-	-	-	801,634	844,368	95%
L Tonkin	550,459	1,501	200,000	49,541	-	770,745	1,572,246	62%
C Readhead	63,000	-	-	-	-	-	63,000	0%
I MacIver	44,037	-	-	3,963	-	-	48,000	0%
A Jones	44,000	-	-	-	-	-	44,000	0%
P Bilbe	115,320	1,192	-	9,298	-	-	125,810	0%
M Horn	-	-	-	-	-	-	-	0%
A Rule [#]	366,972	1,622	150,000	33,028	-	363,050	914,672	56%
Sub-total directors	1,326,074	7,049	350,000	99,744	-	1,935,429	3,718,296	
Executives								
K Malaxos <i>Chief Operating Officer (until 18 December 2006)</i>	145,683	8,307	-	10,413	-	-	164,403	0%
D Quinlivan <i>Chief Operating Officer (from 18 December 2006)</i>	430,650	428	-	-	-	-	431,078	0%
R Mencil <i>General Manager – Tallering Peak</i>	218,333	-	15,000	19,650	-	27,000	279,983	15%
Q Granger <i>General Manager – Koolan Island (until 8 June 2007)</i>	141,029	-	-	12,640	-	-	153,669	0%
R Jordinson <i>General Manager – Koolan Island (from 8 June 2007)</i>	47,000	-	-	-	-	-	47,000	0%
Sub-total executives	982,695	8,735	15,000	42,703	-	27,000	1,076,133	
Totals	2,308,769	15,784	365,000	142,447	-	1,962,429	4,794,429	

[#] On 30 June 2007, Mr Rule resigned as Finance director to become Chief Financial Officer and alternate director for Mr Tonkin.

The following directors resigned during the financial year ended 30 June 2007:

Mr Willis	24 April 2007
Mr Johnson	30 June 2007
Mr Rule	30 June 2007

All executive directors and Senior Executives are engaged through Controlled Entities of Mount Gibson.

Options granted as part of remuneration for the year ended 30 June 2007

	Grant Date	Exercise Price	Grant Number	Value per Option at Grant Date	Value of Options Granted During the Year \$	Vesting Date	Exercised Number	Value of Option Lapsed at Date	Total Value of Options Exercised and Lapsed During Year	% of Remuneration
R Mencil	9-Jan-07	\$0.89	250,000	\$0.216	54,000	31-Dec-07	N/A	N/A	N/A	10%

Options granted as part of director and Senior Executive emoluments have been valued using the Binomial option pricing model. The value per option at grant date is calculated using the following assumptions:

Grant date	31-Dec-05	13-June-06	4-Oct-05	4-Oct-05	4-Oct-05
Share price at grant date	\$0.70	\$0.70	\$0.86	\$0.86	\$0.86
Exercise price	\$0.78	\$0.78	\$0.90	\$0.90	\$1.10
Risk free interest rate	5.09%	5.09%	5.40%	5.40%	5.40%
Volatility factor	60%	60%	60%	60%	60%
Expiry date	31-Dec-09	31-Dec-06	30-Jun-10	23-Oct-10	23-Oct-12

Shares issued on exercise of options for the year ended 30 June 2007

	No. of shares issued	Paid per share \$	Unpaid per share \$
Directors			
W Willis	1,000,000	0.25	—
C Readhead	500,000	0.25	—
I Macliver	500,000	0.25	—
Total	<u>2,000,000</u>		

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of Committees of directors) held during the year and the number of meetings attended by each director is as follows:

	Directors' Meetings	Audit and Risk Management Committee Meetings	Nomination, Remuneration and Governance Committee Meetings
Number of Meetings Held	13	2	3
N Hamilton	13	–	3
L Tonkin	13	–	–
C Readhead	11	2	3
I Macliver	12	2	3
A Jones	12	2	–
P Bilbe	6	–	–
M Horn	9	–	–

Mr Rule did not attend any meetings as an alternate director during the year.

INTERESTS IN THE SHARES AND OPTIONS OF MOUNT GIBSON

As at the date of this report, the interests of the directors in the Shares and Options of Mount Gibson were:

	Ordinary Shares	Options over Shares	Performance Rights over Shares
N Hamilton	185,000	–	–
L Tonkin	–	5,000,000	161,681
C Readhead	567,500	–	–
I Macliver	1,000,000	–	–
A Jones	100,000	–	–
A Rule	50,000	2,000,000	121,261

ENVIRONMENTAL REGULATION AND PERFORMANCE

The consolidated entity has developed Environmental Management Plans for its operations at Koolan Island, Talling Peak and the rail head at Mullewa. The Environmental Management Plans have been approved by the West Australian Government Departments of Industry and Resources, Environment and Conservation, and Land Management.

The granting of an environmental works approval by the Department of Environment and Conservation to allow construction of “prescribed” facilities at the Extension Hill mine site is pending Environmental Protection Authority approval of the Environmental Management Plans.

The consolidated entity holds various environmental licenses and authorities, issued under both State and Federal law, to regulate its mining and exploration activities in Australia. These licenses include conditions and regulation in relation to specifying limits on discharges into the environment, rehabilitation of areas disturbed during the course of mining and exploration activities, and the storage of hazardous substances.

There have been no material breaches of the Consolidated Entities’ licenses and all mining and exploration activities have been undertaken in compliance with the relevant environmental regulations.

PROCEEDINGS ON BEHALF OF MOUNT GIBSON

There are no proceedings on behalf of Mount Gibson under section 237 of the *Corporations Act 2001* in the financial year or at the date of this report.

ROUNDING

Amounts in this report and the accompanying financial report have been rounded to the nearest thousand dollars (\$’000) unless otherwise stated under the option available to Mount Gibson under ASIC Class Order 98/0100. Mount Gibson is an entity to which the class order applies.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Mount Gibson support and have adhered to the principles of corporate governance. Mount Gibson’s corporate governance statement is contained in the additional ASX information section of the annual report.

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with section 307C of the *Corporations Act 2001*, the directors received the attached independence declaration from the auditor of Mount Gibson on page 35 which forms part of this report.

NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised. Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

	\$
Aztec acquisition stamp duty advice	46,761
Other	<u>2,575</u>
	<u><u>49,336</u></u>

Signed in accordance with a resolution of the directors.

N HAMILTON

Chairman

Perth, 11 August 2008.

Independent auditor's report to the members of Mount Gibson Iron Limited**Report on the Financial Report**

We have audited the accompanying financial report of Mount Gibson Iron Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising Mount Gibson and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of Mount Gibson are responsible for the preparation and fair presentation of the financial report in accordance with the 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 (d), the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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 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 our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider 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.

Independence

In conducting our audit we have met the independence requirements of the *Corporations act 2001*. We have given to the directors of Mount Gibson a written Auditor's Independence Declaration. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

1. the financial report of Mount Gibson Iron Limited is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the financial position of Mount Gibson Iron Limited and the consolidated entity at 30 June 2008 and of their performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 28 to 33 of the directors' report for the year ended 30 June 2008. The directors of Mount Gibson are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Mount Gibson Iron Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young**Gavin A Buckingham**

Partner

Perth

11 August 2008

3. The following is the audited consolidated financial statements of Mount Gibson for the year ended 30 June 2007 prepared in accordance with Australian accounting standards which is extracted from the 2007 annual report of Mount Gibson (all monetary amounts are stated in A\$).

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2007

	NOTES	CONSOLIDATED		COMPANY	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
CONTINUING OPERATIONS					
Sale of goods	2[a]	162,748	73,389	–	–
Other revenue	2[a]	2,256	1,857	2,840	2,836
Total revenue		165,004	75,246	2,840	2,836
Cost of sales	2[d]	(108,955)	(50,938)	–	–
Gross profit		56,049	24,308	2,840	2,836
Other income	2[b]	2,805	1,966	1	1
Administrative expenses	2[d]	(13,020)	(6,684)	(1,543)	(6,368)
Write back of impairment allowance		–	–	–	10,833
Impairment of available-for-sale financial assets		(1,506)	–	(1,506)	–
Exploration expenses	2[d]	(8)	(814)	–	(25)
Profit/(loss) from Continuing Operations before tax and finance costs		44,320	18,776	(208)	7,277
Finance costs	2[c]	(2,067)	(1,142)	(3)	(11)
Profit/(loss) from Continuing Operations before income tax		42,253	17,634	(211)	7,266
Income tax benefit/(expense)	3	(13,209)	3,949	(474)	251
Net profit/(loss) from Continuing Operations for the period after income tax		29,044	21,583	(685)	7,517
Profit from discontinued operations after income tax	10[a]	18,721	1,490	91	–
Net profit/(loss) for the period after income tax		47,765	23,073	(594)	7,517
Loss attributable to minority interest		–	406	–	–
Net profit/(loss) attributable to members of Mount Gibson		47,765	23,479	(594)	7,517
Earnings per share (cents per share)					
• basic earnings per share	25	7.53	6.01		
• diluted earnings per share	25	7.43	5.88		
• basic earnings per share – Continuing Operations	25	4.58	6.01		
• diluted earnings per share – Continuing Operations	25	4.52	5.88		

CONSOLIDATED BALANCE SHEET

As at 30 June 2007

	NOTES	CONSOLIDATED		COMPANY	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	4	60,798	4,548	351	145
Trade and other receivables	5	9,848	6,180	490	58
Inventories	6	34,581	5,685	–	–
Prepayments		1,049	877	313	1
Derivatives	16	5,065	2,541	–	–
		111,341	19,831	1,154	204
Assets classified as held for sale	10[c]	–	46,093	–	–
Total current assets		111,341	65,924	1,154	204
NON-CURRENT ASSETS					
Trade and other receivables	5	–	–	54,722	29,690
Available-for-sale financial assets	7	1,805	1,248	1,805	1,248
Other financial assets	8	–	–	338,432	42,431
Property, plant and equipment	11	187,768	20,345	5	5
Deferred acquisition, exploration, evaluation and development costs	12	9,027	4,176	–	–
Mine properties	13	370,684	51,567	–	–
Deferred income tax assets	3	11,875	–	36,894	11,347
Total non-current assets		581,159	77,336	431,858	84,721
TOTAL ASSETS		692,500	143,260	433,012	84,925
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	14	64,314	17,836	14,214	341
Interest-bearing loans and borrowings	15	98,754	1,594	–	–
Derivatives	16	–	1,470	–	–
Provisions	17	1,172	463	–	–
		164,240	21,363	14,214	341
Liabilities associated with assets classified as held for sale	10[c]	–	3,068	–	–
Total current liabilities		164,240	24,431	14,214	341

APPENDIX III
FINANCIAL INFORMATION ON MOUNT GIBSON

	<i>NOTES</i>	CONSOLIDATED		COMPANY	
		2007	2006	2007	2006
		<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
NON-CURRENT LIABILITIES					
Trade and other payables	<i>14</i>	–	–	29,398	–
Provisions	<i>17</i>	18,470	702	–	–
Interest-bearing loans and borrowings	<i>15</i>	55,481	4,247	–	–
Deferred income tax liabilities	<i>3</i>	–	4,684	–	–
Total non-current liabilities		<u>73,951</u>	<u>9,633</u>	<u>29,398</u>	<u>–</u>
TOTAL LIABILITIES		<u>238,191</u>	<u>34,064</u>	<u>43,612</u>	<u>341</u>
NET ASSETS		<u>454,309</u>	<u>109,196</u>	<u>389,400</u>	<u>84,584</u>
EQUITY					
Issued capital	<i>18(a)</i>	386,766	86,851	386,766	86,851
Retained earnings/(accumulated losses)	<i>20</i>	57,861	10,096	(6,560)	(5,966)
Reserves	<i>19</i>	9,682	473	9,194	3,699
Parent interests		<u>454,309</u>	<u>97,420</u>	<u>389,400</u>	<u>84,584</u>
Minority interest	<i>21</i>	–	11,776	–	–
TOTAL EQUITY		<u>454,309</u>	<u>109,196</u>	<u>389,400</u>	<u>84,584</u>

CONSOLIDATED CASH FLOW STATEMENT*For the year ended 30 June 2007*

	NOTES	CONSOLIDATED		COMPANY	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		154,441	75,519	-	-
Payments to suppliers and employees		(144,931)	(82,704)	(1,509)	(1,073)
Interest paid		(6,420)	(1,196)	(111)	(11)
Net cash flows provided by/ (used in) operating activities	4[b]	<u>3,090</u>	<u>(8,381)</u>	<u>(1,620)</u>	<u>(1,084)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest received		2,644	1,951	332	40
Proceeds from disposal of controlled entity, net of cash disposed	10[e]	50,354	-	24,892	-
Purchase of controlled entity	9	-	-	(6,275)	-
Net cash acquired on acquisition of controlled entity	9	3,652	-	-	-
Contribution to controlled entity		-	-	-	(20,813)
Proceeds from sale of property, plant and equipment		3,767	7	-	-
Purchase of property, plant and equipment		(36,834)	(12,362)	-	-
Payment for deferred exploration and evaluation expenditure		(4,578)	(15,126)	-	-
Payment for mine properties		(37,594)	-	-	-
Proceeds from disposal of available-for-sale financial assets		295	-	295	-
Purchase of available-for-sale investments		-	(960)	-	(960)
Net cash flows provided by/ (used in) investing activities		<u>(18,294)</u>	<u>(26,490)</u>	<u>19,244</u>	<u>(21,733)</u>
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of ordinary shares		2,010	7,460	2,010	7,460
Loans to other entities		(280)	(395)	(280)	(395)
Loans from/(to) related parties		-	-	(19,148)	15,853
Proceeds from borrowings		73,404	1,500	-	-
Repayment of lease liabilities		(6,529)	(2,520)	-	-
Repayment of borrowings		-	(419)	-	-
Payment for performance bonds		-	(1,100)	-	-
Proceeds from performance bonds		-	4,053	-	-
Net cash flows provided by/ (used in) financing activities		<u>68,605</u>	<u>8,579</u>	<u>(17,418)</u>	<u>22,918</u>
Net (decrease)/increase in cash and cash equivalents		<u>53,401</u>	<u>(26,292)</u>	<u>206</u>	<u>101</u>
Net foreign exchange differences		-	56	-	-
Cash and cash equivalents at beginning of period		<u>7,397</u>	<u>33,633</u>	<u>145</u>	<u>44</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	4[a]	<u><u>60,798</u></u>	<u><u>7,397</u></u>	<u><u>351</u></u>	<u><u>145</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2007

	Attributable to Equity Holders of the Parent					Total	Minority Interest	Total Equity
	Issued Capital	(Accumulated Losses)/ Retained Earnings	Option Premium Reserve	Net Unrealised Gains/(Losses) Reserve	Other Reserves			
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
CONSOLIDATED								
At 1 July 2005	<u>79,381</u>	<u>(13,383)</u>	<u>1,631</u>	<u>1,165</u>	<u>-</u>	<u>68,794</u>	<u>8,956</u>	<u>77,750</u>
Net unrealised losses on available-for-sale financial assets	-	-	-	(3,305)	-	(3,305)	-	(3,305)
Net gains on cash flow hedges	-	-	-	465	-	465	-	465
Release to income statement on expiry of cash flow hedges	-	-	-	(115)	-	(115)	-	(115)
Currency translation differences	-	-	-	-	(465)	(465)	-	(465)
Cost of share-based payment	-	-	4,323	-	-	4,323	-	4,323
Total income and expense for the period recognised directly in equity	-	-	4,323	(2,955)	(465)	903	-	903
Profit/(loss) for the period	-	23,479	-	-	-	23,479	(406)	23,073
Total income and expense for the period	-	23,479	4,323	(2,955)	(465)	24,382	(406)	23,976
Issue of share capital	10	-	-	-	-	10	-	10
Exercise of options	7,460	-	-	-	-	7,460	-	7,460
New issue of capital by a Controlled Entity	-	-	-	-	(3,226)	(3,226)	3,226	-
At 30 June 2006	<u>86,851</u>	<u>10,096</u>	<u>5,954</u>	<u>(1,790)</u>	<u>(3,691)</u>	<u>97,420</u>	<u>11,776</u>	<u>109,196</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY CONTINUED

For the year ended 30 June 2007

	Attributable to Equity Holders of the Parent					Total	Minority Interest	Total Equity
	Issued Capital	(Accumulated Losses)/ Retained Earnings	Option Premium Reserve	Net Unrealised Gains/(Losses) Reserve	Other Reserves			
CONSOLIDATED								
At 1 July 2006	86,851	10,096	5,954	(1,790)	(3,691)	97,420	11,776	109,196
Net unrealised gain on available-for-sale financial assets	-	-	-	1,032	-	1,032	-	1,032
Impairment of available-for-sale financial assets	-	-	-	1,506	-	1,506	-	1,506
Net gains on cash flow hedges	-	-	-	3,215	-	3,215	-	3,215
Currency translation differences	-	-	-	-	(386)	(386)	-	(386)
Currency translation differences released on sale of controlled entity	-	-	-	-	885	885	-	885
Cost of share-based payment	-	-	2,957	-	-	2,957	-	2,957
Total income and expense for the period recognised directly in equity	-	-	2,957	5,753	499	9,209	-	9,209
Profit for the period	-	47,765	-	-	-	47,765	-	47,765
Total income and expense for the period	-	47,765	2,957	5,753	499	56,974	-	56,974
Issue of share capital for acquisition of Controlled Entity	297,905	-	-	-	-	297,905	-	297,905
Exercise of options	2,010	-	-	-	-	2,010	-	2,010
Change in Minority Interest	-	-	-	-	-	-	(11,776)	(11,776)
At 30 June 2007	386,766	57,861	8,911	3,963	(3,192)	454,309	-	454,309

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY CONTINUED

For the year ended 30 June 2007

COMPANY	Attributable to Equity Holders of the Parent				Total Equity
	Issued Capital \$'000	Accumulated Losses \$'000	Option Premium Reserve \$'000	Net Unrealised Gains/ (Losses) Reserve \$'000	\$'000
At 1 July 2005	79,381	(13,483)	1,631	1,050	68,579
Net unrealised losses on available-for-sale financial assets	-	-	-	(3,305)	(3,305)
Cost of share-based payment	-	-	4,323	-	4,323
Total income and expense for the period recognised directly in equity	-	-	4,323	(3,305)	1,018
Profit for the period	-	7,517	-	-	7,517
Total income and expense for the period	-	7,517	4,323	(3,305)	8,535
Issue of share capital	10	-	-	-	10
Exercise of options	7,460	-	-	-	7,460
At 30 June 2006	86,851	(5,966)	5,954	(2,255)	84,584
At 1 July 2006	86,851	(5,966)	5,954	(2,255)	84,584
Cost of share-based payment	-	-	2,957	-	2,957
Net unrealised gain on available-for-sale financial assets	-	-	-	1,032	1,032
Impairment of available-for-sale financial assets	-	-	-	1,506	1,506
Total income and expense for the period recognised directly in equity	-	-	2,957	2,538	5,495
Loss for the period	-	(594)	-	-	(594)
Total income and expense for the period	-	(6,560)	2,957	2,538	4,901
Issue of share capital for acquisition of Controlled Entity	297,905	-	-	-	297,905
Exercise of options	2,010	-	-	-	2,010
At 30 June 2007	386,766	(6,560)	8,911	283	389,400

NOTES TO THE CONSOLIDATED FINANCIAL REPORT

For the year ended 30 June 2007

1. Summary of significant accounting policies**(a) Corporate information**

The financial report of Mount Gibson for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the directors on 27 August 2007.

Mount Gibson is a company limited by shares incorporated in Australia whose shares are publicly traded on the ASX.

The nature of operations and principal activities of the consolidated entity are the mining of hematite deposits at Talling Peak and Koolan Island and exploration and development of hematite deposits in the Mid-West region of Western Australia.

The address of the registered office is Level 1, 7 Havelock Street, West Perth, WA, 6005.

(b) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Australian Accounting Standards and other mandatory professional reporting requirements. The financial report has also been prepared on a historical cost basis, except for derivative financial instruments and quoted available-for-sale financial assets that have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to Mount Gibson under ASIC Class Order 98/0100. Mount Gibson is an entity to which the class order applies.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Mount Gibson and its controlled entities.

The financial statements of controlled entities are prepared for the same reporting period as Mount Gibson, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Controlled entities are consolidated from the date on which control is transferred to the consolidated entity and cease to be consolidated from the date on which control is transferred out of the consolidated entity.

Where there is loss of control of a controlled entity, the consolidated financial statements include the results for the part of the reporting period during which Mount Gibson has control.

Minority interests represent the interests in Asia Iron Holdings Limited, not held by the consolidated entity.

Investments in controlled entities are carried in the balance sheet of Mount Gibson at cost less impairment losses, if any.

(d) *Statement of compliance*

Except for the amendments to AASB 101 Presentation of Financial Statements, which the consolidated entity has early adopted, Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the consolidated entity for the annual reporting period ending 30 June 2007.

These are outlined in the table below.

Reference	Title	Impact on consolidated entity financial report	Application Date of Standard	Application Date for consolidated entity
Revised AASB 101	Presentation of Financial Statements	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007
AASB 2005-10	Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007
AASB 2007-1	Amendments to Australian Accounting Standards arising from AASB Interpretation 11 [AASB 2]	No change to accounting policy required. Therefore no impact.	1 March 2007	1 July 2007
AASB 2007-2	Amendments to Australian Accounting Standards arising from AASB Interpretation 12 [AASB 1, AASB 117, AASB 118, AASB 120, AASB 121, AASB 127, AASB 131 & AASB 139]	No change to accounting policy required. Therefore no impact.	1 January 2008	1 July 2008
AASB 2007-3	Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038]	No change to accounting policy required. Therefore no impact.	1 January 2009	1 July 2009
AASB 2007-4	Amendments to Australian Accounting Standards arising from ED151 and Other Amendments	No change to accounting policy required. Therefore no impact.	1 July 2007	1 July 2007

Reference	Title	Impact on consolidated entity financial report	Application Date of Standard	Application Date for consolidated entity
AASB 2007-6	Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 and 12]	No change to accounting policy required. Therefore no impact.	1 January 2009	1 July 2009
AASB 2007-7	Amendments to Australian Accounting Standards [AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 & AASB 128]	No change to accounting policy required. Therefore no impact.	1 July 2007	1 July 2007
AASB 7	Financial Instruments: Disclosures	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007
AASB 8	Operating Segments	No change to accounting policy required. Therefore no impact.	1 January 2009	1 July 2009
AASB 123 (revised June 2007)	Borrowing Costs	No change to accounting policy required. Therefore no impact.	1 January 2009	1 July 2009
AASB Interpretation 10	Interim Financial Reporting and Impairment	No change to accounting policy required. Therefore no impact.	1 November 2006	1 July 2007
AASB Interpretation 11	Group and Treasury Share Transactions	No change to accounting policy required. Therefore no impact.	1 March 2007	1 July 2008
AASB Interpretation 12	Service Concession Arrangements	No change to accounting policy required. Therefore no impact.	1 January 2008	1 July 2008
AASB Interpretation 129 (revised June 2007)	Service Concession Arrangements	No change to accounting policy required. Therefore no impact.	1 January 2008	1 July 2008

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (“AIFRS”). The financial report also complies with International Financial Reporting Standards (“IFRS”).

(e) Foreign currency translation

Both the functional and presentation currency of Mount Gibson and its Australian controlled entities is Australian dollars (A\$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All such exchange differences are taken to the income statement in the consolidated financial report.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

(f) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation

The cost of owned property, plant and equipment directly engaged in mining operations is written off over its expected economic life on a units-of-production method, in the establishment of which due regard is given to the life of the related area of interest. Plant and equipment under hire purchase or finance lease directly engaged in mining operations is written down to its residual value over the period of the hire purchase or finance lease. Other assets which are depreciated or amortised on a basis other than the units-of-production method typically are depreciated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings	5-20 years
Motor vehicles	4-5 years
Office equipment	3-5 years
Leasehold improvements	Shorter of lease term or useful life of 5-10 years
Koolan Island major fleet hire purchase	5 years

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

(g) Mine properties

Mine properties represent the accumulation of all acquisition, exploration, evaluation and development expenditure incurred by or on behalf of the consolidated entity in relation to areas of interest in which mining of mineral resource has commenced. When further development expenditure, including waste development, is incurred in respect of a mine property after the commencement of production, such expenditure is carried forward as part of the cost of that mine property only when substantial future economic benefits are established, otherwise such expenditure is classified as part of the cost of production.

Amortisation is provided on the units-of-production method, with separate calculations being made for each mineral resource. Estimated future capital and waste development costs to be incurred in accessing the reserves and measured resources are taken into account in determining amortisation charges. The units-of-production method results in an amortisation charge proportional to the depletion of the economically recoverable mineral resources (comprising proven and probable reserves plus where appropriate, a portion of measured resources).

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Should the carrying value of the expenditure not yet amortised exceed its estimated recoverable amount in any year, the excess is written off to the income statement.

(h) Acquisition, exploration, evaluation and development costs

Acquisition costs

Exploration and evaluation costs arising from acquisitions are carried forward where exploration and evaluation activities have not, at balance date, reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves.

Exploration and evaluation costs

Costs arising from exploration and evaluation activities are expensed as incurred, except where, at balance date, it is expected that the expenditure will be recouped by future exploitation or sale of the area of interest, in which case the expenditure is capitalised.

Development costs

Costs arising from development activities are capitalised as incurred to the extent that such costs, together with any costs arising from acquisition, exploration and evaluation carried forward in respect of the area of interest, are expected to be recouped through future exploitation or sale of the area of interest.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Where uncertainty exists as to the future viability of certain areas, the value of the area of interest is written off to the income statement or provided against.

(i) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset.

(j) Rehabilitation costs

Long-term environmental obligations are based on the consolidated entity's environmental management plans, in compliance with current environmental and regulatory requirements.

Full provision is made based on the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to the balance sheet date. Increases due to additional environmental disturbances, relating to the development of an asset, are capitalised and amortised over the remaining life of the area of interest.

Annual increases in the provision relating to the change in the net present value of the provision are accounted for in the income statement as borrowing costs.

The estimated costs of rehabilitation are reviewed annually and adjusted as appropriate for changes in legislation, technology or other circumstances. Cost estimates are not reduced by potential proceeds from the sale of assets.

(k) Recoverable amount of assets

At each reporting date, the consolidated entity assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the consolidated entity makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. Recoverable amount is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less cost to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is also made at each reporting date as to whether there is any indication that a previously recognised impairment loss may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(l) Investments

All investments are initially recognised at the fair value of the consideration given, including acquisition charges associated with the investment.

After initial recognition, investments, which are classified as available-for-sale, are measured at fair value. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The fair value of investments that are actively traded in organised markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

For investments with no active market, fair value is determined using valuation techniques. Such valuation techniques include using recent arm's length transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. Where fair value cannot be reliably measured for certain unquoted investments, these investments are measured at cost.

(m) Non-current assets and disposal groups held for sale and discontinued operations

Non-current assets and disposal groups are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction. They are not depreciated or amortised. For an asset or disposal group to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell the asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the income statement.

(n) Inventories

Inventories are valued at the lower of cost and net realisable value.

Cost comprises direct material, labour and expenditure in getting such inventories to their existing location and condition, based on weighted average costs incurred during the period in which such inventories were produced.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(o) Trade and other receivables

Trade receivables, which generally have 60-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when there is objective evidence that the consolidated entity will not be able to collect the debts. Bad debts are written off when identified.

(p) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(q) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received, less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

Gains and losses are recognised in the profit or loss when the liabilities are derecognised.

(r) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year that are unpaid and arise when the consolidated entity becomes obliged to make future payments in respect of the purchase of these goods and services.

(s) Provisions

Provisions are recognised when the consolidated entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

A provision for dividends is not recognised as a liability unless the dividends have been declared, determined or publicly recommended on or before the reporting date.

(t) Share-based payment transactions

The consolidated entity provides benefits to employees (including directors) of the consolidated entity in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (“equity-settled transactions”).

There is currently a directors, Officers, Employees and Other Permitted Persons option plan.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a Binomial model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Mount Gibson.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (“vesting date”).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the consolidated entity, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met and the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum, an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of Earnings Per Share.

(u) *Employee benefits*

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees’ services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national Government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Superannuation

Contributions made by the consolidated entity to employee superannuation funds, which are defined contribution plans, are charged as an expense when incurred.

(v) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense in the income statement on a straight-line basis over the lease term.

Contingent rentals are recognised as an expense in the financial year in which they are incurred.

Finance leases

Leases which effectively transfer substantially all the risks and benefits incidental to ownership of the leased item to the consolidated entity are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

Capitalised leased assets are depreciated over the estimated useful life of the asset or where appropriate, over the estimated life of the mine.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

(w) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably.

Interest

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Dividends

Revenue is recognised when the Shareholders' right to receive the payment is established.

(x) Income tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences and the carry-forward of unused tax assets and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(y) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

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

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(z) *Derivative financial instruments and hedging*

The consolidated entity uses foreign currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured to fair value.

Any gains and losses arising from changes in the fair value of derivatives, except those that qualify as cash flow hedges, are taken directly to net profit or loss for the year.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For the purpose of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability, or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to cash flow hedges (forward foreign currency contracts) to hedge firm commitments which meet the conditions for a special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

When the hedged firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting.

At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

(aa) Issued capital

Issued and paid up capital is recognised at the fair value of the consideration received by the consolidated entity. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction in the proceeds received.

(bb) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of Mount Gibson, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(cc) *Significant accounting judgements, estimates and assumptions*

Significant accounting judgements, estimates and assumptions have been made as follows:

(i) *Mine rehabilitation provision*

The consolidated entity assesses its mine rehabilitation provision annually in accordance with the accounting policy stated in Note 1(j). Significant judgement is required in determining the provision for mine rehabilitation as there are many transactions and other factors that will affect the ultimate liability payable to rehabilitate the mine site. Factors that will affect this liability include future development, changes in technology, commodity price changes and changes in interest rates. When these factors change or become known in the future, such difference will impact the mine rehabilitation provision in the period in which they change or become known.

(ii) *Units of production method of depreciation*

The consolidated entity applies the units of production method of depreciation of its mine assets based on ore tonnes mined. These calculations require the use of estimates and assumptions. Significant judgement is required in assessing the available reserves and resources and the production capacity of the operations to be depreciated under this method. Factors that are considered in determining reserves and resources and production capacity are the consolidated entity's history of converting resources to reserves and the relevant time frames, the complexity of metallurgy, markets and future developments. The consolidated entity uses proved and probable reserves to depreciate assets on a units of production basis. However where a mineral property has been acquired and an amount has been attributed to the fair value of resources not yet designated as reserves, the additional resources have been taken into account. When these factors change or become known in the future, such differences will impact pre-tax profit and carrying values of assets.

(iii) *Determination of mineral resources and ore reserves*

The consolidated entity estimates its mineral resources and ore reserves in accordance with the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004 (the 'JORC code'). The information on mineral resources and ore reserves were prepared by or under the supervision of Competent Persons as defined in the JORC code. The amounts presented are based on the mineral resources and ore reserves determined under the JORC code.

There are numerous uncertainties inherent in estimating mineral resources and ore reserves and assumptions that are valid at the time of estimation may change significantly when new information becomes available.

Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated. Such changes in the reserves could impact on depreciation and amortisation rates, asset carrying values, deferred stripping costs and provisions for decommissioning and restoration.

(iv) Impairment of capitalised exploration and evaluation expenditure

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the consolidated entity decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors which could impact the future recoverability include the level of proved, probable and inferred mineral resources, future technological changes which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, this will reduce profits and net assets in the period in which this determination is made.

In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent that it is determined in the future that this capitalised expenditure should be written off, this will reduce profits and net assets in the period in which this determination is made.

(v) Impairment of capitalised mine development expenditure

The future recoverability of capitalised mine development expenditure is dependent on a number of factors, including the level of proved, probable and inferred mineral resources, future technological changes which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised mine development expenditure is determined not to be recoverable in the future, this will reduce profits and net assets in the period in which this determination is made.

(vi) Impairment of property, plant and equipment

Property, plant and equipment is reviewed for impairment if there is any indication that the carrying amount may not be recoverable. Where a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of 'value in use' (being the net present value of expected future cash flows of the relevant cash generating unit) and 'fair value less costs to sell'.

In determining value in use, future cash flows are based on:

- Estimates of the quantities of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- Future production levels;
- Future commodity prices; and
- Future cash costs of production and capital expenditure.

Variations to the expected future cash flows, and timing thereof, could result in significant changes to any impairment losses recognised, if any, which could in turn impact future financial results.

(vii) Deferred waste

The consolidated entity has adopted a policy of deferring waste development costs and amortising them in accordance with the life-of-mine strip ratio. Significant judgement is required in determining this ratio for each mine. Factors that are considered include:

- Any proposed changes in the design of the mine;
- Estimates of the quantities of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction;

- Future production levels;
- Future commodity prices; and
- Future cash costs of production and capital expenditure.

(viii) Recoverability of potential deferred income tax assets

The consolidated entity recognises deferred income tax assets in respect of tax losses to the extent that the future utilisation of these losses is considered probable. Assessing the future utilisation of these losses requires the consolidated entity to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, this could result in significant changes to the deferred income tax assets recognised, which would in turn impact future financial results.

(ix) Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted and applying an estimated probability that they will vest. The fair value is determined by an external valuer using a Binomial model, with the assumptions detailed in Note 24. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

(x) Financial guarantees

The fair value of financial guarantee contracts have been assessed using the interest differential approach.

APPENDIX III
FINANCIAL INFORMATION ON MOUNT GIBSON

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
<i>NOTES</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
2. Revenue and expenses				
[a] Revenue				
Sale of ore	156,020	73,389	–	–
Realised gain on foreign exchange hedges	6,728	–	–	–
	<u>162,748</u>	<u>73,389</u>	<u>–</u>	<u>–</u>
Other revenue				
Finance income – other persons/ corporations	2,256	1,857	332	40
Finance income – intercompany loans	–	–	2,508	2,796
	<u>2,256</u>	<u>1,857</u>	<u>2,840</u>	<u>2,836</u>
[b] Other income				
Net gain on sale of plant and equipment	–	632	–	–
Net unrealised gain on foreign exchange	2,764	939	–	–
Other income	41	395	1	1
	<u>2,805</u>	<u>1,966</u>	<u>1</u>	<u>1</u>

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
NOTES	\$'000	\$'000	\$'000	\$'000
[c] Finance costs				
Finance charges on loans	4,370	175	3	11
Less: finance charges on loans capitalised	(3,010)	–	–	–
	<u>1,360</u>	<u>175</u>	<u>3</u>	<u>11</u>
Finance charges payable under finance leases	2,122	934	–	–
Less: finance charges on leases capitalised	(1,446)	–	–	–
	<u>676</u>	<u>934</u>	<u>–</u>	<u>–</u>
Unwinding of discount on rehabilitation provision	31	33	–	–
	<u>2,067</u>	<u>1,142</u>	<u>3</u>	<u>11</u>
[d] Expenses included in the Income Statement				
Depreciation of Non-Current Assets				
• Plant and equipment	2,078	674	–	–
• Plant and equipment under lease	4,103	3,079	–	–
• Buildings	885	447	–	–
• Buildings under lease	51	78	–	–
	7,117	4,278	–	–
• Less: depreciation capitalised	(2,400)	(15)	–	–
	<u>4,717</u>	<u>4,263</u>	<u>–</u>	<u>–</u>

APPENDIX III**FINANCIAL INFORMATION ON MOUNT GIBSON**

	CONSOLIDATED		COMPANY		
	<i>NOTES</i>	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Amortisation of deferred waste		55,508	17,296	–	–
Amortisation of other mine properties		3,141	473		
Expense of share-based payments		2,957	4,323	–	4,323
Operating lease rental – minimum lease payments		19,766	754	–	–
Exploration expenditure written off		8	814	–	25
Government royalties		10,702	5,129	–	–
Salaries, wages expense and other employee benefits		18,451	9,288	–	–
Net loss on sale of plant and equipment		501	–	–	–
Bad debts		44	541	44	420
Net loss on disposal of available-for-sale-financial-assets		183	–	183	–
Impairment of investments		1,506	400	1,506	400

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
NOTES	\$'000	\$'000	\$'000	\$'000
3. Income tax				
Major components of income tax expense for the years ended 30 June 2007 and 2006 are:				
Income Statement				
<i>Current income tax</i>				
Current income tax charge	-	-	-	-
Adjustments in respect of current income tax of previous years	-	-	-	-
<i>Deferred income tax</i>				
Relating to origination and reversal of temporary differences	21,286	6,601	474	(251)
Benefit from previously unrecognised tax loss used to reduce deferred tax expense/temporary differences	-	(13,523)	-	-
Income tax expense/(benefit) reported in income statement	<u>21,286</u>	<u>(6,922)</u>	<u>474</u>	<u>(251)</u>
Statement of Changes in Equity				
<i>Current income tax</i>				
Current income tax on exchange difference on loan	-	-	-	-
<i>Deferred income tax</i>				
Capital raising costs	164	-	-	-
Remeasurement of foreign exchange contracts	<u>1,292</u>	<u>199</u>	<u>-</u>	<u>-</u>
Deferred income tax benefit reported in equity	<u>1,456</u>	<u>199</u>	<u>-</u>	<u>-</u>

	NOTES	CONSOLIDATED		COMPANY	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Reconciliation of income tax expense/(benefit)					
A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the years ended 30 June 2007 and 2006 is as follows:					
Accounting profit/(loss) before income tax					
		69,052	16,151	(120)	7,266
		<u>69,052</u>	<u>16,151</u>	<u>(120)</u>	<u>7,266</u>
• At the statutory income tax rate of 30% (2006: 30%)		20,715	4,845	(36)	2,180
• Adjustments on formation of a tax consolidated group		(774)	(7,341)	–	–
• Previously unrecognised tax losses now recognised		–	(5,752)	58	(3,731)
• Temporary differences not brought to account as a deferred tax asset		452	–	452	–
• Expenditure not allowed for income tax purposes		893	1,326	–	1,300
		<u>893</u>	<u>1,326</u>	<u>–</u>	<u>1,300</u>
Income tax expense/(benefit)		21,286	(6,922)	474	(251)
		<u>21,286</u>	<u>(6,922)</u>	<u>474</u>	<u>(251)</u>
Effective income tax rate		30.8%	(25.7%)	(395.5%)	(3.5%)
Income tax expense reported in income statement		13,209	(3,949)	474	(251)
Income tax attributable to discontinued operation	10	8,077	(2,973)	–	–
		<u>8,077</u>	<u>(2,973)</u>	<u>–</u>	<u>–</u>
		21,286	(6,922)	474	(251)
		<u>21,286</u>	<u>(6,922)</u>	<u>474</u>	<u>(251)</u>

Tax Consolidation

Mount Gibson and its 100% owned controlled entities have formed a tax consolidated group. Members of the consolidated entity have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned controlled entities on a pro-rate basis. The agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At balance date, the possibility of default is remote. The head entity of the tax consolidated group is Mount Gibson Iron Limited.

Tax effect accounting by members of the tax consolidated group

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement provides for the allocation of current taxes to members of the tax consolidated group. Deferred taxes are allocated to members of the tax consolidated group in accordance with a group allocation approach which is consistent with the principles of AASB 112 Income Taxes.

The allocation of taxes under the tax funding agreement is recognised as an increase/decrease in the controlled entities intercompany accounts with the tax consolidated group head company, Mount Gibson Iron Limited. In this regard Mount Gibson has assumed the benefit of tax losses from controlled entities of \$26,020,750 (2006: \$10,672,008) as of the balance date. The nature of the tax funding agreement is such that no tax consolidation contributions by or distributions to equity participants are required.

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
CONSOLIDATED						
Accrued liabilities	(131)	(218)	-	-	(131)	(218)
Borrowing costs	(718)	(7)	-	-	(718)	(7)
Capital raising costs	(10,036)	(266)	-	-	(10,036)	(266)
Deferred income	-	-	7,825	3,689	7,825	3,689
Doubtful debts provision	(105)	(162)	-	-	(105)	(162)
Exploration expenditure	-	-	2,709	13,363	2,709	13,363
Fair value increase	-	(1,662)	-	-	-	(1,662)
Foreign exchange contracts	(275)	-	2,336	322	2,061	322
Interest receivable	-	-	427	202	427	202
Inventory	-	-	396	-	396	-
Lease liability	(999)	(1,301)	-	-	(999)	(1,301)
Mine properties	-	-	24,991	3,950	24,991	3,950
Prepaid expenditure	-	-	4	5	4	5
Property, plant and equipment	4,266	-	-	3,562	4,266	3,562
Provisions	(5,893)	(350)	-	-	(5,893)	(350)
Tax losses	(36,672)	(16,443)	-	-	(36,672)	(16,443)
Tax (assets)/liabilities	(50,563)	(20,409)	38,688	25,093	(11,875)	4,684
Set off of tax	38,688	20,409	(38,688)	(20,409)	-	-
Net tax (assets)/liabilities	(11,875)	-	-	4,684	(11,875)	4,684

APPENDIX III
FINANCIAL INFORMATION ON MOUNT GIBSON

	Balance 1 July 2005 <i>\$'000</i>	Recognised in Income <i>\$'000</i>	Recognised in Equity <i>\$'000</i>	Balance 30 June 2006 <i>\$'000</i>
Movement in temporary differences during the financial year ended 30 June 2006				
Accrued liabilities	(48)	(170)	–	(218)
Borrowing costs	(22)	15	–	(7)
Capital raising costs	(371)	105	–	(266)
Deferred income	–	3,689	–	3,689
Doubtful debts provision	–	(162)	–	(162)
Exploration expenditure	8,116	5,247	–	13,363
Fair value increase	–	(1,861)	199	(1,662)
Foreign exchange contracts	–	322	–	322
Interest receivable	67	135	–	202
Lease liability	(2,353)	1,052	–	(1,301)
Mine properties	3,947	3	–	3,950
Prepaid expenditure	5	–	–	5
Property, plant and equipment	2,353	1,209	–	3,562
Provisions	(287)	(63)	–	(350)
Tax losses	–	(16,443)	–	(16,443)
	11,407	(6,922)	199	4,684

	Balance 1 July 2006 <i>\$'000</i>	Recognised in Income <i>\$'000</i>	Recognised in Equity <i>\$'000</i>	Disposal of AIHL <i>\$'000</i>	Recognised for Aztec <i>\$'000</i>	Balance 30 June 2007 <i>\$'000</i>
Movement in temporary differences during the financial year ended 30 June 2007						
Accrued liabilities	(218)	97	–	–	(10)	(131)
Borrowing costs	(7)	(711)	–	–	–	(718)
Capital raising costs	(266)	1,929	164	–	(11,863)	(10,036)
Deferred income	3,689	4,136	–	–	–	7,825
Doubtful debts provision	(162)	57	–	–	–	(105)
Exploration expenditure	13,363	(6,629)	–	(4,206)	181	2,709
Fair value increase	(1,662)	9,566	–	(7,904)	–	–
Foreign exchange contracts	322	164	1,292	–	283	2,061
Interest receivable	202	225	–	–	–	427
Inventory	–	325	–	–	71	396
Lease liability	(1,301)	302	–	–	–	(999)
Mine properties	3,950	27,974	–	–	(6,933)	24,991
Prepaid expenditure	5	(1)	–	–	–	4
Property, plant and equipment	3,562	(1,959)	–	32	2,631	4,266
Provisions	(350)	(5,508)	–	–	(35)	(5,893)
Tax losses	(16,443)	(8,681)	–	5,541	(17,089)	(36,672)
	4,684	21,286	1,456	(6,537)	(32,764)	(11,875)

	Assets		Liabilities		Net	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
COMPANY						
Accrued liabilities	(37)	(7)	-	-	(37)	(7)
Borrowing costs	(6)	(8)	-	-	(6)	(8)
Capital raising costs	(136)	(266)	-	-	(136)	(266)
Doubtful debts provision	(43)	(169)	-	-	(43)	(169)
Tax losses	(36,672)	(10,897)	-	-	(36,672)	(10,897)
Tax (assets)/liabilities	(36,894)	(11,347)	-	-	(36,894)	(11,347)
Set off of tax	-	-	-	-	-	-
Net tax (assets)/liabilities	(36,894)	(11,347)	-	-	(36,894)	(11,347)

	Balance				Balance
	1 July 2005 \$'000	Recognised in Income \$'000	Recognised in Equity \$'000	Transfers Out (In) \$'000	30 June 2006 \$'000
Movement in temporary differences during the financial year ended 30 June 2006					
Accrued liabilities	-	(7)	-	-	(7)
Borrowing costs	(10)	2	-	-	(8)
Capital raising costs	(371)	105	-	-	(266)
Provisions	(43)	(126)	-	-	(169)
Tax losses	-	(225)	-	(10,672)	(10,897)
	(424)	(251)	-	(10,672)	(11,347)

	Balance				Balance
	1 July 2006 \$'000	Recognised in Income \$'000	Recognised in Equity \$'000	Transfers Out (In) \$'000	30 June 2007 \$'000
Movement in temporary differences during the financial year ended 30 June 2007					
Accrued liabilities	(7)	(30)	-	-	(37)
Borrowing costs	(8)	2	-	-	(6)
Capital raising costs	(266)	130	-	-	(136)
Provisions	(169)	126	-	-	(43)
Tax losses	(10,897)	246	-	(26,021)	(36,672)
	(11,347)	474	-	(26,021)	(36,894)

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Unrecognised deferred tax assets				
Deferred tax assets have not been recognised in respect of the following items:				
Provision for write down of investments	487	796	487	796
Exploration rights	122	–	–	–
Tax losses	786	45	45	45
	<u>1,395</u>	<u>841</u>	<u>532</u>	<u>841</u>

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
NOTES	\$'000	\$'000	\$'000	\$'000

4. Cash and cash equivalents

Cash at bank and in hand	28,540	4,334	351	145
Short-term deposits	<u>32,258</u>	<u>214</u>	<u>–</u>	<u>–</u>
	<u>60,798</u>	<u>4,548</u>	<u>351</u>	<u>145</u>

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

	NOTES	CONSOLIDATED		COMPANY	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
[a] Reconciliation of cash					
For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:					
Cash at bank and in hand		28,540	4,334	351	145
Short-term deposits		32,258	214	–	–
		60,798	4,548	351	145
Cash at bank and in hand attributable to the disposal group	10	–	2,849	–	–
		<u>60,798</u>	<u>7,397</u>	<u>351</u>	<u>145</u>
[b] Reconciliation of the net profit/(loss) after tax to the net cash flows from operations					
Net profit/(loss) after tax		47,765	23,073	(594)	7,517
<i>Adjustments for:</i>					
Depreciation of non-current assets		4,717	4,263	–	–
Amortisation of deferred waste		55,508	17,296	–	–
Amortisation of other mine properties		3,141	473	–	–
Net (profit)/loss on disposal of property, plant and equipment		501	(632)	–	–
Net exchange differences		512	(464)	–	–
Interest received		(2,256)	(1,907)	(332)	(40)
Exploration expenses written off		8	814	–	–
Share-based payments		2,957	4,323	–	4,323
Intra-group interest income		–	–	(2,508)	(2,796)
Bad debts		44	541	44	420
Impairment of investments		1,506	400	1,506	400
Write back of impairment of investments		–	–	–	(10,833)
Profit from disposal of controlled entity		(18,721)	–	(91)	–
Net loss on disposal of available-for-sale financial assets		183	–	183	–
Capitalised expenses		(10,325)	–	(3)	–

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
NOTES	\$'000	\$'000	\$'000	\$'000
<i>Changes in assets and liabilities</i>				
(Increase)/decrease in trade and other receivables	(534)	(2,208)	(16)	5
(Increase)/decrease in inventory	(16,673)	(388)	–	–
(Increase)/decrease in prepayments and deposits	(94)	(335)	(312)	2
(Increase)/decrease in deferred tax assets	–	–	474	(251)
(Increase) in mine development expenditure	(102,570)	(54,205)	–	–
Increase in creditors and accruals	23,783	7,994	208	211
Increase/(decrease) in GST paid	(172)	(724)	(179)	(42)
Increase/(decrease) in deferred income tax liabilities	13,326	(6,922)	–	–
Increase in employee benefits	484	227	–	–
Net Cash Flow (used in)/ from Operating Activities	3,090	(8,381)	(1,620)	(1,084)

[c] Non-cash financing activities

During the financial year, the consolidated entity acquired property, plant and equipment with an aggregate fair value of \$56,371,647 (2006: \$2,783,417) by means of finance leases and hire purchase agreements. During the financial year, the consolidated entity disposed of property, plant and equipment with an aggregate fair value of \$3,771,433 (2006: \$7,143,498) that were financed by means of finance leases.

	NOTES	CONSOLIDATED		COMPANY	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
5. Trade and other receivables					
Current					
Trade debtors	[b]	3,604	3,350	10	–
Sundry debtors	[b]	2,222	1,480	17	10
Other receivables		4,022	1,350	463	48
		<u>9,848</u>	<u>6,180</u>	<u>490</u>	<u>58</u>
Non-Current					
Other receivables	[a],[b]	–	–	54,867	29,835
Allowance for doubtful debts		–	–	(145)	(145)
		<u>–</u>	<u>–</u>	<u>54,722</u>	<u>29,690</u>
[a] Related party receivables					
Non-Current					
Controlled entities		–	–	54,722	29,690

[b] Terms and conditions

Terms and conditions relating to the above financial instruments:

- [i] Trade debtors are non-interest bearing and generally on 60-90 day terms.
- [ii] Sundry debtors are non-interest bearing and have repayment terms between 30 and 90 days.
- [iii] Except for amounts payable by Mount Gibson Mining Limited of \$51,744,103, on which interest is charged at 7% pa, related party receivables are non-interest bearing with no fixed repayment date and are repayable on demand.

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
NOTES	\$'000	\$'000	\$'000	\$'000
6. Inventories				
Consumables – at cost	4,984	627	–	–
Ore – at cost	29,597	5,058	–	–
	<u>34,581</u>	<u>5,685</u>	<u>–</u>	<u>–</u>
7. Available-for-sale financial assets				
Shares – unlisted at fair value	3	–	3	–
Shares – listed at fair value	1,802	1,248	1,802	1,248
	<u>1,805</u>	<u>1,248</u>	<u>1,805</u>	<u>1,248</u>
Available-for-sale financial assets consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate.				
8. Other financial assets				
Non-Current				
Investments in controlled entities – at cost	–	–	338,432	42,431
	<u>–</u>	<u>–</u>	<u>338,432</u>	<u>42,431</u>

9. Interest in subsidiaries

Name	Country of Incorporation	Percentage of Equity Interest Held by the consolidated entity		Investment	
		2007	2006	2007	2006
		%	%	\$'000	\$'000
Mount Gibson Mining Limited	Australia	100	100	20,588	17,631
WHTK Pty Ltd	Australia	100	100	–	–
Geraldton Bulk Handling Pty Ltd	Australia	100	100	–	–
Aztec Resources Limited	Australia	100	–	317,844	–
• Koolan Iron Ore Pty Ltd	Australia	100	–	–	–
• Koolan Shipping Pty Ltd	Australia	100	–	–	–
• Brockman Minerals Pty Ltd	Australia	100	–	–	–
Asia Iron Holdings Limited	Hong Kong	–	73	–	24,800
• Asia Iron (Nanjing) Co Ltd	China	–	73	–	–
• Asia Iron Limited	Hong Kong	–	73	–	–
• Jiangsu Investment Pty Ltd	Australia	–	73	–	–
• Extension Hill Pty Ltd	Australia	–	73	–	–
• Austral Iron Pty Ltd	Australia	–	73	–	–
• AP Mining Pty Ltd	Australia	–	73	–	–
• Westralian Iron Pty Ltd	Australia	–	73	–	–
• MGM Pipelines Pty Ltd	Australia	–	73	–	–
				338,432	42,431

ACQUISITION OF AZTEC RESOURCES LIMITED

On 24 July 2006, Mount Gibson announced its intention to acquire Aztec.

The acquisition was implemented by means of an off-market scrip takeover bid by Mount Gibson for all shares in Aztec. Under the bid, Mount Gibson offered Aztec shareholders one new share for every three Aztec shares.

Mount Gibson gained effective control of Aztec on 30 November 2006.

At the end of the offer period on 22 December 2006, Mount Gibson's voting power in Aztec was 91.28% and as the applicable thresholds had been reached, Mount Gibson commenced the compulsory acquisition process to acquire all the remaining fully paid ordinary shares in Aztec which it did not already own.

Mount Gibson completed compulsory acquisition of the remaining Aztec shares on 9 February 2007. A total of 378,491,182 new shares in Mount Gibson were issued to Aztec shareholders.

A summary of the consideration paid by Mount Gibson and the provisional fair value of identifiable assets and liabilities of Aztec as at the date of acquisition are provided below. The values are provisional as some of the costs associated with the acquisition have yet to be finalised.

	<i>\$'000</i>	
Consideration		
Issue of Mount Gibson Iron Limited shares to Aztec shareholders		297,905
Costs of the Offer		<u>19,834</u>
Total consideration		<u><u>317,739</u></u>
The net cash flow on acquisition is summarised as follows:		
Net cash acquired with subsidiary		9,927
Costs associated with the acquisition		<u>(6,275)</u>
		<u><u>3,652</u></u>
	Recognised on acquisition	Carrying value prior to acquisition
	<i>\$'000</i>	<i>\$'000</i>
Net Assets of Aztec as at 30 November 2006		
Cash	9,927	9,927
Receivables	2,571	2,571
Prepayments	83	83
Inventories	141	141
Property, plant and equipment	84,985	84,985
Deferred acquisition, exploration, evaluation and development costs	282	282
Mine properties	248,356	85,062
Deferred tax asset	32,764	–
Trade and other payables	(15,081)	(15,081)
Interest bearing liabilities	(18,561)	(18,561)
Provision – employee entitlements	(153)	(153)
Provision – rehabilitation	(12,329)	(10,000)
Hire purchase liabilities	<u>(15,246)</u>	<u>(15,246)</u>
	<u><u>317,739</u></u>	<u><u>124,010</u></u>

If the combination had taken place at the beginning of the period, the profit before tax from continuing operations for the consolidated entity would have been \$27 million and revenue from Continuing Operations would have been \$166 million.

10. Discontinued operations – sale of Asia Iron Holdings Limited

On 7 June 2006 Mount Gibson advised the ASX that it had signed an agreement with China's third largest steel producer, the Shougang Group, for the sale of the consolidated entity's entire 73% interest in Asia Iron for \$52.5 million. The agreement was subject to Foreign Investment Review Board (FIRB) approval and the minority shareholders in Asia Iron not exercising an option to match the Shougang offer. Minority shareholders had 28 days to exercise an option to match the Shougang offer.

On 6 July 2006 Mount Gibson advised ASX that it had received notice of an election to purchase the consolidated entity's shareholding in Asia Iron from a minority shareholder, Sinom Investments. Sinom Investments' notice to match the Shougang offer resulted in a binding agreement for the sale of the consolidated entity's entire 73% interest in Asia Iron on the same terms as those previously agreed with Shougang. As a result of Sinom Investments' election, the condition precedent to the Shougang agreement could not be satisfied. The consolidated entity therefore terminated the Shougang agreement to allow the sale to Sinom Investments.

Sinom Investments obtained FIRB approval on 2 August 2006 and completion of the sale by the consolidated entity of its 73% interest in Asia Iron to Sinom Investments occurred on 21 August 2006 with \$52.5 million being placed in escrow pending environmental approval.

Under a further agreement dated 17 November 2006, Sinom agreed to immediately release the first \$40 million being held in escrow to Mount Gibson and Mount Gibson Mining Limited, with the balance of \$12.5 million to be released to Mount Gibson and Mount Gibson Mining Limited on the earlier of 31 May 2007 and the date on which environmental approval is obtained in respect of the Extension Hill Magnetite Project.

As a result of this agreement, the 30 November 2007 deadline for obtaining environmental approval was removed and Sinom Investments was no longer entitled to terminate the original agreement and return the sale shares if the environmental deadline was not met. Payment of the final amount of \$12.5 million was received on 31 May 2007.

From 17 November 2006 Mount Gibson ceased to consolidate Asia Iron, and that business is reported as a discontinued operation in this financial report. Financial information relating to the discontinued operation of Asia Iron for the period to the date of disposal and the process of disposing of that business is set out below:

[a] Profit from discontinued operations

The financial information presented below in respect of Asia Iron represents the period 1 July 2006 to 17 November 2006 (30 June 2007 column) and for the 12-month period to 30 June 2006.

	<i>NOTE</i>	30 June 2007 \$'000	30 June 2006 \$'000
Asia Iron			
Other revenue		4	50
Total revenue		4	50
Cost of sales		–	–
Gross profit		4	50
Other income		368	205
Other expenses		(242)	(1,684)
Profit/(Loss) of Asia Iron before tax and finance costs		130	(1,429)
Finance costs		(16)	(54)
Profit/(Loss) of Asia Iron before income tax		114	(1,483)
Income tax (expense)/benefit		–	2,973
Net profit of Asia Iron for the period after income tax		114	1,490
Gain on deconsolidation of Asia Iron	<i>(b)</i>	26,684	–
Related income tax	<i>(b)</i>	(8,077)	–
Net profit after income tax recognised on disposal of Asia Iron		18,607	–
Net profit from discontinued operations after income tax		<u>18,721</u>	<u>1,490</u>
Earnings per share (cents per share):			
– basic earnings per share – discontinued operations		3.82	0.38
– diluted earnings per share – discontinued operations		3.79	0.37

[b] Details of the gain on deconsolidation of Asia Iron

	<i>NOTES</i>	30 June 2007 \$'000
Consideration received or receivable on disposal:		
– cash received		52,500
– <i>less</i> : transaction costs		<u>(492)</u>
Net disposal consideration		<u>52,008</u>
MGI and MGM share of Asia Iron net assets disposed	<i>(c)</i>	24,439
FX translation reserve at disposal date		<u>885</u>
		<u>25,324</u>
Gain on deconsolidation before income tax		26,684
Related income tax expense		<u>(8,077)</u>
Gain on deconsolidation of Asia Iron after income tax		<u><u>18,607</u></u>

[c] Carrying amounts of Asia Iron assets and liabilities

The major classes of assets and liabilities of Asia Iron measured at the lower of carrying amount and fair value, were as follows:

	<i>NOTES</i>	21 August 2006	30 June 2006
		<i>\$'000</i>	<i>\$'000</i>
Assets			
Cash		1,654	2,849
Trade and other receivables		209	216
Prepayments		72	115
Property, plant and equipment		3,149	3,158
Deferred acquisition, exploration, evaluation and development costs		40,303	39,755
Deferred tax assets		1,367	–
		<u>46,754</u>	<u>46,093</u>
Liabilities			
Trade and other payables		(1,286)	(1,568)
Interest bearing liabilities		(1,500)	(1,500)
Deferred tax liabilities		(7,904)	–
		<u>(10,690)</u>	<u>(3,068)</u>
Liabilities directly associated with assets classified as held for sale		<u>(10,690)</u>	<u>(3,068)</u>
Net assets of discontinued operations disposed		36,064	43,025
<i>Less:</i> minority interest		<u>(11,625)</u>	<u>(11,776)</u>
Net assets attributable to disposal of Asia Iron		<u><u>24,439</u></u>	<u><u>31,249</u></u>

[d] Assets and liabilities associated with discontinued operation

As at 30 June 2007, there are no assets or liabilities in the Balance Sheet relating to the discontinued operation.

[e] Cash flow information

The net cash flow on disposal of Asia Iron is presented below:

	<i>Notes</i>	30 June 2007 \$'000	30 June 2006 \$'000
Net cash inflow on disposal			
Net cash consideration received on disposal	<i>(b)</i>	52,008	
Less cash and cash equivalents balances disposed	<i>(c)</i>	<u>(1,654)</u>	
Net inflow of cash on disposal		<u><u>50,354</u></u>	
Net cash flows of Asia Iron			
In respect of the discontinued operation of Asia Iron, the following net cash flows are included in the Condensed Cash Flow statement			
Operating activities		(211)	(492)
Investing activities		(960)	(9,027)
Financing activities		<u>–</u>	<u>10,546</u>
Net cash flows (used by)/from discontinued operation		<u><u>(1,171)</u></u>	<u><u>1,027</u></u>

	<i>Notes</i>	CONSOLIDATED		COMPANY	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
11. Property, plant and equipment					
Freehold land – at cost		5	3,020	5	5
Plant and equipment – at cost		91,636	10,057	–	–
Accumulated depreciation		(3,702)	(1,214)	–	–
		<u>87,934</u>	<u>8,843</u>	–	–
Plant and equipment under lease					
– at cost		78,005	6,095	–	–
Accumulated depreciation		(7,169)	(3,024)	–	–
		<u>70,836</u>	<u>3,071</u>	–	–
Buildings – at cost		30,316	6,709	–	–
Accumulated depreciation		(2,124)	(997)	–	–
		<u>28,192</u>	<u>5,712</u>	–	–
Buildings under lease – at cost		522	522	–	–
Accumulated depreciation		(292)	(241)	–	–
		<u>230</u>	<u>281</u>	–	–
Capital works in progress – at cost		<u>571</u>	<u>2,576</u>	–	–
Total property, plant and equipment					
At cost		201,055	28,979	5	5
Total accumulated depreciation		(13,287)	(5,476)	–	–
		<u>187,768</u>	<u>23,503</u>	<u>5</u>	<u>5</u>
Attributable to assets held for sale	10	–	(3,158)	–	–
		<u>187,768</u>	<u>20,345</u>	<u>5</u>	<u>5</u>

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
<i>Notes</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>

[a] Assets pledged as security

The value of assets pledged as security are:

Plant and equipment	87,934	8,843	–	–
Plant and equipment under lease	70,836	3,071	–	–
Buildings	28,192	5,712	–	–
Buildings under lease	230	281	–	–
Capital work in progress	571	2,576	–	–
	<u>187,763</u>	<u>20,483</u>	<u>–</u>	<u>–</u>

[b] Reconciliations

Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current and previous financial year:

Plant and equipment

Carrying amount at the beginning of the year

the year	8,843	1,887	–	–
Additions	1,778	7,666	–	–
Additions through acquisition of entities	1,020	–	–	–
Transfers	78,526	–	–	–
Disposals	(12)	(36)	–	–
Disposals – discontinued operations	(143)	–	–	–
Depreciation expense	<u>(2,078)</u>	<u>(674)</u>	<u>–</u>	<u>–</u>
Carrying amount at the end of the year	<u>87,934</u>	<u>8,843</u>	<u>–</u>	<u>–</u>

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
<i>Notes</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
<i>Plant and equipment under lease</i>				
Carrying amount at the beginning of the year	3,071	9,852	–	–
Additions	56,371	2,783	–	–
Additions through acquisition of entities	19,122	–	–	–
Disposals	(3,625)	(6,485)	–	–
Depreciation expense	(4,103)	(3,079)	–	–
Carrying amount at the end of the year	70,836	3,071	–	–
<i>Buildings</i>				
Carrying amount at the beginning of the year	5,712	5,562	–	–
Additions	682	597	–	–
Additions through acquisition of entities	1,091	–	–	–
Transfers	21,600	–	–	–
Disposals	(8)	–	–	–
Depreciation expense	(885)	(447)	–	–
Carrying amount at the end of the year	28,192	5,712	–	–
<i>Buildings under lease</i>				
Carrying amount at the beginning of the year	281	359	–	–
Depreciation expense	(51)	(78)	–	–
Carrying amount at the end of the year	230	281	–	–
<i>Capital works in progress</i>				
Carrying amount at the beginning of the year	2,576	–	–	–
Additions	34,369	2,576	–	–
Additions through acquisition of entities	63,752	–	–	–
Transfers	(100,126)	–	–	–
Carrying amount at the end of the year	571	2,576	–	–

	NOTES	CONSOLIDATED		COMPANY	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
12. Deferred acquisition, exploration, evaluation and development costs					
Deferred acquisition, exploration, evaluation and development costs carried forward in respect of mining areas of interest:					
Extension Hill Hematite		8,317	4,176	–	–
Koolan Island		710	–	–	–
Mt Gibson Magnetite		–	34,547	–	–
Koolanooka South Magnetite		–	5,208	–	–
		9,027	43,931	–	–
Attributable to disposal group	10[c]	–	(39,755)	–	–
		<u>9,027</u>	<u>4,176</u>	<u>–</u>	<u>–</u>
Reconciliation					
Carrying amount at beginning of the year		4,176	29,104	–	–
Additions		4,859	15,641	–	25
Exploration expenditure written off		(8)	(814)	–	(25)
		9,027	43,931	–	–
Attributable to disposal group	10[c]	–	(39,755)	–	–
Carrying amount at the end of the year		<u>9,027</u>	<u>4,176</u>	<u>–</u>	<u>–</u>

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective mining areas. Amortisation of costs carried forward for the development phase is not recognised pending commencement of production.

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
NOTES	\$'000	\$'000	\$'000	\$'000
13. Mine properties				
Mine development expenditure	469,369	91,603	–	–
Accumulated amortisation	(98,685)	(40,036)	–	–
	<u>370,684</u>	<u>51,567</u>	<u>–</u>	<u>–</u>
Reconciliation				
Carrying amount at beginning of the year	51,567	15,131	–	–
Additions	28,310	–	–	–
Additions through acquisition of entities	248,356	–	–	–
Waste capitalised during the year	101,100	54,205	–	–
Amortisation expensed – deferred waste	(55,508)	(17,296)	–	–
Amortisation expensed – other	(3,141)	(473)	–	–
Carrying amount at the end of the year	<u>370,684</u>	<u>51,567</u>	<u>–</u>	<u>–</u>
14. Trade and other payables				
Current				
Trade creditors	16,510	7,333	106	175
Accruals and other payables	47,804	10,503	14,108	166
	<u>64,314</u>	<u>17,836</u>	<u>14,214</u>	<u>341</u>
Current trade creditors and other payables are non-interest bearing and are normally settled on 30-day terms.				
Non-Current				
Other payables – related party	<u>–</u>	<u>–</u>	<u>29,398</u>	<u>–</u>
Non-current related party payables are non-interest bearing with no fixed repayment date.				

	NOTES	CONSOLIDATED		COMPANY	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
15. Interest-bearing loans and borrowings					
Current					
Lease liability	[a]	2,638	1,594	–	–
Hire purchase facility	[b]	8,665	–	–	–
Project debt	[c]	87,451	–	–	–
		<u>98,754</u>	<u>1,594</u>	<u>–</u>	<u>–</u>
Non-Current					
Lease liability	[a]	6,399	4,247	–	–
Hire purchase facility	[b]	49,082	–	–	–
		<u>55,481</u>	<u>4,247</u>	<u>–</u>	<u>–</u>
Attributable to disposal group not included above	10	<u>–</u>	<u>1,500</u>	<u>–</u>	<u>–</u>
Financing facilities available					
At reporting date, the following financing facilities had been negotiated and were available:					
Total facilities:					
• Finance leases	[a]	9,037	5,841	–	–
• Hire purchase facility	[b]	57,747	–	–	–
• Project debt facility	[c]	100,000	–	–	–
• Contingent instrument facility	[d]	5,488	5,526	–	–
• Bank multiple advance	[d]	20,474	20,474	–	–
• Commercial bill		<u>–</u>	<u>1,500</u>	<u>–</u>	<u>–</u>
		<u>192,746</u>	<u>33,341</u>	<u>–</u>	<u>–</u>

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
NOTES	\$'000	\$'000	\$'000	\$'000
Facilities used at reporting date:				
• Finance leases	9,037	5,841	–	–
• Hire purchase facility	57,747	–	–	–
• Project debt facility	87,451	–	–	–
• Contingent instrument facility	5,488	5,526	–	–
• Bank multiple advance	–	–	–	–
• Commercial bill	–	1,500	–	–
	<u>159,723</u>	<u>12,867</u>	<u>–</u>	<u>–</u>
Facilities unused at reporting date:				
• Finance leases	–	–	–	–
• Hire purchase facility	–	–	–	–
• Project debt facility	12,549	–	–	–
• Contingent instrument facility	–	–	–	–
• Bank multiple advance	20,474	20,474	–	–
• Commercial bill	–	–	–	–
	<u>33,023</u>	<u>20,474</u>	<u>–</u>	<u>–</u>

Terms and conditions relating to the above financial facilities:

- [a] Finance leases are repayable monthly with final instalments due in August 2013. Interest is charged at an average rate of 8.24%. Secured by first mortgage over the leased assets.
- [b] Hire purchase arrangements have been entered into by Koolan Iron Ore Pty Ltd via a Master Lease agreement with Komatsu Corporate Finance Pty Limited and Westpac Banking Corporation Limited. Hire purchase amounts are repayable monthly with final instalments due in April 2012. Interest is charged at an average rate of 7.14%. Secured by first mortgage over the assets the subject of the hire purchase agreement and a guarantee from Mount Gibson Iron Limited. This facility is drawn and repayable in US\$ for Komatsu and A\$ for Westpac.

[c] The project finance facility is with a banking syndicate comprising Westpac Banking Corporation, Bank of Scotland (Australia) Limited and Bank of Tokyo-Mitsubishi UFJ Ltd. The \$100 million facility consists of:

- Senior debt facility of \$54 million (drawn in US\$);
- Cost overrun facility of \$10 million (drawn in US\$);
- Working capital facility of \$30 million; and
- Environmental bond facility of \$6 million.

The security pledge for these facilities is a fixed and floating charge over all the assets and undertakings of Koolan Iron Ore Pty Ltd with a guarantee from Aztec Resources Limited. Interest is charged at an average rate of 7.22%.

This facility includes a Review Event clause in the event of a change in control which allows the banking syndicate the opportunity to review the creditworthiness of Aztec Resources Limited and the completion risk to the Koolan project as a consequence of the change of control. The banking syndicate may choose after this review to:

- leave the facility unaltered; or
- request further credit support from other companies in the Group; or
- give notice requiring repayment of the facility. Koolan Iron Ore Pty Ltd will have 90 days from the date of this notice to comply otherwise it will then constitute an event of default.

The banking syndicate was given notice about the Review Event in December 2006. On 30 April 2007 Mount Gibson provided a Corporate Guarantee to the banking syndicate.

As set out in [e] below, this project finance facility will be repaid in full and cancelled by the drawdown of the corporate debt facility.

[d] This facility is with HSBC Bank Australia Limited. The security pledge for these facilities is a fixed and floating charge over all the assets and undertakings of Mount Gibson Mining Limited, Mount Gibson Iron Limited and Geraldton Bulk Handling Pty Ltd. This facility will be cancelled as a consequence of the establishment of the new corporate debt facility detailed in [e] below.

[e] In June 2007 Mount Gibson mandated HSBC Australia Limited and National Australia Bank Limited as the joint lead Arranger and Underwriting Banks for a \$200 million debt facility to fund the refinance of the existing project finance facility in [c] above and the HSBC facility in [d] above and provide additional debt funding for the Koolan Island and Extension Hill iron ore developments. The facility documentation was signed on 28 August 2007 with drawdown under the facility subject to satisfaction of certain conditions precedent normal to this type of facility which are expected to be satisfied by early September 2007.

The \$200 million facility consists of:

- Senior debt facility of \$175 million comprising two tranches:
 1. Tranche 1 of \$125 million;
 2. Extension Hill tranche of \$50 million which is only drawable against the Extension Hill DSO project after certain conditions precedent have been satisfied including EPA approval and Company Board approval for the project to proceed; and
- Contingent instrument facility of \$25 million (including guarantees, performance bonds).

The security pledge for these facilities is a fixed and floating charge over all the assets and undertakings of Mount Gibson Iron Limited, Mount Gibson Mining Limited, Geraldton Bulk Handling Limited, Koolan Iron Ore Pty Ltd and Aztec Resources Limited together with mining mortgages over the mining tenements owned by Mount Gibson Mining Limited and Koolan Iron Ore Pty Ltd and the contractual rights of Mount Gibson Mining Limited to mine hematite at Extension Hill.

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
<i>NOTES</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>

16. Derivatives

Current Asset

Foreign currency forward contracts and options

<i>34[c]</i>	5,065	2,541	–	–
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Current Liability

Foreign currency forward contracts and options

<i>34[c]</i>	–	1,470	–	–
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	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
NOTES	\$'000	\$'000	\$'000	\$'000
17. Provisions				
Current				
Employee benefits	1,072	451	–	–
Road resealing	100	12	–	–
	<u>1,172</u>	<u>463</u>	<u>–</u>	<u>–</u>
Non-Current				
Employee benefits	28	14	–	–
Decommissioning rehabilitation	18,442	688	–	–
	<u>18,470</u>	<u>702</u>	<u>–</u>	<u>–</u>
Movement in provisions:				
<i>Road Resealing</i>				
Carrying amount at beginning of the year	12	62	–	–
Provision for period	188	100	–	–
Amounts utilised during the period	(100)	(150)	–	–
	<u>100</u>	<u>12</u>	<u>–</u>	<u>–</u>
Carrying amount at end of the year				
<i>Decommissioning Rehabilitation</i>				
Carrying amount at beginning of the year	688	655	–	–
Unwinding of discount on rehabilitation provision	31	33	–	–
Revaluation of rehabilitation provision	5,394	–	–	–
Acquisition of controlled entity	12,329	–	–	–
	<u>18,442</u>	<u>688</u>	<u>–</u>	<u>–</u>
Carrying amount at end of the year				

APPENDIX III
FINANCIAL INFORMATION ON MOUNT GIBSON

	<i>NOTES</i>	CONSOLIDATED		COMPANY	
		2007	2006	2007	2006
		<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
18. Issued capital					
[a] Ordinary shares					
Issued and fully paid		<u>386,766</u>	<u>86,851</u>	<u>386,766</u>	<u>86,851</u>
		2007		2006	
		<i>Number</i>	<i>\$'000</i>	<i>Number</i>	<i>\$'000</i>
	<i>NOTES</i>	<i>of Shares</i>		<i>of Shares</i>	
[b] Movement in ordinary shares on issue					
Beginning of the financial year		402,058,719	86,851	368,519,793	79,381
Shares issued for controlled entity	<i>[i]</i>	378,491,182	297,905	–	–
Issue of shares		–	–	40,000	10
Exercise of options		<u>7,236,920</u>	<u>2,010</u>	<u>33,498,926</u>	<u>7,460</u>
End of the financial year		<u>787,786,821</u>	<u>386,766</u>	<u>402,058,719</u>	<u>86,851</u>

[i] Issued to Aztec Resources Limited shareholders in exchange for business combination of \$297,905,196 (see Note 9).

[c] Terms and conditions of contributed equity

Ordinary shares have the right to receive dividends as declared, and in the event of winding up Mount Gibson, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of Mount Gibson.

Effective from 1 July 1998, the Corporation legislation in place abolished the concept of authorised capital and par values. Accordingly, Mount Gibson does not have authorised capital nor par value in respect of its issued shares.

[d] Share options

As at balance date the following options over unissued shares were on issue:

Exercise Price	Exercise Date/Period	2007 Number	2006 Number
25 cents	On or before 31 December 2006	–	7,256,920
50 cents	On or before 31 December 2007	5,000,000	5,000,000
55 cents	On or before 31 December 2008	5,000,000	5,000,000
78 cents	On or before 31 December 2006	–	823,712
90 cents	On or before 30 June 2010	2,000,000	2,000,000
90 cents	On or before 23 October 2010	3,000,000	3,000,000
110 cents	On or before 23 October 2012	2,000,000	2,000,000
		17,000,000	25,080,632

In addition, as at 30 June 2007, there were 8,625,000 (2006: 4,175,000) options granted but not issued under the Employee Share Scheme. The options were granted on the basis that the employees must complete employment service to 31 December 2007 before the options vest, at which time they will be issued to the respective employees. Once vested, 2,825,000 options will be exercisable at 78 cents each and expire on 31 December 2009 and 5,800,000 options will be exercisable at 89 cents each and expire on 31 December 2009. As at the date of this report, none of these options had vested.

Share options carry no right to dividends and no voting rights.

	NOTES	CONSOLIDATED		COMPANY	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
19. Reserves					
Option premium reserve	[a]	8,911	5,954	8,911	5,954
Net unrealised gains/(losses) reserve	[b]	3,963	(1,790)	283	(2,255)
Other reserves	[c]	(3,192)	(3,691)	–	–
		<u>9,682</u>	<u>473</u>	<u>9,194</u>	<u>3,699</u>
[a] Option premium reserve					
The option premium reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration.					
Balance at the beginning of the year		5,954	1,631	5,954	1,631
Share based payments		<u>2,957</u>	<u>4,323</u>	<u>2,957</u>	<u>4,323</u>
Balance at the end of the year		<u>8,911</u>	<u>5,954</u>	<u>8,911</u>	<u>5,954</u>
[b] Net unrealised gains/(losses) reserve					
This reserve records movement for available-for-sale financial assets to fair value and gains and losses on hedging instruments determined to be effective cash flow hedges.					
Balance at the beginning of the year		(1,790)	–	(2,255)	–
Application of AASB 132 and AASB 139		–	1,165	–	1,050
Net unrealised gains/(losses) on available-for-sale financial assets		1,032	(3,305)	1,032	(3,305)
Impairment of available-for-sale financial assets		1,506	–	1,506	–
Net gains on cash flow hedges		3,215	465	–	–
Release to income statement on expiry of cash flow hedges		–	(115)	–	–
Balance at the end of the year		<u>3,963</u>	<u>(1,790)</u>	<u>283</u>	<u>(2,255)</u>
[c] Other reserves					
Foreign currency translation reserve		–	(465)	–	–
Consolidation reserve		<u>(3,192)</u>	<u>(3,226)</u>	<u>–</u>	<u>–</u>
		<u>(3,192)</u>	<u>(3,691)</u>	<u>–</u>	<u>–</u>

APPENDIX III
FINANCIAL INFORMATION ON MOUNT GIBSON

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
NOTES	\$'000	\$'000	\$'000	\$'000
20. Retained earnings/ (accumulated losses)				
Balance at the beginning of the year	10,096	(13,383)	(5,966)	(13,483)
Net profit/(loss) attributable to members of Mount Gibson	47,765	23,479	(594)	7,517
Balance at the end of the year	<u>57,861</u>	<u>10,096</u>	<u>(6,560)</u>	<u>(5,966)</u>
21. Minority interests				
Opening balance	11,776	8,956	–	–
Disposal by the consolidated entity of shares in Asia Iron Holdings Limited	(11,776)	–	–	–
Issue of capital by Asia Iron Holdings Limited	–	3,226	–	–
Share of current year loss	–	(406)	–	–
Closing balance	<u>–</u>	<u>11,776</u>	<u>–</u>	<u>–</u>
22. Expenditure commitments				
[a] Exploration Expenditure Commitments				
<i>[i]</i>				
Minimum obligations not provided for in the financial report and are payable:				
• Not later than one year	791	906	–	–
• Later than one year but not later than five years	2,175	3,332	–	–
	<u>2,966</u>	<u>4,238</u>	<u>–</u>	<u>–</u>

APPENDIX III
FINANCIAL INFORMATION ON MOUNT GIBSON

	NOTES	CONSOLIDATED		COMPANY	
		2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
[b] Operating Lease Commitments	[ii]				
Minimum lease payments					
• Not later than one year		16,010	9,455	–	–
• Later than one year but not later than five years		2,302	10,627	–	–
		<u>18,312</u>	<u>20,082</u>	<u>–</u>	<u>–</u>
[c] Finance Lease and Hire Purchase Commitments	[iii]				
Minimum lease payments					
• Not later than one year		15,652	2,001	–	–
• Later than one year but not later than five years		64,956	4,438	–	–
• Later than five years		200	610	–	–
Total minimum lease payments		80,808	7,049	–	–
Future finance charges		(14,024)	(1,208)	–	–
		<u>66,784</u>	<u>5,841</u>	<u>–</u>	<u>–</u>
Total lease liability accrued for:					
Current					
Finance leases and hire purchase facility		11,303	1,594	–	–
Non-Current					
Finance leases and hire purchase facility		55,481	4,247	–	–
		<u>66,784</u>	<u>5,841</u>	<u>–</u>	<u>–</u>

- [i] In order to maintain current rights to explore and mine the tenements at Tallering Peak, Koolan Island and Extension Hill the consolidated entity is required to perform minimum exploration work to meet the expenditure requirements specified by the Department of Industry and Resources.
- [ii] Operating leases:
- operating lease for office space with an initial lease term of 5 years; and
 - operating lease for machinery has an average term of 1.4 years and expires in December 2008.
- [iii] Finance leases and hire purchases have an average term of 4.5 years with the option to purchase the asset at the completion of the lease term for a pre-agreed amount. The average discount rates implicit in the finance leases and hire purchases are 8.24% and 7.14% respectively. Secured lease liabilities are secured by a charge over the leased assets.

<i>NOTES</i>	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>

23. Employee benefits

The aggregate employee benefits liability is comprised of:

Accrued wages, salaries and on-costs	720	1,544	–	43
Provisions	1,100	465	–	–
	1,820	2,009	–	43

24. Share-based payment plans

(a) *Recognised share-based payment expenses*

Expense arising from equity-settled share-based payment transactions	<i>2[d]</i>	2,957	4,323	–	4,323
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The share-based payment plans are described below.

There have been no cancellations or modifications to any of the plans during 2007 and 2006.

(b) Employee Share Scheme

An Employee Share Scheme has been established where Mount Gibson may, at the discretion of the Board, grant options over the ordinary shares of Mount Gibson. The options, issued for nil consideration, are granted in accordance with performance guidelines established by the directors of Mount Gibson. All directors, officers and employees are eligible for this scheme.

Information with respect to the number of options granted and issued under the Employee Share Scheme is as follows:

	2007		2006	
	No. of Options	Weighted average exercise price (cents)	No. of Options	Weighted average exercise price (cents)
Balance at beginning of year	25,080,632	57.4	20,900,000	25.0
– granted and issued	–	–	9,073,712	91.7
– forfeited	(843,712)	52.9	(1,900,000)	56.9
– exercised	(7,236,920)	27.8	(2,993,080)	25.0
Balance at year end	17,000,000	70.3	25,080,632	57.4
Exercisable at year end	10,000,000	52.5	13,080,632	37.8

The outstanding balance of options granted and issued as at 30 June 2007 is represented by:

Exercise Price	Exercise Date	Vesting Date	No. of Options
50 cents	On or before 31 December 2007	31-Dec-05	5,000,000
55 cents	On or before 31 December 2008	31-Dec-06	5,000,000
90 cents	On or before 30 June 2010	01-Jul-08	2,000,000
90 cents	On or before 23 October 2010	24-Oct-08	3,000,000
110 cents	On or before 23 October 2012	24-Oct-10	2,000,000
			17,000,000

In addition, as at 30 June 2007, there were 8,625,000 (2006: 4,175,000) options granted but not issued under the Employee Share Scheme. The options were granted on the basis that the employees must complete employment service to 31 December 2007 before the options vest, at which time they will be issued to the respective employees. Once vested, 2,825,000 options will be exercisable at 78 cents each and expire on 31 December 2009 and 5,800,000 options will be exercisable at 89 cents each and expire on 31 December 2009. As at the date of this report, none of the options had vested.

The remaining contractual life for the options on issue as at 30 June 2007 is between one and five years (2006: one and six years).

The range for exercise prices for options on issue at the end of the year was \$0.50-\$1.10 (2006: \$0.25-\$1.10).

The fair value of the equity-settled share options granted under the option plan is estimated as at the date of grant using a binomial model taking into account the terms and conditions upon which the options were granted.

25. Earnings per share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of Mount Gibson by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of Mount Gibson by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

	<u>CONSOLIDATED</u>	
	2007 \$'000	2006 \$'000
Profits used in calculating basic and diluted earnings per share	47,765	23,479
	Number of Shares	Number of Shares
Weighted average number of ordinary shares used in calculating basic earnings per share	634,647,892	390,533,080
Effect of dilution		
– Share options	<u>8,082,090</u>	<u>8,624,527</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u><u>642,729,982</u></u>	<u><u>399,157,607</u></u>

Conversions, calls, subscriptions or issues after 30 June 2007

Since the end of the financial year no options have been converted to ordinary shares. There have been no other conversions to, calls of, or subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of this report.

26. Dividends paid and proposed

No amounts have been paid, declared or recommended by Mount Gibson by way of dividend since the commencement of the year.

27. Contingent liability

The HSBC Bank has provided a controlled entity with performance bonds totalling \$3,280,017.

28. Key management personnel disclosures

*[a] Details of Key Management Personnel**[i] Directors*

N Hamilton	Chairman (appointed 24 April 2007)
W Willis	Chairman (resigned 24 April 2007)
B Johnson	Deputy Chairman (resigned 30 June 2007)
L Tonkin	Managing director
A Rule	Finance director (resigned 30 June 2007, alternate director from 30 June 2007)
C Readhead	Non-Executive director
I Macliver	Non-Executive director
A Jones	Non-Executive director (appointed 28 July 2006)
P Bilbe	Non-Executive director (appointed 23 February 2007)
M Horn	Non-Executive director (appointed 30 June 2007)

[ii] Executives

K Malaxos	Chief Operating Officer (resigned 18 December 2006)
R Mence	General Manager – Tallering Peak
D Quinlivan	Chief Operating Officer (appointed 18 December 2006)
Q Granger	General Manager – Koolan Island (from 1 December 2006 to 8 June 2007)
R Jordinson	General Manager – Koolan Island (from 8 June 2007)

[b] Compensation of Specified Key Management Personnel

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Short-term	2,690	3,195	296	158
Post employment	142	157	8	10
Share-based payment	1,962	3,863	802	3,143
	<u>4,794</u>	<u>7,215</u>	<u>1,106</u>	<u>3,311</u>

The consolidated entity is taking advantage of Corporations regulation 2M.6.04 and as a result has presented the disclosure required by AASB 124 *Related Party Transaction* Aus 25.4 to Aus 25.7.2 in the Remuneration Report within the directors' Report. These remuneration disclosures have been audited.

[c] Option Holdings of Key Management Personnel

30 June 2007	Balance at	Granted as	Options	Net Change	Balance at	Vested at 30 June 2007		
	Beginning				End of	Total	Not	Exercisable
	of Period	Remuneration	Exercised		Period		Exercisable	Exercisable
	1 July 2006				30 June 2007			
Directors								
N Hamilton	-	-	-	-	-	-	-	-
W Willis <i>[i]</i>	1,000,000	-	(1,000,000)	-	-	-	-	-
B Johnson <i>[ii]</i>	5,000,000	-	-	(5,000,000)	-	-	-	-
L Tonkin	5,000,000	-	-	-	5,000,000	-	-	-
A Rule	2,000,000	-	-	-	2,000,000	-	-	-
C Readhead	500,000	-	(500,000)	-	-	-	-	-
I Macliver	500,000	-	(500,000)	-	-	-	-	-
A Jones	-	-	-	-	-	-	-	-
P Bilbe	-	-	-	-	-	-	-	-
M Horn	-	-	-	-	-	-	-	-
Executives								
K Malaxos <i>[iii]</i>	350,000	-	(350,000)	-	-	-	-	-
R Mencil	-	250,000	-	-	250,000	-	-	-
Q Granger	-	-	-	-	-	-	-	-
D Quinlivan	-	-	-	-	-	-	-	-
R Jordinson	-	-	-	-	-	-	-	-
Total	14,350,000	250,000	(2,350,000)	(5,000,000)	7,250,000	-	-	-

[i] Mr W Willis resigned on 24 April 2007.

[ii] Mr B Johnson resigned as a director on 30 June 2007.

[iii] Mr K Malaxos resigned on 18 December 2006.

30 June 2006	Balance at	Granted as	Options	Net Change	Balance at	Vested at 30 June 2006		
	Beginning				End of	Total	Not	Exercisable
	of Period	Remuneration	Exercised		Period		Exercisable	Exercisable
	1 July 2005				30 June 2006			
Directors								
W Willis	2,440,000	-	(1,440,000)	-	1,000,000	1,000,000	-	1,000,000
B Johnson	12,500,000	-	(2,500,000)	(5,000,000)	5,000,000	-	-	-
L Tonkin	-	5,000,000	-	-	5,000,000	-	-	-
A Rule	-	2,000,000	-	-	2,000,000	-	-	-
C Readhead	1,250,000	-	(750,000)	-	500,000	500,000	-	500,000
I Macliver	1,250,000	-	(750,000)	-	500,000	500,000	-	500,000
Executives								
S Coates	750,000	250,000	-	-	1,000,000	750,000	-	750,000
D Garcia	-	-	-	-	-	-	-	-
P Jones	-	250,000	-	-	250,000	-	-	-
K Malaxos	750,000	-	(400,000)	-	350,000	350,000	-	350,000
Total	18,940,000	7,500,000	(5,840,000)	(5,000,000)	15,600,000	3,100,000	-	3,100,000

[d] Shareholding of Key Management Personnel

	Balance 1 July 2006	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 2007
30 June 2007	Ord	Ord	Ord	Ord	Ord
Directors					
N Hamilton	–	–	–	185,000	185,000
W Willis [i]	1,480,000	–	1,000,000	(2,480,000)	–
B Johnson [ii]	–	–	–	–	–
L Tonkin	–	–	–	–	–
A Rule	–	–	–	50,000	50,000
C Readhead	727,500	–	500,000	(160,000)	1,067,500
I Macliver	1,000,000	–	500,000	–	1,500,000
A Jones	–	–	–	100,000	100,000
P Bilbe	–	–	–	52,033	52,033
M Horn	–	–	–	–	–
Executives					
K Malaxos [iii]	25,000	–	–	(25,000)	–
R Mencil	–	–	–	–	–
Q Granger	–	–	–	–	–
D Quinlivan	–	–	–	–	–
R Jordinson	–	–	–	–	–
Total	<u>3,232,500</u>	<u>–</u>	<u>2,000,000</u>	<u>(2,277,967)</u>	<u>2,954,533</u>

[i] Mr W Willis resigned on 24 April 2007.

[ii] Mr B Johnson resigned as a director on 30 June 2007.

[iii] Mr K Malaxos resigned on 18 December 2006.

	Balance 1 July 2006	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance 30 June 2006
30 June 2006	Ord	Ord	Ord	Ord	Ord
	\$'000	\$'000	\$'000	\$'000	\$'000
Directors					
W Willis	420,000	–	1,440,000	(380,000)	1,480,000
B Johnson	–	–	2,500,000	(2,500,000)	–
L Tonkin	–	–	–	–	–
A Rule	–	–	–	–	–
C Readhead	177,500	–	750,000	(200,000)	727,500
I Macliver	1,200,000	–	750,000	(950,000)	1,000,000
Executives					
S Coates	900,000	–	–	40,000	940,000
D Garcia	–	–	–	–	–
P Jones	–	–	–	–	–
K Malaxos	25,000	–	400,000	(400,000)	25,000
Total	<u>2,722,500</u>	<u>–</u>	<u>5,840,000</u>	<u>(4,390,000)</u>	<u>4,172,500</u>

All equity transactions with key management personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

[e] Loans to Specified Key Management Personnel

There were no loans to key management personnel during the year.

[f] Other Transactions and Balances with Key Management Personnel

Services

Pullinger Readhead Lucas, of which Mr CL Readhead is a partner, provided legal services to Mount Gibson and consolidated entity. The fees, paid under normal commercial terms and conditions, were \$187 (2006: \$1,546) and \$187 (2006: \$7,631) respectively.

Amounts recognised at the reporting date in relation to other transactions:

	Consolidated	
	2007	2006
	<i>\$'000</i>	<i>\$'000</i>
Assets and Liabilities		
<i>Current Liabilities</i>		
Trade Creditors	—	—
Total Liabilities	—	—
Revenues and Expenses		
Corporate Expenses	—	8
Total Expenses	—	8

29. Related party disclosure

Ultimate parent

Mount Gibson Iron Limited is the ultimate Australian parent company.

Wholly-owned group transactions

Loans were made by Mount Gibson to wholly-owned subsidiaries. Interest of \$2,507,739 (2006: \$2,795,958) was charged on the loan to Mount Gibson Mining Limited at 7% pa during the year. All other loans are interest free, have no fixed repayment date and are repayable on demand. Included in the loans are:

- transfers of deferred tax asset and deferred tax liability balances to Mount Gibson from each of the wholly-owned subsidiaries as a consequence of the tax consolidation group of \$29,467,928 (2006: \$10,672,008); and
- share based payment expense incurred by Mount Gibson for options issued by Mount Gibson to employees that are employed by wholly-owned subsidiaries of \$30,417,500 (2006: nil)

Director-related entity transactions

There are no director-related entity transactions other than those specified in Note 28.

	CONSOLIDATED		COMPANY	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
30. Auditor's remuneration				
Amounts received or due and receivable by Ernst & Young for:				
• An audit or review of the financial report of the entity and any other entity in the consolidated entity	166	100	118	24
• Other services in relation to the entity and any other entity in the consolidated entity	32	40	32	–
	<u>198</u>	<u>140</u>	<u>150</u>	<u>24</u>

31. Segment information

The consolidated entity operates primarily in the mining sector, through the exploration, evaluation and development of its iron ore deposits in the Midwest region of Western Australia.

32. Events after the balance sheet date

As at the date of this report, apart from the:

- Corporate debt refinancing set out in Note 15; and
- Minister for the Environment approval for the DSO project to proceed,

there are no other significant events after balance date of Mount Gibson or of the consolidated entity.

33. Financial risk management objectives and policies

The consolidated entity's principal financial instruments, other than derivatives, comprise bank loans, finance leases and hire purchase contracts, cash and short-term deposits.

The main purpose of these financial instruments is to raise finance for the consolidated entity's operations.

The consolidated entity has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The consolidated entity also enters into derivatives transactions, principally forward currency contracts. The purpose is to manage the currency risks arising from the consolidated entity's operations and its sources of finance.

The main risks arising from the consolidated entity's financial instruments are interest rate risk, credit risk, foreign currency risk, commodity price risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The consolidated entity's policy is to manage its interest cost using a mix of fixed and variable rate debt, and to keep between 50% and 75% of its borrowings at fixed rates of interest.

Credit risk

The consolidated entity's maximum exposures to credit risk at balance date in relation to each class of recognised financial assets, other than derivatives, is the carrying amount of those assets as indicated in the balance sheet.

In relation to derivative financial instruments, whether recognised or unrecognised, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement. The consolidated entity's maximum credit risk exposure in relation to forward exchange contracts is the full amount of the foreign currency it will be required to pay or purchase when settling the forward exchange contract, should the counterparty not pay the currency it is committed to deliver to Mount Gibson. At reporting date the net amount was A\$5,065,313 (2006: \$1,071,486).

The consolidated entity minimises concentrations of credit risk in relation to trade receivables by undertaking transactions with a number of customers and by the use of letters of credit which guarantee 90% of receivable amount at the time of sale. There are no significant concentrations of credit risk within the consolidated entity.

Foreign currency risk

As a result of receipts being denominated in US dollars, the consolidated entity's cash flow can be affected significantly by movements in the US\$/A\$ exchange rates. The project finance facility for construction of the Koolan project is partly denominated in US\$ and all of the hire purchase liabilities for the mining equipment at Koolan are denominated in US\$.

The consolidated entity has entered into forward exchange and option contracts designed as a hedge of anticipated future receipts that will be denominated in US dollars.

It is the Consolidated Entity's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

Commodity price risk

The consolidated entity's exposure to commodity price risk is significant. Iron ore prices are set each year and apply from 1 April to 31 March the following year. There are no readily available financial instruments available to hedge the iron ore price.

Liquidity risk

The consolidated entity's objective is to maintain a balance between continuity of funding and flexibility through the use of its corporate debt facility, finance leases and hire purchase contracts.

34. Financial instruments

[a] Interest rate risk

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities are as follows:

	Floating Interest Rate		Fixed Interest Rate Maturing in:				Non-Interest Bearing		Total Carrying Amount per Balance Sheet		Weighted Average Effective Interest Rate	
	2007	2006	1 Year or Less		Over 1 to 5 Years		2007	2006	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%
i) Financial assets												
Cash	60,673	4,333	90	84	-	-	35	131	60,798	4,548	6.80	5.29
Trade and other receivables	-	-	-	-	-	-	9,848	6,180	9,848	6,180	N/A	N/A
Unlisted shares	-	-	-	-	-	-	3	-	3	-	N/A	N/A
Listed shares	-	-	-	-	-	-	1,802	1,248	1,802	1,248	N/A	N/A
Derivatives	-	-	-	-	-	-	5,065	2,541	5,065	2,541	N/A	N/A
Total financial assets	60,673	4,333	90	84	-	-	16,753	10,100	77,516	14,517		
ii) Financial liabilities												
Trade and other payables	-	-	-	-	-	-	64,314	17,836	64,314	17,836	N/A	N/A
Derivatives	-	-	-	-	-	-	-	1,470	-	1,470	N/A	N/A
Lease liabilities	-	-	2,638	1,594	6,399	4,247	-	-	9,037	5,841	8.24	7.97
Hire purchase	-	-	8,665	-	49,082	-	-	-	57,747	-	7.14	N/A
Senior debt	-	-	-	-	87,451	-	-	-	87,451	-	7.62	N/A
Total financial liabilities	-	-	11,303	1,594	142,932	4,247	64,314	19,306	218,549	25,147		

[b] Net fair values

All recognised financial assets and liabilities in the consolidated entity have been recognised at their net fair values at balance date.

The recognised financial assets and liabilities in the consolidated entity as at 30 June 2007, except for available for sale financial assets, have been recognised at their net fair value as detailed below.

	Carrying Value at 30 June 2007 \$'000	Net Fair Value at 30 June 2007 \$'000
Available for sale financial assets	1,802	1,802

The net fair value, representing the mark to market of a financial asset or a financial liability, is the amount at which the asset could be exchanged or liability settled in a current transaction between willing partners after allowing for transaction costs.

[c] Hedging instruments

[i] Hedges for specific commitments

The consolidated entity has entered into forward exchange contracts and foreign exchange option contracts at reporting date designed as a hedge of anticipated future receipts that will be denominated in US dollars. This hedge has been treated as effective, in accordance with AASB 139.

As at 30 June 2007 the following foreign exchange contracts were outstanding:

	2007			2006		
	US \$'000	A\$'000 Equivalent	Fair Value A\$'000	US \$'000	A\$'000 Equivalent	Fair Value A\$'000
Forward Exchange Contracts						
- contract rate 0.7397	-	-	-	9,000	12,167	48
- contract rate 0.7287	-	-	-	9,000	12,351	214
- contract rate 0.7070	-	-	-	6,000	8,487	366
- contract rate 0.7404	8,000	10,805	1,359	-	-	-
	8,000	10,805	1,359	24,000	33,005	628
Collar Option	-	-	-	60,000	83,443	443
- call strike price 0.760/0.750/0.770/0.740/0.750/0.745						
- put strike price 0.7245/0.718/0.7335/0.72/0.715/0.711						
Collar Option	24,000	33,405	3,706	-	-	-
- call strike price 0.750/0.745						
- put strike price 0.715/0.711/0.724						
Total	32,000	44,210	5,065	84,000	116,448	1,071

All of the above contracts mature by 29 October 2007.

4. The following is the directors' report and auditors' report of Mount Gibson which is extracted from the 2007 annual report of Mount Gibson (all monetary amounts are stated at A\$).

DIRECTORS' REPORT

Your directors submit their report for the year ended 30 June 2007 for Mount Gibson Iron Limited and the consolidated entity incorporating the entities that it controlled during the financial year ("consolidated entity").

DIRECTORS

The names and details of Mount Gibson's directors in office during the financial period and until the date of this report are set out below. directors were in office for the entire period unless otherwise stated.

NAMES, QUALIFICATIONS, EXPERIENCE AND SPECIAL RESPONSIBILITIES**Neil D. Hamilton**

LLB

Chairman, Independent Non-Executive director

Mr Hamilton was appointed Non-Executive Chairman on 24 April 2007. Mr Hamilton is a lawyer with more than 23 years experience as a director of public companies. Mr Hamilton is the Chairman of the Nomination, Remuneration and Governance Committee of Mount Gibson and has overall responsibility for Corporate Governance. Mr Hamilton is the Chairman of IRESS Market Technology Limited and Programmed Maintenance Services Ltd and Non-Executive director of Insurance Australia Limited. He was formerly the Chairman of Western Power Group. During the past three years Mr Hamilton has served as a director of Chieftain Securities Limited and Sons of Gwalia Ltd.

William B. Willis

AssocDipGeol RMIT, FAusIMM, MGSA, AMP109

Mr Willis resigned as a Non-Executive director and Chairman on 24 April 2007.

Brian G. Johnson

B.E., MIEAust

Mr Johnson resigned as a Non-Executive director and Deputy Chairman on 30 June 2007.

Luke Tonkin

B.E., MAusIMM, AICD

Managing director

Mr Tonkin was appointed as Managing director on 25 October 2005. Mr Tonkin has extensive experience in the resource industry traversing multi-commodities of gold, nickel, tantalum, tin and lithium. He has held General Management roles within some of Australia's largest, more complex operations namely WMC's Kambalda Nickel Operations, St Ives Gold Operations and Leinster Nickel Operations. Mr Tonkin's most recent role was Chief Executive Officer of Sons of Gwalia, the world's largest tantalum producer and third largest Australian listed gold producer, assisting administrators to restructure Mount Gibson. Mr Tonkin has a proven track record of implementing large-scale investment, divestment, transition and integration plans. During the past three years Mr Tonkin has not served as a director of any other listed companies.

Craig L. Readhead

B. Juris, LL.B, AICD

Independent Non-Executive director

Mr Readhead has spent the last 26 years practising in the resources law area and is a partner of law firm Pullinger Readhead Lucas. Mr Readhead is a member of the Nomination, Remuneration and Governance Committee and of the Audit and Risk Management Committee. Mr Readhead has had a significant legal role in the development of a number of mining projects within Australia, Africa and South East Asia. He is Chairman of Heron Resources Ltd, Halcyon Group Ltd and Galaxy Resources Ltd and is a Non-Executive director of Frankland River Olive Company Limited and India Resources Ltd, and is past President of the Australian Mining and Petroleum Law Association, and past Vice-President of the Association of Mining and Exploration Companies. During the past three years Mr Readhead has also served as a director of Pioneer Nickel Ltd and Agincourt Resources Ltd.

Ian A. Macliver

B.Comm, CA, F Fin, AICD

Independent Non-Executive director

Mr Macliver is Managing director of Grange Consulting Group Pty Ltd, which provides specialist corporate advisory services to both listed and unlisted companies. Mr Macliver is Chairman of the Audit and Risk Management Committee and a member of the Nomination, Remuneration and Governance Committee. He has many years experience as a senior executive and director of both resource and industrial companies with particular responsibility for capital raising and other corporate initiatives. Mr Macliver is Chairman and a Non-Executive director of Stratatel Ltd and is a Non-Executive director of Port Bouvard Ltd, Empire Beer Group Ltd and Otto Energy Ltd. During the past three years Mr Macliver has also served as a director of BioProspect Ltd.

Alan S. Jones

CA

Non-Executive director

Mr Jones was appointed as a Non-Executive director on 28 July 2006. Mr Jones is a chartered accountant with extensive senior management and board experience in listed and unlisted Australian public companies, particularly in the construction, engineering, finance and investment industries. Mr Jones is a member of the Audit and Risk Management Committee. He is a Non-Executive director of Mulpha Australia Limited, Sun Hung Kai & Co. Limited (Hong Kong), Allied Group Limited (Hong Kong) and Allied Properties Limited (Hong Kong). Mr Jones has been involved in the successful merger and acquisition of a number of public companies in Australia and internationally. During the past three years Mr Jones has not served as a director of any other listed companies.

Peter R. Bilbe

B.E. (Mining) (Hons), MAusIMM

Non-Executive director

Mr Bilbe was appointed as a Non-Executive director on 23 February 2007. Mr Bilbe, the former Managing director of Aztec Resources Limited, is an experienced engineer who has been working in the mining industry for more than 30 years. Mr Bilbe joined Aztec Resources Limited in 2004 as Project Manager for the Koolan Island Iron Ore Project and was appointed Chief Operating Officer of Aztec Resources Limited in August 2005. For the last 15 years Mr Bilbe has held various senior executive roles for mining companies both within Australia and overseas. Mr Bilbe is a Non-Executive director of RMA Energy Ltd. During the past three years Mr Bilbe has not served as a director of any other listed companies.

Mark P. M. Horn

M.A., LLB(Hons), Dip.B.Admin, FSI(Dip),

Barrister of the Honourable Society of Lincoln's Inn

Non-Executive director

Mr Horn was appointed as a Non-Executive director on 30 June 2007. Mr Horn is the Chief Executive of M. Horn & Co., a British corporate finance boutique regulated by the FSA. In addition, Mr Horn is the Chairman of ReSel Communications Ltd, a director and General Counsel of Lakeshore Capital, and a Non-Executive director of Bretton Resource Opportunities Fund Ltd, Bretton Capital Strategies SPC, and Dikorwe C.C. Mr Horn is also a member of the Lincolnshire County Council and Bourne Town Council, and serves as a Governor of Bourne Grammar School and Robert Manning Technology College. During the past three years Mr Horn has also served as a director of AIM2 plc.

Alan D. Rule

B.Comm, B.Acc, CA

Alternate director

Chief Financial Officer

Mr Rule was appointed Finance director of Mount Gibson on 1 July 2005 and resigned as Finance director on 30 June 2007 to become Chief Financial Officer of Mount Gibson. Mr Rule is the alternate director to Mr Tonkin. He is a chartered accountant with extensive experience in the mining industry in Australia. He held the position of Chief Financial Officer of Western Metals Limited and more recently St Barbara Mines Limited. He has considerable experience in international financing of mining projects and implementation of accounting controls and systems. Mr Rule was previously Finance director of Asia Iron Holdings Limited. Mr Rule is a Non-Executive director of Resource Mining Corporation Limited. During the past three years Mr Rule has not served as a director of any other public company.

COMPANY SECRETARY**Angela Dent**

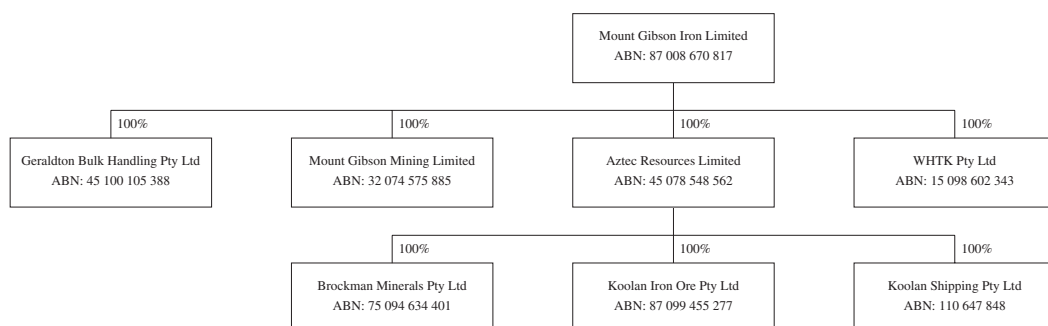
BBus, CA

Ms Dent consults to a number of public and private companies, as a Management Accountant and Company Secretary. She has experience in financial and management accounting, and statutory requirements, in Australia and South East Asia.

CORPORATE INFORMATION

Corporate Structure

Mount Gibson Iron Limited is a company limited by shares that is incorporated and domiciled in Australia. It is the ultimate parent entity and has prepared a consolidated financial report incorporating the entities that it controlled during the financial year. The structure of the consolidated entity as at 30 June 2007 was as follows:



Nature of Operations and Principal Activities

The principal activities of the entities within the consolidated entity are:

- mining of hematite deposits at Talling Peak;
- mining of hematite deposits at Koolan Island;
- construction and development of hematite mining operations at Extension Hill; and
- exploration and development of hematite deposits at Koolan Island and in the Mid-West region of Western Australia.

Employees

The consolidated entity employed 183 employees as at 30 June 2007 (2006: 120 employees).

Future Funding

As at the date of this report the consolidated entity has sufficient funds or access to debt funding to develop and mine the Talling Peak, Koolan Island and Extension Hill iron deposits.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**Sale of Asia Iron Holdings Limited**

Mount Gibson and its wholly owned subsidiary, Mount Gibson Mining Limited (“MGM”) owned 73% of Asia Iron Holdings Limited (“Asia Iron”) during the prior financial year and up until 17 November 2006, when Asia Iron ceased to be a subsidiary of the consolidated entity.

The impact on the consolidated half-year financial statements of Mount Gibson from the sale are summarised in Note 10 to these financial statements. In respect of the Consolidated Income Statement, the financial impact of the discontinued Asia Iron operation is separated from that of the continuing operations of the consolidated entity in both the current and prior periods. In each of the Consolidated Balance Sheet and Consolidated Cash Flow Statement, the prior period comparatives include the fully consolidated balances of Asia Iron. The current period balances in the Consolidated Cash Flow Statement include the impact of Asia Iron until 17 November 2006 and also the net cash impact to the consolidated entity of ceasing to consolidate Asia Iron.

Acquisition of Aztec Resources Limited

On 24 July 2006, Mount Gibson announced its intention to acquire Aztec Resources Limited (“Aztec”), representing a landmark consolidation of Australia’s emerging iron ore sector. Aztec developed the Koolan Island Iron Ore Project (“Koolan Island”) located in the Buccaneer Archipelago of Yampi Sound in Western Australia.

The acquisition was implemented by means of an off-market scrip takeover bid by Mount Gibson for all the shares in Aztec. Under the bid, Mount Gibson offered Aztec shareholders one new share for every three Aztec shares. Details are set out in Note 9 to these financial statements.

At the end of the offer period on 22 December 2006, Mount Gibson’s voting power in Aztec was 91.28% and as the applicable thresholds had been reached, Mount Gibson commenced the compulsory acquisition process to acquire all the remaining fully paid ordinary shares in Aztec which it did not already own.

Mount Gibson completed compulsory acquisition of the remaining Aztec shares on 9 February 2007. A total of 378,491,182 new shares in Mount Gibson were issued to Aztec shareholders.

There were no significant changes in the state of affairs of the consolidated entity other than those referred to elsewhere in this report or the financial statements or notes thereto.

REVIEW AND RESULTS OF OPERATIONS

Operating Results for the Period

A summary of the operating results for the consolidated entity is set out below:

	CONSOLIDATED	
	2007	2006
	<i>\$'000</i>	<i>\$'000</i>
Operating profit from Continuing		
Operations before tax	42,253	17,634
Taxation (expense)/benefit	<u>(13,209)</u>	<u>3,949</u>
Operating profit from Continuing		
Operations after tax	29,044	21,583
Profit from discontinued operations after income tax	<u>18,721</u>	<u>1,490</u>
Net operating profit after tax	47,765	23,073
Loss Attributable to Minority Interest	<u>–</u>	<u>406</u>
Net profit attributable to Members of		
Mount Gibson	<u><u>47,765</u></u>	<u><u>23,479</u></u>

Tallering Peak Hematite Operations

The Tallering Peak mine continued to improve operational performance during the financial year with waste and ore material movements increasing 46% and 161% respectively. Ore tonnes sold also increased 67% compared with the corresponding period last year however ore shipments were restricted resulting from ongoing congestion and poor loading rates at the Geraldton Port. Mount Gibson continued to work with the Geraldton Port Authority (“GPA”) to optimise port performance and reduce the excessive waiting times experienced by all port users however Mount Gibson has become increasingly frustrated by the GPA’s progress addressing excessive ship loading and waiting times. The GPA advises that additional shiploading capacity being constructed at Berth 5 will be operational by calendar year end and consequently Mount Gibson will increase rail capacity in the second half of the 2007-08 financial year to utilise the new installed shiploading capacity at the Port and lift production to 3 Mtpa.

The 2006-07 financial year provided Mount Gibson with the opportunity to determine mine production capability, crushing and screening throughput capacity and transport capability at Tallering Peak. Although the GPA could not keep pace with Tallering Peaks operating performance Mount Gibson has demonstrated consistently that mine production, crushing and screening throughput, trucking capacity and rail capacity meets targeted 3 Mtpa production rates. Throughout the year Tallering Peak established record mine production rates exceeding 3 Mtpa, record crushing and screening rates which exceeded 3 Mtpa rates and record rail transport rates in line with required annual performance.

Due to the congestion at the Geraldton Port and the resulting substantial increase in ore stockpiled, Mount Gibson suspended mining at Tallering Peak’s T5 open pit. Operations at T5 will recommence once performance at the Geraldton Port improves and stockpiles are drawn down to appropriate levels. It is not contemplated that T5 will be mined in the 2007-08 financial year due to the current level of stockpiled material, Tallering Peak’s access to ore within the Main Range pits and the successful resource drilling carried out during the 2006-07 financial year in the T2 area providing more cost efficient access to ore production.

Extensive infill and extensional exploration drilling at Tallering Peak has significantly enhanced Mount Gibson’s knowledge of the Tallering Peak geological resource and has allowed mine production to be planned with a high level of confidence. Exploration drilling was also successful in increasing the Mineral Resource at Tallering Peak, particularly in the T2 Main Range pit area which continued to demonstrate the existence of significant mineralisation below the current resource. A total of 19,969m of exploration infill and extensional drilling was completed at Tallering Peak during the year.

**PRODUCTION
SUMMARY FOR
12 MONTHS**

	Unit	Sept Qtr 2006 '000	Dec Qtr 2006 '000	Mar Qtr 2007 '000	Jun Qtr 2007 '000	YTD 2007 '000
Mining						
– Waste mined	bcm	2,541	2,283	2,331	2,445	9,600
– Ore mined	wmt	1,092	681	468	691	2,932
Crushing						
– Lump	wmt	411	408	398	428	1,645
– Fines	wmt	<u>308</u>	<u>255</u>	<u>251</u>	<u>252</u>	<u>1,066</u>
		719	663	649	680	2,711
Transported to Mullewa Railhead						
– Lump	wmt	391	370	381	435	1,577
– Fines	wmt	<u>254</u>	<u>296</u>	<u>248</u>	<u>235</u>	<u>1,033</u>
		645	666	629	670	2,610
Transported to Geraldton Port						
– Lump	wmt	300	331	377	417	1,425
– Fines	wmt	<u>216</u>	<u>253</u>	<u>279</u>	<u>228</u>	<u>976</u>
		516	584	656	645	2,401
Shipping						
– Lump	wmt	239	429	319	388	1,375
– Fines	wmt	<u>170</u>	<u>279</u>	<u>272</u>	<u>216</u>	<u>937</u>
		<u>409</u>	<u>708</u>	<u>591</u>	<u>604</u>	<u>2,312</u>

Production rates and key financial statistics at Talling Peak for the 12 months ended 30 June 2007 compared with the 12 months ended 30 June 2006 were:

- waste mining increased by 46% from 6,565,000 bcms to 9,600,000 bcms;
- ore tonnes mined increased by 161% from 1,122,000 tonnes to 2,934,000 tonnes;
- ore tonnes sold increased by 67% from 1,386,000 tonnes to 2,312,000 tonnes; and
- average realised selling prices per tonne of ore sold increased by 16.7% from A\$54 per tonne to A\$63 per tonne.

Significant expenditure on waste development at Talling Peak during the financial year was as follows:

		12 months ended 30 June 2007	12 months ended 30 June 2006	12 months ended 30 June 2005
Waste mined	mill bcm	9.6	6.5	3.8
Waste expenditure capitalised	\$ mill	93.24	54.20	23.49
Waste expenditure amortised	\$ mill	53.57	17.77	16.78

In accordance with its usual accounting practice, waste development expenditure for the period has been capitalised in the consolidated entity's balance sheet and will be amortised over the expected life of the mine.

A significant challenge to mine operations is the supply of skilled operating and maintenance employees. A shortage of appropriately qualified labour and the increase in labour and consumable costs within the industry continues to dampen the operational potential of Talling Peak and skilled labour shortages represent a risk to sustained operational performance. Mount Gibson continues to implement strategies designed to mitigate the adverse impact of these issues.

At 31 December 2006, Talling Peak had a Mineral Resource of 22.1 Mt at 61.7% Fe including Ore Reserves of 20.7 Mt at 61.5% Fe.

Koolan Island Hematite Project

Koolan Island which is located in the Buccaneer Archipelago of Yampi Sound in Western Australia was opened by BHP in 1965 and operated until 1993. BHP mined approximately 68 million tonnes of high grade hematite ore from five pits at Koolan – Main, Mullet, Eastern, Barramundi and Acacia.

In early 2000, Aztec acquired Koolan Island and in May 2003 an exploration licence was granted over Koolan Island. During 2003, Aztec undertook a review of available BHP data, carried out site inspections and committed to an exploration/feasibility study program in 2004. Exploration drilling commenced in February 2004 and the bankable feasibility study was completed in August 2005.

At 31 December 2006, Koolan Island had a Mineral Resource of 57.8 million tonnes of hematite ore at a grade of 64.3% Fe, including total Ore Reserves of 24.8 million tonnes of hematite ore with a grade of 65.0% Fe. The orebodies are tabular, high-grade hematite bodies which are estimated to produce a 30% Lump 70% Fines product with consistently high grades from the Main Ore body (>67% Fe). Initial production from established satellite pits has produced 50% Lump 50% Fines product, which if continued, enhances the financial performance of Koolan Island.

Recommencement of open pit mining and stockpiling of ore on the ROM pad occurred in the December quarter 2006. Construction of the shiploader, jetty facilities and crushing and screening plant were completed and commissioned in May 2007 with the first ore shipment taking place in June 2007. At the forecast production rate of 4 Mtpa (production ramps to this rate over the period to the June 2009 quarter), and based on existing ore reserves, production is expected to continue for at least eight years to 2015 with potential to increase resources as a consequence of the planned exploration drilling to be undertaken over the next two to three years. Initial production from Koolan Island will be sourced from Eastern and Mullet pits whilst preparatory access works are completed at Main Pit prior to the cut back and eventual production from this high-grade premium ore source.

Total development costs for Koolan Island were \$143 million. The project encountered cost increases of \$10 million (7.5%) above the original budget due primarily to unforeseen ground conditions at the jetty, causeway and camp sites, changes to project scope, labour shortages, logistical and transport costs and some delays to the project schedule.

**PRODUCTION
SUMMARY FOR
12 MONTHS**

	Unit	Sept Qtr 2006 '000	Dec Qtr 2006 '000	Mar Qtr 2007 '000	Jun Qtr 2007 '000	YTD 2007 '000
Mining						
– Waste mined	bcm	–	–	510	1,238	1,748
– Ore mined	wmt	–	50	91	418	559
Crushing						
– Lump	wmt	–	–	–	146	146
– Fines	wmt	–	–	–	128	128
		–	–	–	274	274
Shipping						
– Lump	wmt	–	–	–	74	74
– Fines	wmt	–	–	–	76	76
		–	–	–	150	150

Extension Hill Direct Shipping Ore Project

The consolidated entity has completed the Detailed Feasibility Study (“DFS”) into the feasibility of producing and selling 3 Mtpa of hematite ore from the Extension Hill Direct Shipping Ore (“DSO”) project.

The DFS validated the broad strategies and parameters assumed for the June 2006 study and evaluated multiple operating options with related costs, timing and risks. The study has demonstrated that the project will provide strong financial returns in a short time frame, with minimal technical risks and relatively low capital requirements.

The DSO project will have very similar operational characteristics to Mount Gibson's Tallering Peak operation with the added advantage of a much lower strip ratio of less than 1:1 (waste tonnes: ore tonnes) compared with Tallering Peak's strip ratio of 6:1. Ore mined from Extension Hill will be crushed and screened on site, transported by sealed road 85km to Perenjori and loaded onto rail wagons for a 235km journey to the Geraldton Port. Ore will be stored at the Geraldton Port at Mount Gibson's ore storage facilities to be constructed at the new Berth 5 iron ore ship loading facility and loaded from Berth 5 for export.

Key critical path items driving overall project timing are:

- Availability of rail unloader capacity, including Port area and further rail infrastructure;
- Ministerial environmental approval of the project PER; and
- DEC, DPI and DoIR approvals, post PER approval.

On 1 August 2007 the Western Australian Minister for the Environment gave approval for the Mt Gibson Iron Ore and Infrastructure Project, of which the mining of Extension Hill DSO is part, to proceed.

The approval from the Minister is not conditional on "the remaining ridges of Banded Iron Formations in the Mt Gibson area that contain sub-populations or suitable habitat for *Darwinia masonii* and *Lepidosperma* sp. Mt Gibson and habitat for the remaining restricted floristic communities in the Mt Gibson ranges" being secured in a formal conservation estate prior to ground disturbing activities.

Official granted approval to proceed from the State and Federal Governments is expected by the end of September 2007.

Mount Gibson management will seek Board approval to commence DSO operations as soon as practicably possible with the expectation that production will commence late 2008.

Review of Financial Condition

During the course of the financial year a number of events impacted on the financial condition of the consolidated entity as follows:

- Shareholders funds increased by 316% to \$454 million:
 - Acquisition of Aztec increased shareholders funds by \$298 million (see Note 9);
 - Disposal of Asia Iron Holdings increased shareholders funds by \$19 million (see Note 10); and
 - Holders of 7,236,920 options exercised their options resulting in \$2 million in equity funding for Mount Gibson.
- In June 2007 Mount Gibson mandated HSBC Australia Limited and National Australia Bank Limited as the joint lead Arranger and Underwriting Banks for a \$200 million debt facility to fund the refinance of the existing debt facilities and the Koolan Island and Extension Hill iron ore developments (see Note 15).
- Acquisition of property, plant and equipment with an aggregate fair value of \$56 million that were financed by means of finance leases, increasing lease liabilities to \$67 million.

Cash on hand at year end was \$61 million with debt of \$87 million drawn down under the Koolan Iron Ore Project Debt facility and \$67 million in equipment finance leases and hire purchase liabilities.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Other than as referred to in the Review and Results of Operations and in this report, further information as to likely developments in the operations of the consolidated entity and likely results of those operations would, in the opinion of the directors, be speculation and not in the best interest of Mount Gibson.

SIGNIFICANT EVENTS AFTER BALANCE DATE

As at the date of this report, apart from the:

- Corporate Debt refinancing set out in Note 15; and
- Minister for the Environment approval for the DSO project to proceed,

there are no other significant events after balance date of Mount Gibson or of the consolidated entity.

SHARE OPTIONS**Unissued Shares**

Details of Options over Ordinary Shares in Mount Gibson on issue as at balance date and at the date of this report are:

Exercise Price	Exercise Date/Period	OPTIONS ON ISSUE AT	
		Balance date	Date of report
50 cents	On or before 31 December 2007	5,000,000	5,000,000
55 cents	On or before 31 December 2008	5,000,000	5,000,000
90 cents	On or before 30 June 2010	2,000,000	2,000,000
90 cents	On or before 23 October 2010	3,000,000	3,000,000
110 cents	On or before 23 October 2012	2,000,000	2,000,000
	Total	17,000,000	17,000,000

In addition, as at 30 June 2007, there were 8,625,000 (2006: 4,175,000) options granted but not issued under the Employee Share Scheme. The options were granted on the basis that the employees must complete employment service to 31 December 2007 before the options vest, at which time they will be issued to the respective employees. Once vested, 2,825,000 options will be exercisable at 78 cents each and expire on 31 December 2009 and 5,800,000 options will be exercisable at 89 cents each and expire on 31 December 2009. As at the date of this report, none of these options had vested.

Option holders do not have any right, by virtue of the Option, to participate in any share issue of Mount Gibson.

Shares issued as a result of the exercise of options

During the financial year, 7,236,920 options were exercised to acquire fully paid ordinary shares in Mount Gibson at a weighted average exercise price of \$0.28. Since the end of the financial year, no options have been exercised.

DIVIDENDS

No dividends were paid during the period and no recommendation is made as to dividends.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Mount Gibson has, during the financial period, entered into deeds of access and indemnity with each director. These deeds provide access to documentation and indemnification against liability for loss suffered, as a result of any act or omission, to the extent permitted by the Corporations Act 2001, from conduct of the Consolidated Entity's business.

During the financial year, Mount Gibson has paid premiums in respect of a contract insuring all the directors of Mount Gibson against costs incurred in defending proceedings except for conduct involving:

- a wilful breach of duty; or
- a contravention of sections 182 or 183 of the Corporations Act 2001, as permitted by section 199B of the Corporations Act 2001.

The total amount of insurance contract premiums paid was \$55,307. This amount has not been included in directors' and Executives' remuneration.

REMUNERATION REPORT

This report outlines the remuneration arrangements in place for directors and Key Management Personnel of the consolidated entity.

The consolidated entity is taking advantage of Corporations Regulation 2M.6.04 and as a result is presenting the disclosures required by AASB 124 *Related Party Transaction* Aus 25.4 to Aus 25.7.2 in the Remuneration Report within the director's Report. These remuneration disclosures have been audited. For the purposes of this report Key Management Personnel of the consolidated entity are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of Mount Gibson and the consolidated entity, directly or indirectly, including any directors of Mount Gibson.

Nomination, Remuneration and Governance Committee ("NRGC")

The NRGC of the Board of directors of Mount Gibson is responsible for determining and reviewing remuneration arrangements for the Board and Key Management Personnel.

The NRGC assesses the appropriateness of the nature and amount of remuneration of Key Management Personnel on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality, high performing Board and Executive team.

Remuneration Policy

The Remuneration Policy of Mount Gibson and its Controlled Entities has been put in place to ensure that:

- remuneration policies and systems support Mount Gibson's wider objectives and strategies;
- Directors' and Senior Executives' remuneration is aligned to the long-term interests of Shareholders within an appropriate control framework; and
- there is a clear relationship between the Executives' performance and remuneration.

Remuneration Structure

In accordance with best practice corporate governance, the structure of Non-Executive director, Executive director and Senior Executive management remuneration is separate.

Non-Executive director Remuneration***Objective***

The Board seeks to set aggregate remuneration at a level which provides Mount Gibson with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to Shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-Executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 18 November 2005 when Shareholders approved an aggregate remuneration of \$300,000 per year.

Each Non-Executive director receives a fee for being a director of Mount Gibson.

Non-Executive directors should be adequately remunerated for their time and effort and the risks involved. Non-Executive directors are remunerated to recognise the responsibilities, accountabilities and associated risks of directors.

All Non-Executive directors' performance and remuneration is reviewed on an annual basis by the Chairman.

Non-Executive directors' fixed remuneration will comprise the following elements:

- cash remuneration; and
- superannuation contributions made by Mount Gibson.

Non-Executive directors are eligible to receive options under Mount Gibson Employee Option Scheme, subject to approval by Shareholders.

Board operating costs do not form part of Non-Executive directors' remuneration.

Non-Executive directors have long been encouraged by the Board to hold shares in Mount Gibson (purchased by the director on market). It is considered good governance for directors to have a stake in Mount Gibson on whose board they sit.

Executive Directors and Senior Executives Remuneration***Objective***

Mount Gibson aims to reward Executive directors and Senior Executives with a level and mix of remuneration commensurate with their position and responsibilities within Mount Gibson and so as to:

- reward the Executive directors and Senior Executives for company and individual performance against targets set by reference to appropriate benchmarks;
- align the interest of the Executive directors and Senior Executives with those of Shareholders;
- link reward with the strategic goals and performance of Mount Gibson; and
- ensure total remuneration is competitive by market standards.

Fixed Remuneration

The components of the Executive directors and Senior Executives fixed remuneration are determined individually and may include:

- cash remuneration;
- accommodation and travel benefits;
- motor vehicle, parking and other benefits; and
- reimbursement of entertainment, home office and telephone expenses.

The Executive directors' remuneration is reviewed on an annual basis by the Non-Executive directors. The Senior Executives' remuneration is reviewed on an annual basis by the Managing director.

In determining the remuneration package, the NRGC reviews the individual’s remuneration with the use of market data for positions with comparable companies. Where appropriate, the package is adjusted so as to keep pace with market trends and ensure continued remuneration competitiveness. In conducting a comparative analysis, Mount Gibson’s expected performance for the year is considered in the context of Mount Gibson’s capacity to fund remuneration budgets. From time to time, a review of the total remuneration package by an independent consultant in this field is undertaken to provide an independent reference point.

Variable Remuneration

Short-term Incentive (“STI”)

The Executive directors and Senior Executives may receive variable remuneration in the form of STI. STI are linked to general performance targets and provide rewards for materially improved Company performance. The total potential STI available is at the Board’s discretion but is measured to provide sufficient incentive to the Executive directors and Senior Executives to achieve the operational targets and such that the cost to the consolidated entity is reasonable in the circumstances. Actual STI payments granted depend on the extent to which specific operating targets set at the beginning of the financial year are met. These targets consist of a number of Key Performance Indicators (“KPIs”) covering both financial and non-financial, corporate and individual performance measures. The STIs are based on achieving the following measures where these are applicable to the specific Executive:

- performance of the consolidated entity in meeting its objectives which include contribution to net profit after tax, risk management and leadership/team contribution;
- financial performance of the consolidated entity;
- increase in market capitalisation of the consolidated entity;
- such other matters determined by the NRGC in its discretion.

These measures have been selected to align the interests of Executives with Shareholders representing the key drivers for short-term success of the business and providing a framework for delivering long-term value.

The consolidated entity has predetermined benchmarks that must be met in order to trigger payments under the STI scheme. On an annual basis, the individual performance of each Senior Executive is reviewed by the NRC, which is in line with their responsibilities, after consideration of the Executive's performance against KPIs. This process usually occurs within two months after the reporting date. NRC then determines the amount of STI to be allocated to each Executive. Payments made are delivered as a cash bonus in the following reporting period.

STI bonus for 2006 and 2007 financial years

For the 2006 financial year, 100% of the STI cash bonus of \$400,000 as previously accrued in that period vested to Executives and was paid in the 2007 financial year. For the 2007 financial year, 100% of the STI cash bonus totalling \$350,000 has been approved and vested to Senior Executives.

Long-term Incentive ("LTI") for 2008 financial year

At the commencement of the 2008 financial year, Mount Gibson established the Mount Gibson Iron Limited Performance Rights Plan ("PRP"). The PRP enables Mount Gibson to provide its Executives with long-term incentives which create a link between the delivery of value to Shareholders, financial performance and rewarding and retaining the Executives. Under the PRP, the Board may invite eligible Executives to apply for performance rights, which are an entitlement to receive ordinary shares in Mount Gibson, subject to satisfaction by the Executive of performance and vesting conditions set by the Board.

No performance rights were issued by Mount Gibson in respect of the 2007 financial year. However, Mount Gibson has agreed to vary the employment contracts for the Managing director, Mr Tonkin, and the Chief Financial Officer, Mr Rule, to incorporate payment of a long-term incentive for the 2008 and successive financial years. Under their varied employment contracts, Mr Tonkin and Mr Rule will each be invited to apply for, and Mount Gibson will grant (subject to all applicable shareholder approvals being first obtained), a number of performance rights equivalent to one third of their respective base salaries (including superannuation) divided by the volume weighted average price of Mount Gibson's shares as traded on ASX for the 30-day period to 30 June for the relevant year.

The rights will be granted at no cost to the Executives and will convert into ordinary shares on completion by the Executive of three years' continuous service, subject to satisfaction of specified performance hurdles related to the Company's Total Shareholder Return ("TSR") measured against the TSR of a comparator group of companies over the same period. Mount Gibson intends to seek Shareholder approval for the issue of the performance rights to Mr Tonkin at its 2007 AGM.

Employment Contracts

As at the date of this report, the consolidated entity had entered into employment contracts with the following Executive directors:

Luke Tonkin

The key terms of his contract are as follows:

- Five years from 24 October 2005 to 24 October 2010
- There are no termination benefits at the completion of the contract term. However, if Mount Gibson wishes to terminate the contract other than if Mr Tonkin is guilty of any grave misconduct, serious or persistent breach of the terms of the contract or wilful neglect in the discharge of the Duties, Mount Gibson is obliged to pay out the remaining term of the contract to a maximum of two years. If Mr Tonkin wishes to terminate the contract, he must provide six months notice.

Alan Rule

The key terms of his contract are as follows:

- Five years from 1 July 2005 to 30 June 2010
- There are no termination benefits at the completion of the contract term. However, if Mount Gibson wishes to terminate the contract other than if Mr Rule is guilty of any grave misconduct, serious or persistent breach of the terms of the contract or wilful neglect in the discharge of the Duties, Mount Gibson is obliged to pay out the remaining term of the contract to a maximum of two years. If Mr Rule wishes to terminate the contract, he must provide three months notice.

REMUNERATION OF KEY MANAGEMENT PERSONNEL FOR THE YEAR ENDED 30 JUNE 2007

	Short Term		Post Employment			Share Based	Total	% Performance Related
	Salary & Fees	Non Monetary	Cash Bonuses	Super- annuation	Retirement Benefits	Payment Options		
Directors								
N Hamilton	16,514	-	-	1,486	-	-	18,000	0%
W Willis	85,772	-	-	2,428	-	-	88,200	0%
B Johnson	40,000	2,734	-	-	-	801,634	844,368	95%
L Tonkin	550,459	1,501	200,000	49,541	-	770,745	1,572,246	62%
A Rule	366,972	1,622	150,000	33,028	-	363,050	914,672	56%
C Readhead	63,000	-	-	-	-	-	63,000	0%
I MacIver	44,037	-	-	3,963	-	-	48,000	0%
A Jones	44,000	-	-	-	-	-	44,000	0%
P Bilbe	115,320	1,192	-	9,298	-	-	125,810	0%
M Horn	-	-	-	-	-	-	-	0%
Sub-total Directors	<u>1,326,074</u>	<u>7,049</u>	<u>350,000</u>	<u>99,744</u>	<u>-</u>	<u>1,935,429</u>	<u>3,718,296</u>	
Executives								
K Malaxos <i>Chief Operating Officer (until 18 December 2006)</i>	145,683	8,307	-	10,413	-	-	164,403	0%
D Quinlivan <i>Chief Operating Officer (from 18 December 2006)</i>	430,650	428	-	-	-	-	431,078	0%
R Mencil <i>General Manager – Tallering Peak</i>	218,333	-	15,000	19,650	-	27,000	279,983	15%
Q Granger <i>General Manager – Koolan Island (until 8 June 2007)</i>	141,029	-	-	12,640	-	-	153,669	0%
R Jordinson <i>General Manager – Koolan Island (from 8 June 2007)</i>	<u>47,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,000</u>	0%
Sub-total Executives	<u>982,695</u>	<u>8,735</u>	<u>15,000</u>	<u>42,703</u>	<u>-</u>	<u>27,000</u>	<u>1,076,133</u>	
Totals	<u><u>2,308,769</u></u>	<u><u>15,784</u></u>	<u><u>365,000</u></u>	<u><u>142,447</u></u>	<u><u>-</u></u>	<u><u>1,962,429</u></u>	<u><u>4,794,429</u></u>	

The following directors were appointed during the year:

Mr Jones	28 July 2006
Mr Bilbe	23 February 2007
Mr Hamilton	24 April 2007
Mr Horn	30 June 2007

The following directors resigned during the year:

Mr Willis	24 April 2007
Mr Johnson	30 June 2007
Mr Rule	30 June 2007

REMUNERATION OF KEY MANAGEMENT PERSONNEL FOR THE YEAR ENDED 30 JUNE 2006

	Short Term		Post Employment			Share Based	Total	% Performance Related
	Salary & Fees	Non Monetary	Cash Bonuses	Super- annuation	Retirement Benefits	Options		
Directors								
W Willis	105,505	–	–	9,495	–	14,735	129,735	11%
B Johnson	673,424	33,814	–	–	–	3,113,988	3,821,226	81%
L Tonkin	316,396	1,051	250,000	28,476	–	399,479	995,402	65%
A Rule	300,000	1,822	150,000	27,417	–	224,444	703,683	53%
C Readhead	48,000	–	–	–	–	7,368	55,368	13%
I Macliver	44,037	–	–	3,963	–	7,368	55,368	13%
Sub-total Directors	<u>1,487,362</u>	<u>36,687</u>	<u>400,000</u>	<u>69,351</u>	<u>–</u>	<u>3,767,382</u>	<u>5,760,782</u>	
Executives								
D Garcia	398,655	–	–	12,777	–	–	411,432	–
K Malaxos	245,833	19,728	4,167	22,500	–	28,085	320,313	10%
P Jones	275,229	1,410	–	24,771	–	13,171	314,581	4%
S Coates	182,580	–	7,500	16,425	–	41,265	247,770	20%
B Wesley	129,019	1,663	5,000	11,366	–	13,171	160,219	11%
Sub-total Executives	<u>1,231,316</u>	<u>22,801</u>	<u>16,667</u>	<u>87,839</u>	<u>–</u>	<u>95,692</u>	<u>1,454,315</u>	
Totals	<u>2,718,678</u>	<u>59,488</u>	<u>416,667</u>	<u>157,190</u>	<u>–</u>	<u>3,863,074</u>	<u>7,215,097</u>	

All Executive directors and Senior Executives are engaged through Controlled Entities of Mount Gibson.

OPTIONS GRANTED AS PART OF REMUNERATION FOR THE YEAR ENDED 30 JUNE 2007

	Grant Date	Exercise Price	Grant Number	Value per Option @ Grant Date	Value of Options Granted During the Year \$	Vesting Date	Exercised Number	Date Option Lapsed	Total Value of Options Exercised and Lapsed During Year	% of Remuneration
R Mencil	9-Jan-07	\$0.89	250,000	\$0.216	54,000	31-Dec-07	N/A	N/A	N/A	10%

These options were granted but not yet issued on the basis that Mr Mencil must complete employment service to 31 December 2007 before they vest.

Options granted as part of Senior Executive emoluments have been valued using the Binomial option pricing model. The value per option at grant date is calculated using the following assumptions:

Grant date	9-Jan-07
Share price at grant date	\$0.87
Exercise price	\$0.89
Risk free interest rate	6.18%
Volatility factor	25.76%
Expiry date	31-Dec-09

OPTIONS GRANTED AS PART OF REMUNERATION FOR THE YEAR ENDED 30 JUNE 2006

	Grant Date	Exercise Price	Grant Number	Value per Option @ Grant Date	Value of Options Granted During the Year \$	Vesting Date	Exercised Number	Value at Date Option Lapsed	Total Value of Options Exercised and Lapsed During Year	% of Remuneration
A Rule	4-Oct-05	\$0.90	2,000,000	\$0.464	928,000	1-Jul-08	N/A	N/A	N/A	31.9%
L Tonkin	4-Oct-05	\$0.90	3,000,000	\$0.478	1,434,000	24-Oct-08	N/A	N/A	N/A	29.5%
L Tonkin	4-Oct-05	\$1.10	2,000,000	\$0.518	1,036,000	24-Oct-10	N/A	N/A	N/A	10.6%
S Coates	31-Dec-05	\$0.78	250,000	\$0.332	83,000	31-Dec-07	N/A	N/A	N/A	5.3%
P Jones	31-Dec-05	\$0.78	250,000	\$0.332	83,000	31-Dec-07	N/A	N/A	N/A	4.2%
B Wesley	31-Dec-05	\$0.78	250,000	\$0.332	83,000	31-Dec-07	N/A	N/A	N/A	8.2%

Options granted as part of director and Senior Executive emoluments have been valued using the Binomial option pricing model. The value per option at grant date is calculated using the following assumptions:

Grant date	31-Dec-05	13-June-06	4-Oct-05	4-Oct-05	4-Oct-05
Share price at grant date	\$0.70	\$0.70	\$0.86	\$0.86	\$0.86
Exercise price	\$0.78	\$0.78	\$0.90	\$0.90	\$1.10
Risk free interest rate	5.09%	5.09%	5.40%	5.40%	5.40%
Volatility factor	60%	60%	60%	60%	60%
Expiry date	31-Dec-09	31-Dec-06	30-Jun-10	23-Oct-10	23-Oct-12

DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of Committees of directors) held during the year and the number of meetings attended by each director is as follows:

	Directors' Meetings	Audit and Risk Management Committee Meetings	Nomination, Remuneration and Governance Committee
Number of Meetings Held	30	2	2
N Hamilton	3	–	1
W Willis	23	1	1
B Johnson	18	1	–
L Tonkin	30	–	–
A Rule	30	–	–
C Readhead	26	2	2
I Macliver	27	2	2
A Jones	22	2	–
P Bilbe	7	–	–
M Horn	–	–	–

INTERESTS IN THE SHARES AND OPTIONS OF MOUNT GIBSON

As at the date of this report, the interests of the directors in the Shares and Options of Mount Gibson were:

	Ordinary Shares	Options over Shares
N Hamilton	185,000	–
L Tonkin	–	5,000,000
A Rule	50,000	2,000,000
C Readhead	1,067,500	–
I Macliver	1,500,000	–
A Jones	100,000	–
P Bilbe	52,033	–
M Horn	–	–

TAX CONSOLIDATION

Mount Gibson and its 100% owned controlled entities have formed a tax consolidated group with effect from 1 April 2006. Members of the consolidated entity have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned controlled entities on a pro-rate basis. In addition the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date, the possibility of default is remote. The head entity of the tax consolidated group is Mount Gibson Iron Limited.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The consolidated entity has developed Environmental Management Plans for its operations at Koolan Island, Tallering Peak and the rail head at Mullewa. The Environmental Management Plans have been approved by the West Australian Government Departments of Industry & Resources, Environment and Conservation and Land Management.

The consolidated entity holds various environmental licences and authorities, issued under both State and Federal law, to regulate its mining and exploration activities in Australia. These licenses include conditions and regulation in relation to specifying limits on discharges into the environment, rehabilitation of areas disturbed during the course of mining and exploration activities, and the storage of hazardous substances.

There have been no material breaches of the Consolidated Entities licences and all mining and exploration activities have been undertaken in compliance with the relevant environmental regulations.

PROCEEDINGS ON BEHALF OF MOUNT GIBSON

There are no proceedings on behalf of Mount Gibson under section 237 of the Corporations Act 2001 in the financial year or at the date of this report.

ROUNDING

Amounts in this report and the accompanying financial report have been rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to Mount Gibson under ASIC Class Order 98/0100. Mount Gibson is an entity to which the class order applies.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Mount Gibson support and have adhered to the principles of corporate governance. Mount Gibson's corporate governance statement is contained in the additional ASX information section of the annual report.

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with section 307C of the Corporations Act 2001, the directors received the attached independence declaration from the auditor of Mount Gibson on page 30 which forms part of this report.

NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised. Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

	\$
Aztec acquisition stamp duty advice	31,750

Signed in accordance with a resolution of the directors.

N HAMILTON, Chairman

Perth, 30 August 2007.

Independent auditor's report to the members of Mount Gibson Iron Limited

We have audited the accompanying financial report of Mount Gibson Iron Limited, which comprise the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the director's declaration of the consolidated entity comprising Mount Gibson and the entities its controlled at the year's ended or from time to time during the financial year.

Mount Gibson has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard 124 *Related Party Disclosures* ("remuneration disclosures"), under the heading "Remuneration Report" on pages 24 to 29 of the directors' report, as permitted by Corporations Regulation 2M.6.04.

Directors' Responsibility for the Financial Report

The directors of Mount Gibson are responsible for the preparation and fair presentation of the financial report in accordance with the 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 that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards. The directors are also responsible for the remuneration disclosures contained in the directors' report.

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 whether the financial report is free from material misstatement and that the remuneration disclosures comply with Accounting Standard AASB 124 *Related Party Disclosures*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our 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, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate 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.

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of Mount Gibson a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report and the remuneration disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

1. the financial report of Mount Gibson Iron Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of Mount Gibson Iron Limited and the consolidated entity at 30 June 2007 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2. the consolidated financial report also complies with International Financial Reporting Standards as disclosed in Note 1
3. the remuneration disclosures that are contained on pages 24 to 29 of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures*

Ernst & Young

Gavin A Buckingham

Partner

Perth

30 August 2007

5. The following is the audited consolidated financial statements of Mount Gibson for the year ended 30 June 2006 prepared in accordance with Australian accounting standards which is extracted from the 2006 annual report of Mount Gibson (all monetary amounts are stated in A\$).

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2006

	Notes	CONSOLIDATED		COMPANY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
CONTINUING OPERATIONS					
Sale of goods	2a	73,389	76,872	–	–
Other revenue	2a	1,907	471	2,836	1,890
TOTAL REVENUE		75,296	77,343	2,836	1,890
Cost of sales	2d	(49,999)	(50,487)	–	–
GROSS PROFIT		25,297	26,856	2,836	1,890
Other income	2b	1,232	128	1	–
Administrative expenses	2d	(8,368)	(2,463)	(6,368)	(2,252)
Write back of impairment allowance	8	–	–	10,833	–
Exploration expenses	2d	(814)	(666)	(25)	–
Development expenses		–	(28)	–	–
PROFIT/(LOSS) BEFORE TAX AND FINANCE COSTS		17,347	23,827	7,277	(362)
Finance costs	2c	(1,196)	(1,795)	(11)	(168)
PROFIT/(LOSS) BEFORE INCOME TAX		16,151	22,032	7,266	(530)
Income tax benefit/(expense)	3	6,922	(8,530)	251	145
NET PROFIT/(LOSS) FOR THE PERIOD		23,073	13,502	7,517	(385)
Loss attributable to minority interest		406	–	–	–
NET PROFIT/(LOSS) ATTRIBUTABLE TO MEMBERS OF MOUNT GIBSON		23,479	13,502	7,517	(385)
EARNINGS PER SHARE (CENTS PER SHARE)					
basic earnings per share	25	6.01	4.24		
diluted earnings per share	25	5.88	4.08		
Dividends per share		–	–		

CONSOLIDATED BALANCE SHEET

As at 30 June 2006

	Notes	CONSOLIDATED		COMPANY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	4	4,548	33,633	145	44
Trade and other receivables	5	6,180	6,632	58	40
Inventories	6	5,685	5,296	–	–
Prepayments		877	625	1	–
Derivatives	16	2,541	–	–	–
		19,831	46,186	204	84
Assets classified as held for sale	10	46,093	–	–	–
TOTAL CURRENT ASSETS		65,924	46,186	204	84
NON-CURRENT ASSETS					
Trade and other receivables	5	–	–	29,690	53,419
Available for sale financial assets	7	1,248	2,942	1,248	2,942
Other financial assets	8	–	–	42,431	10,785
Property, plant and equipment	11	20,345	17,665	5	5
Deferred acquisition, exploration, evaluation and development costs	12	4,176	29,104	–	–
Mine properties	13	51,567	15,131	–	–
Deferred income tax assets	3	–	–	11,347	424
TOTAL NON-CURRENT ASSETS		77,336	64,842	84,721	67,575
TOTAL ASSETS		143,260	111,028	84,925	67,659
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	14	17,836	10,363	341	130
Interest-bearing loans and borrowings	15	1,594	2,780	–	–
Derivatives	16	1,470	–	–	–
Provisions	17	463	300	–	–
		21,363	13,443	341	130
Liabilities associated with assets classified as held for sale	10	3,068	–	–	–
TOTAL CURRENT LIABILITIES		24,431	13,443	341	130

APPENDIX III
FINANCIAL INFORMATION ON MOUNT GIBSON

	<i>Notes</i>	CONSOLIDATED		COMPANY	
		2006	2005	2006	2005
		<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
NON-CURRENT LIABILITIES					
Provisions	<i>17</i>	702	655	–	–
Interest-bearing loans and borrowings	<i>15</i>	4,247	8,938	–	–
Deferred income tax liabilities	<i>3</i>	4,684	11,407	–	–
TOTAL NON-CURRENT LIABILITIES		<u>9,633</u>	<u>21,000</u>	<u>–</u>	<u>–</u>
TOTAL LIABILITIES		<u>34,064</u>	<u>34,443</u>	<u>341</u>	<u>130</u>
NET ASSETS		<u>109,196</u>	<u>76,585</u>	<u>84,584</u>	<u>67,529</u>
EQUITY					
Issued capital	<i>18</i>	86,851	79,381	86,851	79,381
Retained earnings/(Accumulated losses)	<i>20</i>	10,096	(13,383)	(5,966)	(13,483)
Reserves	<i>19</i>	473	1,631	3,699	1,631
Parent interests		97,420	67,629	84,584	67,529
Minority interest	<i>21</i>	11,776	8,956	–	–
TOTAL EQUITY		<u>109,196</u>	<u>76,585</u>	<u>84,584</u>	<u>67,529</u>

CONSOLIDATED CASH FLOW STATEMENT*For the year ended 30 June 2006*

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
<i>Notes</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	75,519	76,662	-	-
Payments to suppliers and employees	(82,704)	(57,208)	(1,073)	(647)
Interest paid	(1,196)	(1,676)	(11)	(169)
NET CASH FLOWS (USED IN)/FROM OPERATING ACTIVITIES	4b	(8,381)	(1,084)	(816)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	1,951	427	40	33
Purchase of controlled entity	-	534	-	(1,512)
Contribution to controlled entity	-	-	(20,813)	-
Proceeds from sale of property, plant and equipment	7	45	-	-
Purchase of property, plant and equipment	(12,362)	(997)	-	-
Payment for deferred exploration and evaluation expenditure	(15,126)	(6,123)	-	-
Purchase of available for sale investments	(960)	(2,942)	(960)	(2,542)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(26,490)	(21,733)	(4,021)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of ordinary shares	7,460	34,641	7,460	34,641
Payment for capital raising cost	-	(958)	-	(958)
Loans from/(to) other entities	(395)	48	(395)	-
Loans from related parties	-	-	15,853	(28,829)
Proceeds from borrowings	1,500	14,096	-	-
Repayment of lease liabilities	(2,520)	(2,034)	-	-
Repayment of borrowings	(419)	(20,291)	-	-
Payment for performance bonds	(1,100)	(1,202)	-	-
Proceeds from performance bonds	4,053	-	-	-
NET CASH FLOWS FROM FINANCING ACTIVITIES		8,579	22,918	4,854
NET (DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS		(26,292)	101	17
Net foreign exchange differences	56	-	-	-
Cash and cash equivalents at beginning of period	33,633	611	44	27
CASH AND CASH EQUIVALENTS AT END OF PERIOD	4a	7,397	145	44

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2006

CONSOLIDATED	Attributable to Equity Holders of the Parent					Total	Minority	Total Equity
	Issued Capital	Option Premium Reserve	(Accumulated Losses)/ Retained Earnings	Net Unrealised Gains/(Losses) Reserve	Other Reserves		Interest	
							\$'000	
At 1 July 2004	40,848	-	(26,885)	-	-	13,963	6,344	20,307
Profit for the period	-	-	13,502	-	-	13,502	-	13,502
Issue of share capital	32,305	-	-	-	-	32,305	-	32,305
Exercise of options	4,811	-	-	-	-	4,811	-	4,811
Conversion of convertible notes	2,375	-	-	-	-	2,375	-	2,375
Capital raising cost	(958)	-	-	-	-	(958)	-	(958)
Change in Minority Interest	-	-	-	-	-	-	2,612	2,612
Cost of share-based payment	-	1,631	-	-	-	1,631	-	1,631
At 30 June 2005	79,381	1,631	(13,383)	-	-	67,629	8,956	76,585
Application of AASB 132 and AASB 139	-	-	-	1,165	-	1,165	-	1,165
At 1 July 2005	79,381	1,631	(13,383)	1,165	-	68,794	8,956	77,750
Profit/(loss) for the period	-	-	23,479	-	-	23,479	(406)	23,073
Net unrealised losses on available-for-sale financial assets	-	-	-	(3,305)	-	(3,305)	-	(3,305)
Net gains on cash flow hedges	-	-	-	465	-	465	-	465
Release to income statement on expiry of cash flow hedges	-	-	-	(115)	-	(115)	-	(115)
Currency translation differences	-	-	-	-	(465)	(465)	-	(465)
Issue of share capital	10	-	-	-	-	10	-	10
Exercise of options	7,460	-	-	-	-	7,460	-	7,460
Cost of share-based payment	-	4,323	-	-	-	4,323	-	4,323
New issue of capital by a Controlled Entity	-	-	-	-	(3,226)	(3,226)	3,226	-
At 30 June 2006	<u>86,851</u>	<u>5,954</u>	<u>10,096</u>	<u>(1,790)</u>	<u>(3,691)</u>	<u>97,420</u>	<u>11,776</u>	<u>109,196</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY CONTINUED

For the year ended 30 June 2006

COMPANY	Attributable to Equity Holders of the Parent				Total Equity
	Issued Capital \$'000	Option Premium Reserve \$'000	Accumulated Losses \$'000	Net Unrealised Gains/ (Losses) Reserve \$'000	\$'000
At 1 July 2004	40,848	–	(13,098)	–	27,750
Loss for the period	–	–	(385)	–	(385)
Issue of share capital	32,305	–	–	–	32,305
Exercise of options	4,811	–	–	–	4,811
Converted from convertible notes	2,375	–	–	–	2,375
Capital raising cost	(958)	–	–	–	(958)
Cost of share-based payment	–	1,631	–	–	1,631
At 30 June 2005	79,381	1,631	(13,483)	–	67,529
Application of AASB 132 and AASB 139	–	–	–	1,050	1,050
At 1 July 2005	79,381	1,631	(13,483)	1,050	68,579
Loss for the period	–	–	7,517	–	7,517
Net unrealised losses on available-for- sale financial assets	–	–	–	(3,305)	(3,305)
Issue of share capital	10	–	–	–	10
Exercise of options	7,460	–	–	–	7,460
Cost of share-based payment	–	4,323	–	–	4,323
At 30 June 2006	<u>86,851</u>	<u>5,954</u>	<u>(5,966)</u>	<u>(2,255)</u>	<u>84,584</u>

NOTES OF THE FINANCIAL STATEMENT*FOR THE YEAR ENDED 30 JUNE 2006***1. Summary of significant accounting policies****(a) Corporate information**

The financial report of Mount Gibson for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the directors on 4th September 2006.

Mount Gibson is a company limited by shares incorporated in Australia whose shares are publicly traded on the ASX.

The nature of operations and principal activities of the consolidated entity are the mining of hematite deposits at Talling Peak and exploration and development of hematite deposits in the Mid-West region of Western Australia. The address of the registered office is Level 1, 7 Havelock Street, West Perth, WA, 6005.

(b) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Australian Accounting Standards and other mandatory professional reporting requirements. The financial report has also been prepared on a historical cost basis, except for derivative financial instruments and quoted available-for-sale financial assets that have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to Mount Gibson under ASIC Class Order 98/0100. Mount Gibson is an entity to which the class order applies.

(c) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standard ("AIFRS"). Compliance with AIFRS ensures that the consolidated financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ("IFRS").

Mount Gibson financial statement and notes also comply with IFRS except for the disclosure requirements in IAS 32 'Financial Instruments: Disclosure and Presentation' as the Australian equivalent Accounting Standard, AASB 132 'Financial Instruments: Disclosure and Presentation' does not require such disclosures to be presented by Mount Gibson where its separate financial statements are presented together with the consolidated financial statements of the consolidated entity.

This is the first financial report prepared based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly. Mount Gibson has taken the exemption available under AASB 1 to only apply AASB 132 “Financial Instruments: Disclosure and Presentation” and AASB 139 “Financial Instruments: Recognition and Measurement” from 1 July 2005.

Reconciliations of:

- AIFRS equity as at 1 July 2004 and 30 June 2005; and
- AIFRS profit for the year ended 30 June 2005,

to the balances reported in the 30 June 2005 full-year financial report prepared under Australian Accounting Standards applicable before 1 January 2005 (“AGAAP”) along with the accounting policies for financial instruments applicable for the year ended 30 June 2005 are detailed in Note 1(dd).

(d) Changes in accounting policies

Australian Accounting Standards and UIG interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2006.

AASB Amendment	Affected Standard(s)	Nature of Change to Accounting Policy	Application Date of Standard	Application Date for Group
2004-3	AASB1 “First-time Adoption of AIFRS” AASB 101 “Presentation of Financial Statements” AASB 124 “Related Party Disclosures”	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-1	AASB 139 “Financial Instruments: Recognition and Measurement”	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-4	AASB 1 “First-time Adoption of AIFRS” AASB 139 “Financial Instruments: Recognition and Measurement” AASB 132 “Financial Instruments: Disclosure and Presentation” AASB 1023 “General Insurance Contracts” AASB 1028 “Life Insurance Contracts”			

AASB Amendment	Affected Standard(s)	Nature of Change to Accounting Policy	Application Date of Standard	Application Date for Group
2005-5	AASB 1 "First-time Adoption of AIFRS"	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
	AASB 139 "Financial Instruments: Recognition and Measurement"			
2005-6	AASB 3 "Business Combinations"	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
2005-10	AASB 132 "Financial Instruments: Disclosure and Presentation"	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007
	AASB 101 "Presentation of Financial Statements"			
	AASB 114 "Segment Reporting"			
	AASB 117 "Leases"			
	AASB 133 "Earnings Per Share"			
	AASB 139 "Financial Instruments: Recognition and Measurement"			
	AASB 1 "First-time Adoption of AIFRS"			
	AASB 4 "Insurance Contracts"			
	AASB 1023 "General Insurance Contracts"			
	AASB 1038 "Life Insurance Contracts"			
New Standard	AASB 7 "Financial Instruments: Disclosures"	No change to accounting policy required. Therefore no impact.	1 January 2007	1 July 2007
UIG 4	Determining whether an Arrangement contains a Lease	No change to accounting policy required. Therefore no impact.	1 January 2006	1 July 2006
UIG 8	Scope of AASB 2	No change to accounting policy required. Therefore no impact.	1 May 2006	1 July 2006
UIG 9	Reassessment of Embedded Derivatives	No change to accounting policy required. Therefore no impact.	1 June 2006	1 July 2006

Application date is for the annual reporting periods beginning on or after the date shown in the above table.

The following amendments are not applicable to the consolidated entity and therefore have no impact:

AASB Amendment	Affected Standard(s)
New Standard	AASB 119 “Employee Benefits” (Revised Dec 04) – Accounting policy options contained within the revised standard affect accounting for defined benefit schemes only. As Mount Gibson Iron Limited do not have or do not contribute to a defined benefit scheme, there is no impact of this change.
2005-2	AASB 1023 “General Insurance Contracts”
2005-9	AASB 4 “Insurance Contracts”, AASB 1023 “General Insurance Contracts”, AASB 139 “Financial Instruments: Recognition and Measurement” and AASB 132 “Financial Instruments: Disclosure and Presentation”
2005-12	AASB 1038 “Life Insurance Contracts” and AASB 1023 “General Insurance Contracts”
2005-13	AASB 25 “Financial Reporting by Superannuation Plans”
2006-1	AASB 121 “The Effects of Changes in Foreign Exchange Rates”
2006-2	AASB 1 “First-time Adoption of Australian Equivalents to International Financial Reporting Standards”
UIG 5	Rights to Interests in Decommissioning, Restoration and Environmental Rehabilitation Funds”
UIG 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
UIG 7	Applying the Restatement Approach under AASB 129 “Financial Reporting in Hyperinflationary Economies”

(e) Basis of consolidation

The consolidated financial statements comprise the financial statements of Mount Gibson and its controlled entities.

The financial statements of controlled entities are prepared for the same reporting period as Mount Gibson, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Controlled entities are consolidated from the date on which control is transferred to the consolidated entity and cease to be consolidated from the date on which control is transferred out of the consolidated entity.

Where there is loss of control of a controlled entity, the consolidated financial statements include the results for the part of the reporting period during which Mount Gibson has control.

Minority interests represent the interests in Asia Iron Holdings Limited, not held by the consolidated entity.

Investments in controlled entities are carried in the balance sheet of Mount Gibson at cost less impairment losses, if any.

(f) Foreign currency translation

Both the functional and presentation currency of Mount Gibson and its Australian controlled entities is Australian dollars (A\$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All such exchange differences are taken to the income statement in the consolidated financial report.

The functional currencies of the overseas controlled entities Asia Iron Holdings Limited and Asia Iron Limited are Hong Kong dollars (HK\$) and for Asia Iron (Nanjing) Co., Ltd is Chinese renminbi (RMB).

As at the reporting date the assets and liabilities of these overseas controlled entities are translated into the presentation currency of Mount Gibson at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the period.

The exchange differences arising on the retranslation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

(g) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation

The cost of property, plant and equipment directly engaged in mining operations is written off over its expected economic life on a units-of-production method, in the establishment of which, due regard is given to the life of the related area of interest. Assets which are depreciated or amortised on a basis other than the units-of-production method typically are depreciated on a straightline basis over the estimated useful life of the asset as follows:

- Buildings 5-20 years
- Motor vehicles 4-5 years
- Office equipment 3-5 years
- Leasehold improvements Shorter of lease term or useful life of 5-10 years

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

(h) Mine properties

Mine properties represent the accumulation of all acquisition, exploration, evaluation and development expenditure incurred by or on behalf of the consolidated entity in relation to areas of interest in which mining of mineral resource has commenced. When further development expenditure is incurred in respect of a mine property after the commencement of production, such expenditure is carried forward as part of the cost of that mine property only when substantial future economic benefits are established, otherwise such expenditure is classified as part of the cost of production.

Amortisation is provided on the units-of-production method, with separate calculations being made for each mineral resource.

Estimated future capital development costs to be incurred in accessing the reserves and measured resources are taken into account in determining amortisation charges. The units-of production method results in an amortisation charge proportional to the depletion of the economically recoverable mineral resources (comprising proven and probable reserves plus measured resources).

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Should the carrying value of the expenditure not yet amortised exceed its estimated recoverable amount in any year, the excess is written off to the income statement.

(i) Acquisition, exploration, evaluation and development costs*Acquisition costs*

Exploration and evaluation costs arising from acquisitions are carried forward where exploration and evaluation activities have not, at balance date, reached a stage to allow a reasonable assessment regarding the existence of economically recoverable reserves.

Exploration and evaluation costs

Costs arising from exploration and evaluation activities are expensed as incurred, except where, at balance date, it is expected that the expenditure will be recouped by future exploitation or sale of the area of interest, in which case the expenditure is capitalised.

Development costs

Costs arising from development activities are capitalised as incurred to the extent that such costs, together with any costs arising from acquisition, exploration and evaluation carried forward in respect of the area of interest, are expected to be recouped through future exploitation or sale of the area of interest.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. Where uncertainty exists as to the future viability of certain areas; the value of the area of interest is written off to the income statement or provided against.

(j) *Borrowing costs*

Borrowing costs are recognised as an expense when incurred.

(k) *Rehabilitation costs*

Long-term environmental obligations are based on the Consolidated Entity's environmental management plans, in compliance with current environmental and regulatory requirements.

Full provision is made based on the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to the balance sheet date. Increases due to additional environmental disturbances, relating to the development of an asset, are capitalised and amortised over the remaining lives of the area of interest.

Annual increases in the provision relating to the change in the net present value of the provision are accounted for in the income statement as borrowing costs.

The estimated costs of rehabilitation are reviewed annually and adjusted as appropriate for changes in legislation, technology or other circumstances. Cost estimates are not reduced by potential proceeds from the sale of assets.

(l) Recoverable amount of assets

At each reporting date, the consolidated entity assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the consolidated entity makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. Recoverable amount is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less cost to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An assessment is also made at each reporting date as to whether there is any indication that a previously recognised impairment loss may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(m) Investments

All investments are initially recognised at the fair value of the consideration given, including acquisition charges associated with the investment.

After initial recognition, investments, which are classified as available-for-sale, are measured at fair value. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The fair value of investments that are actively traded in organised markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

For investments with no active market, fair value is determined using valuation techniques. Such valuation techniques include using recent arm's length transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models. Where fair value cannot be reliably measured for certain unquoted investments, these investments are measured at cost.

(n) Inventories

Inventories are valued at the lower of cost and net realisable value.

Cost comprises direct material, labour and expenditure in getting such inventories to their existing location and condition, based on weighted average costs incurred during the period in which such inventories were produced.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(o) Trade and other receivables

Trade receivables, which generally have 60-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when there is objective evidence that the consolidated entity will not be able to collect the debts. Bad debts are written off when identified.

(p) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(q) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method.

Gains and losses are recognised in the profit or loss when the liabilities are derecognised.

(r) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year that are unpaid and arise when the consolidated entity becomes obliged to make future payments in respect of the purchase of these goods and services.

(s) Provisions

Provisions are recognised when the consolidated entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

A provision for dividends is not recognised as a liability unless the dividends have been declared, determined or publicly recommended on or before the reporting date.

(t) Share-based payment transactions

The consolidated entity provides benefits to employees (including directors) of the consolidated entity in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (“equity-settled transactions”).

There is currently a directors, officers, employees and other permitted persons option plan.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Mount Gibson.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (“vesting date”).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the consolidated entity, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met at the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

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

(u) Employee benefits*Wages, salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Superannuation

Contributions made by the consolidated entity to employee superannuation funds, which are defined contribution plans, are charged as an expense when incurred.

(v) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating Leases

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense in the income statement on a straight-line basis over the lease term.

Contingent rentals are recognised as an expense in the financial year in which they are incurred.

Finance Leases

Leases which effectively transfer substantially all the risks and benefits incidental to ownership of the leased item to the consolidated entity are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the income statement.

Capitalised leased assets are depreciated over the estimated useful life of the asset or where appropriate, over the estimated life of the mine.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

(w) Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably.

Interest

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

(x) **Income tax**

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in controlled entities, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(y) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(z) Derivative financial instruments and hedging

The consolidated entity uses foreign currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date the derivative contract is entered into and are subsequently remeasured to fair value.

Any gains and losses arising from changes in the fair value of derivatives, except those that qualify as cash flow hedges, are taken directly to net profit or loss for the year.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For the purpose of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to cash flow hedges (forward foreign currency contracts) to hedge firm commitments which meet the conditions for a special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

When the hedged firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting.

At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

(aa) Issued capital

Issued and paid up capital is recognised at the fair value of the consideration received by the consolidated entity. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction in the proceeds received.

(bb) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of Mount Gibson, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(cc) Significant accounting judgements, estimates and assumptions

Significant accounting judgements, estimates and assumptions have been made as follows:

(i) Mine rehabilitation provision

The consolidated entity assesses its mine rehabilitation provision annually in accordance with the accounting policy stated in Note 1(k). Significant judgement is required in determining the provision for mine rehabilitation as there are many transactions and other factors that will affect the ultimate liability payable to rehabilitate the mine site. Factors that will affect this liability include future development, changes in technology, commodity price changes and changes in interest rates. When these factors change or become known in the future, such difference will impact the mine rehabilitation provision in the period in which they change or become known.

(ii) Units of production method of depreciation

The consolidated entity applies the units of production method of depreciation of its mine assets based on ore tonnes mined. These calculations require the use of estimates and assumptions. Significant judgement is required in assessing the available reserves and the production capacity of the plants to be depreciated under this method. Factors that are considered in determining reserves and resources and production capacity are the consolidated entity's history of converting resources to reserves and the relevant time frames, the complexity of metallurgy, markets and future developments. When these factors change or become known in the future, such differences will impact pre-tax profit and carrying values of assets.

(dd) Transition to AIFRS

For all periods up to and including the year ended 30 June 2005, the consolidated entity prepared its financial statements in accordance with AGAAP. These financial statements for the year ended 30 June 2006 are the first the consolidated entity is required to prepare in accordance with AIFRS.

Accordingly, the consolidated entity has prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in Note 1. In preparing these financial statements, the consolidated entity has started from an opening balance sheet as at 1 July 2004, the Consolidated Entity's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB 1 First-time adoption of AIFRS.

This note explains the principal adjustments made by the consolidated entity in restating its AGAAP balance sheet as at 1 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

Transitional exemptions

The consolidated entity has made its election in relation to the transitional exemptions allowed by AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards" as follows:

- *Business combinations*

AASB 3 "Business Combinations" was not applied retrospectively to past business combinations (i.e. business combinations that occurred before the date of transition to AIFRS).

- *Share-based payment transactions*

AASB 2 'Share-Based Payments' is applied only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

- *Exemption from the requirement to restate comparative information for AASB 132 and AASB 139*

The consolidated entity has elected to adopt this exemption and has not applied AASB 132 'Financial Instruments: Presentation and Disclosure' and AASB 139 'Financial Instruments: Recognition and Measurement' to its comparative information.

- *Designation of previously recognised financial instruments*

Investments were designated as available-for-sale financial assets at the date of transition to AIFRS.

- *Rehabilitation costs*

As permitted by AASB 1 the consolidated entity has elected to apply the exemption relating to rehabilitation liabilities. Accordingly, these costs are:

- (a) measured as at the date of transition to Australian equivalents to IFRSs in accordance with AASB 137 Provisions, Contingent Liabilities and Contingent Assets;
- (b) estimated when the liability first arose, by discounting the liability to that date using its best estimate of the historical risk-adjusted discount rate(s) that would have applied for that liability over the intervening period; and
- (c) the accumulated depreciation on that amount is calculated, as at the date of transition to Australian equivalents to IFRS, on the basis of the current estimate of the useful life of the asset, using the depreciation policy adopted by the entity under Australian equivalents to IFRS.

Impact of adoption of AIFRS

The impacts of adopting AIFRS on total equity and profit after tax as reported under AGAAP are illustrated below.

(i) Reconciliation of total equity as presented under AGAAP to that under a AIFRS

	CONSOLIDATED		COMPANY	
	30 June 2005 \$'000	1 July 2004 \$'000	30 June 2005 \$'000	1 July 2004 \$'000
Total equity under AGAAP	88,257	23,399	67,105	27,471
Adjustments to equity:				
A Derecognition of existing rehabilitation accrual	246	15	-	-
B Adjustment for unwinding of rehabilitation provision	(61)	(30)	-	-
C Adjustment for additional amortisation charge on rehabilitation asset	(187)	(46)	-	-
D Adjustment relating to siding construction	(208)	(66)	-	-
E Adjustment for derecognition of Mullewa land	(55)	(88)	-	-
F Adjustment for Income tax	(11,407)	(2,877)	424	279
Total equity under AIFRS	<u>76,585</u>	<u>20,307</u>	<u>67,529</u>	<u>27,750</u>

- A The provision for rehabilitation recognised under AGAAP is derecognised as it was not based on discounted future cash flows.
- B AASB 137 “Provisions, Contingent Liabilities and Contingent Assets”, requires recognition of full provision for rehabilitation based on the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to the balance sheet date, as against an undiscounted provision for rehabilitation required to be recognised under AGAAP. The increase in the provision amount due to passage of time has been recognised as borrowing costs as required under AASB 137.

- C Represents adjustment for additional amortisation charge due to increase in the value of rehabilitation asset created under AASB 137 “Provisions, Contingent Liabilities and Contingent Assets”.
- D Siding construction was treated as an operating lease under AGAAP, however this has been treated as a finance lease under AASB 117 ‘Leases’.
- E Mullewa land was treated as an asset purchased under finance lease under AGAAP, however this has been treated as operating lease under AASB 117 ‘Leases’.
- F The consolidated entity had previously not recognised any deferred tax balances in its accounts under AGAAP. Under AIFRS deferred tax liabilities are recognised for all taxable temporary differences. This adjustment has increased by \$3,799,501 from that disclosed in the half year financial report for the period ended 31December 2005, based on clarification of tax treatment of carried forward expenditure not previously tax effected.

(ii) *Reconciliation of profit after tax under AGAAP to that under AIFRS*

	CONSOLIDATED	COMPANY
	30 June 2005	30 June 2005
	<i>\$'000</i>	<i>\$'000</i>
Profit after tax as previously reported	23,713	1,100
Adjustments to profit:		
A Derecognition of existing rehabilitation accrual	231	–
B Adjustment for unwinding of rehabilitation provision	(31)	–
C Adjustment for additional amortisation charge on rehabilitation asset	(141)	–
D Adjustment relating to siding construction	(143)	–
E Adjustment for derecognition of Mullewa land	33	–
F Share based payments	(1,630)	(1,630)
G Adjustment for Income tax	(8,530)	145
	<hr/>	<hr/>
Profit after tax under AIFRS	<u>13,502</u>	<u>(385)</u>

- A The provision for rehabilitation recognised under AGAAP is derecognised as it was not based on discounted future cash flows.
- B AASB 137 “Provisions, Contingent Liabilities and Contingent Assets”, requires recognition of full provision for rehabilitation based on the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to the balance sheet date, as against an undiscounted provision for rehabilitation required to be recognised under AGAAP. The increase in the provision amount due to passage of time has been recognised as borrowing costs as required under AASB 137.
- C Represents adjustment for additional amortisation charge due to increase in the value of rehabilitation asset created under AASB 137 “Provisions, Contingent Liabilities and Contingent Assets”.
- D Siding construction was treated as an operating lease under AGAAP, however this has been treated as a finance lease under AASB 117 ‘Leases’.
- E Mullewa land was treated as an asset purchased under finance lease under AGAAP, however this has been treated as operating lease under AASB 117 ‘Leases’.
- F Share-based-payment costs are charged to the income statement under AASB 2 “Share-based-payments”, but not under AGAAP.
- G The consolidated entity had previously not recognised any deferred tax balances in its accounts under AGAAP. Under AIFRS deferred tax liabilities are recognised for all taxable temporary differences. This adjustment has increased by \$3,799,501 from that in the half year financial report for the period ended 31 December 2005, based on clarification of tax treatment of carried forward expenditure not previously tax effected.

Comparative Information – financial instruments

The consolidated entity has elected not to restate comparative information for financial instruments within the scope of AASB 132 “Financial Instruments: Disclosure and Presentation” and AASB 139 “Financial Instruments: Recognition and Measurement”, as permitted on the first time adoption of AIFRS.

The effect of changes in the accounting policies for financial instruments on the balance sheet as at 1 July 2005 is shown below:

	CONSOLIDATED	COMPANY
	<i>\$'000</i>	<i>\$'000</i>
Equity under AIFRS as at 30 June 2005	76,585	67,529
Adoption of AASB 132 and AASB 139		
– Unrealised gain on available-for-sale investment	(a) 1,050	1,050
– Cash flow hedge reserve	(b) 115	–
Equity under AIFRS as at 1 July 2005	<u>77,750</u>	<u>68,579</u>

Notes:

- (a) the recognition in equity of the movement in the fair value of available-for-sale investments; and
- (b) the recognition and measurement of all derivatives (including any embedded derivatives at fair value).

The following transitional provision has an effect on future periods:

- The effectiveness of hedging relationships were assessed from 1 October 2005; no adjustment is made to hedges under superseded policies which were not highly effective before 1 July 2005.

The main adjustments necessary that would make the comparative financial statements comply with AASB 132 and AASB 139 are listed below. Similar adjustments were made at 1 July 2005 to restate the opening financial position of Mount Gibson and consolidated entity to a position consistent with the accounting policies specified in Note 1(o) to 1(r) and 1(z).

- (i) the measurement of financial assets designated as available-for-sale at fair value, with changes in fair value recognised in equity, rather than at cost in accordance with the superseded policy
- (ii) the recognition and measurement of all derivatives (including any embedded derivatives) at fair value

- (iii) the recognition in profit or loss of the movement in the fair value of derivatives which did not qualify for hedge accounting or were not designated as hedging reserve
- (iv) the transfer of deferred hedging gains and losses recognised as assets and liabilities arising from a cash flow hedge of a forecast transaction to the hedging reserve
- (v) the derecognition of other deferred hedging gains and losses recognised as assets and liabilities
- (vi) the deferral in equity of the effective portion of the movement in fair value of derivatives accounted for as a cash flow hedge
- (vii) the recognition in profit or loss of the ineffective portion of the movement in fair value of hedging instruments accounted for as a cash flow hedge
- (viii) the recognition of any current or deferred taxes in relation to the adjustments described above

The adjustments listed above are not a complete list of all adjustments that may be necessary on adopting the accounting policies specified by AASB 132 and AASB 139.

As a result of the decision not to restate comparative information the following accounting policies were applied to accounting for financial instruments in the comparative year:

Cash and cash equivalents

Cash on hand and in banks and short-term deposits are stated at nominal value.

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within 2 working days, net of outstanding bank overdrafts.

Bank overdrafts are carried at the principal amount. Interest is recognised as an expense as it accrues.

Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due.

Investments

All investments are carried at the lower of cost and recoverable amount. Investments in associates are carried at the lower of the equity accounted amount and receivable amount in the consolidated financial report.

Payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Payables to related parties are carried at the principal amount.

Deferred cash settlements are recognised at the present value of the outstanding consideration payable on the acquisition of an asset discounted at prevailing commercial borrowing rates.

Interest-bearing liabilities

All loans are measured at the principal amount. Interest is recognised as an expense as it accrues. Finance lease liability is determined in accordance with the requirements of AASB 1008 "Leases".

Derivative financial instruments

Forward exchange contracts

The consolidated entity enters into forward exchange contracts where it agrees to buy or sell specified amounts of foreign currencies in the future at a predetermined exchange rate. The objective is to match the contract with anticipated future cash flows from sales and purchases in foreign currencies, to protect the consolidated entity against the possibility of loss from future exchange rate fluctuations. The forward exchange contracts are usually for no longer than 15 months.

Forward exchange contracts are recognised at the date the contract is entered into. Exchange gains or losses on forward exchange contracts are recognised in net profit except those relating to hedges of specific commitments that are deferred and included in the measurement of the sale or purchase.

(iii) explanation of material adjustments to the cash flow statements

There are no material differences between the cash flow statements presented under AIFRS and those presented under AGAAP.

2. Revenue and expenses

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
<i>Notes</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
a Revenue				
Sale of ore	73,389	76,872	–	–
Other revenue				
Finance income – other persons/ corporations	1,907	471	40	33
Finance income – intercompany loans	–	–	2,796	1,857
	1,907	471	2,836	1,890
b Other Income				
Grant received	–	126	–	–
Net gain on sale of plant and equipment	632	–	–	–
Other income	600	2	1	–
	1,232	128	1	–
c Finance costs				
Loans	229	842	11	168
Finance charges payable under finance leases	934	921	–	–
Unwinding of discount on rehabilitation provision	33	32	–	–
	1,196	1,795	11	168
d Expenses included in the Income Statement				
Depreciation of Non-Current Assets				
Plant and equipment	674	386	–	–
Plant and equipment under lease	3,079	2,359	–	–
Buildings	447	432	–	–
Buildings under lease	78	124	–	–
	4,278	3,301	–	–
<i>Less: depreciation capitalised</i>	(15)	–	–	–
	4,263	3,301	–	–
Amortisation of mine properties	17,769	17,557	–	–
Expense of share-based payments	4,323	1,631	4,323	1,631
Operating lease rental – minimum lease payments	754	1,029	–	–
Exploration expenditure written off	814	666	25	–
Government royalties	5,129	5,098	–	–
Salaries, wages expense and other employee benefits	9,288	4,516	–	–

3. Income tax

Major components of income tax expense for the years ended 30 June 2006 and 2005 are:

	CONSOLIDATED		COMPANY	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<i>Notes</i>				
Income Statement				
<i>Current income tax</i>				
Current income tax charge	-	-	-	-
Adjustments in respect of current income tax of previous years	-	-	-	-
<i>Deferred income tax</i>				
Relating to origination and reversal of temporary differences	6,601	4,730	(251)	(145)
Benefit from previously unrecognised tax loss used to reduce deferred tax expense/temporary differences	(13,523)	3,800	-	-
Income tax expense/(benefit) reported in income statement	(6,922)	8,530	(251)	(145)
Statement of Changes in Equity				
<i>Current income tax</i>				
Current income tax on exchange difference on loan	-	-	-	-
<i>Deferred income tax</i>				
Remeasurement of foreign exchange contracts	199	-	-	-
Income tax benefit reported in equity	199	-	-	-
Reconciliation of income tax expense/(benefit)				
A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the years ended 30 June 2006 and 2005 is as follows:				
Accounting profit/(loss) before income tax	16,151	22,032	7,266	(530)
At the statutory income tax rate of 30% (2005: 30%)	4,845	6,610	2,180	(159)
Adjustments on formation of a tax consolidated group	(7,341)	-	-	-
Previously unrecognised tax losses now recognized	(5,752)	-	(3,731)	(213)
Tax Losses/Temporary differences not recognized	-	1,804	-	-
Expenditure not allowed for income tax purposes	1,326	116	1,300	227
Income tax expense/(benefit) reported in income statement	(6,922)	8,530	(251)	(145)
Effective income tax rate	30%	30%	30%	30%

	Balance Sheet		Income Statement		
	Notes	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Deferred Income Tax					
Deferred income tax at 30 June relates to the following:					
CONSOLIDATED					
<i>Deferred income tax liabilities</i>					
Accelerated depreciation for tax purposes		2,261	–	2,261	1,029
Income not yet assessable for taxation purposes		3,892	67	3,825	13
Capitalised expenditure deductible for tax purposes		17,318	12,063	5,255	7,635
Remeasurement of foreign exchange contracts		322	–	123	–
		<u>23,793</u>	<u>12,130</u>		
<i>Deferred income tax assets</i>					
Expenses not yet deductible for taxation purposes		1,008	723	(285)	(147)
Increase in cost base of investment in Controlled Entity		1,662	–	(1,662)	–
Losses available for offset against future taxable income		16,439	–	(16,439)	–
		<u>19,109</u>	<u>723</u>		
Gross deferred income tax assets		<u>19,109</u>	<u>723</u>		
Net deferred tax asset/(liability)		<u>(4,684)</u>	<u>(11,407)</u>		
Deferred income tax expense/ (benefit)				<u>(6,922)</u>	<u>8,530</u>
COMPANY					
<i>Deferred income tax liabilities</i>					
Accelerated depreciation for tax purposes		–	–	–	–
Income not yet assessable for taxation purposes		–	–	–	–
		<u>–</u>	<u>–</u>		
Gross deferred income tax liability		<u>–</u>	<u>–</u>		
<i>Deferred income tax assets</i>					
Expenses not yet deductible for taxation purposes		449	424	(25)	(145)
Losses available for offset against future taxable income		10,898	–	(226)	–
		<u>11,347</u>	<u>424</u>		
Gross deferred income tax assets		<u>11,347</u>	<u>424</u>		
Net deferred tax asset/(liability)		<u>11,347</u>	<u>424</u>		
Deferred income tax expense/ (benefit)				<u>(251)</u>	<u>(145)</u>

Tax Consolidation

Mount Gibson and its 100% owned controlled entities have formed a tax consolidated group. Members of the consolidated entity have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned controlled entities on a pro-rate basis. The agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At balance date, the possibility of default is remote. The head entity of the tax consolidated group is Mount Gibson Iron Limited.

Tax effect accounting by members of the tax consolidated group

Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement provides for the allocation of current taxes to members of the tax consolidated group. Deferred taxes are allocated to members of the tax consolidated group in accordance with a group allocation approach which is consistent with the principles of AASB 112 Income Taxes.

The allocation of taxes under the tax funding agreement is recognised as an increase/decrease in the controlled entities intercompany accounts with the tax consolidated group head company, Mount Gibson. In this regard Mount Gibson has assumed the benefit of tax losses from controlled entities of \$10,672,000 as of the balance date. The nature of the tax funding agreement is such that no tax consolidation contributions by or distributions to equity participants are required.

4. Cash and cash equivalents

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
<i>Notes</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Cash at bank and in hand	4,334	13,544	145	44
Short-term deposits	214	20,089	–	–
	<u>4,548</u>	<u>33,633</u>	<u>145</u>	<u>44</u>

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

a Reconciliation of cash

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:

Cash at bank and in hand		4,334	13,544	145	44
Short-term deposits		214	20,089	–	–
		<u>4,548</u>	<u>33,633</u>	<u>145</u>	<u>44</u>
Cash at bank and in hand attributable to the disposal group	<i>10</i>	<u>2,849</u>	<u>–</u>	<u>–</u>	<u>–</u>
		<u>7,397</u>	<u>33,633</u>	<u>145</u>	<u>44</u>

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
Notes	\$'000	\$'000	\$'000	\$'000
b				
Reconciliation of the net profit/(loss) after tax to the net cash flows from operations				
Net profit/(loss) after tax	23,073	13,502	7,356	(385)
<i>Adjustments for:</i>				
Depreciation of non-current assets	4,263	3,301	–	–
Amortisation of mine properties	17,769	17,557	–	–
Net (profit)/loss on disposal of property, plant and equipment	(632)	17	–	–
Net exchange differences	(464)	(344)	–	–
Interest received	(1,907)	(427)	(40)	(33)
Exploration expenses written off	814	666	–	–
Share based payments	4,323	1,631	4,323	1,631
Intra-group interest income	–	–	(2,796)	(1,857)
Bad debts	541	–	420	–
Write down of investment	400	–	400	–
<i>Changes in assets and liabilities</i>				
(Increase)/decrease in trade and other receivables	(2,208)	(1,726)	5	9
(Increase) in inventory	(388)	(2,499)	–	–
(Increase)/decrease in prepayments and deposits	(335)	(127)	2	1
(Increase) in deferred tax assets	–	–	(10,923)	(145)
(Increase) in mine development expenditure	(54,205)	(24,159)	–	–
Increase/(decrease) in creditors and accruals	7,994	1,787	211	(53)
Increase/(decrease) in GST paid	(724)	(45)	(42)	16
Increase/(decrease) in deferred income tax liabilities	(6,922)	8,530	–	–
Increase in employee benefits	227	114	–	–
Net Cash Flow (used in)/from Operating Activities	(8,381)	17,778	(1,084)	(816)

c Non-cash financing activities

During the financial year, the consolidated entity acquired property, plant and equipment with an aggregate fair value of \$2,783,417 (2005: \$2,804,971) by means of finance leases. During the financial year, the consolidated entity disposed of property, plant and equipment with an aggregate fair value of \$7,143,498 (2005: \$nil) that were financed by means of finance leases.

5. Trade and other receivables

		CONSOLIDATED		COMPANY	
		2006	2005	2006	2005
	Notes	\$'000	\$'000	\$'000	\$'000
Current					
Trade debtors	<i>b</i>	3,350	2,271	–	–
Sundry debtors	<i>b</i>	1,480	572	10	5
Other receivables		1,350	3,789	48	35
		<u>6,180</u>	<u>6,632</u>	<u>58</u>	<u>40</u>
Non-Current					
Other receivables	<i>a,b</i>	–	–	29,835	53,564
Allowance for doubtful debts		–	–	(145)	(145)
		<u>–</u>	<u>–</u>	<u>29,690</u>	<u>53,419</u>

*a Related party receivables***Non-Current**

Controlled entities		–	–	29,690	53,419
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b Terms and conditions

Terms and conditions relating to the above financial instruments:

- i Trade debtors are non-interest bearing and generally on 30 day terms.
- ii Sundry debtors are non-interest bearing and have repayment terms between 30 and 90 days.
- iii Except for amounts payable by Mount Gibson Mining Limited, on which interest is charged at 7%pa, related party receivables are non-interest bearing with no fixed repayment date.

6. Inventories

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
<i>Notes</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Inventory – consumables at cost	627	199	–	–
Inventory – ore at cost	5,058	5,097	–	–
	<u>5,685</u>	<u>5,296</u>	<u>–</u>	<u>–</u>

7. Available-for-sale financial assets

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
<i>Notes</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Shares – unlisted at cost	400	400	400	400
Allowance for impairment	(400)	–	(400)	–
	–	400	–	400
Shares-listed at fair value	1,248	2,542	1,248	2,542
	<u>1,248</u>	<u>2,942</u>	<u>1,248</u>	<u>2,942</u>

Available-for-sale financial assets consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate

8. Other financial assets

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
<i>Notes</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Non-Current				
Investments in controlled entities – at cost	–	–	42,431	21,618
Allowance for impairment	–	–	–	(10,833)
	<u>–</u>	<u>–</u>	<u>42,431</u>	<u>10,785</u>

In the current year, the previously recognised allowance for impairment relating to Mount Gibson's investment in Mount Gibson Mining Limited has been reversed based on current operational forecasts.

9. Interest in subsidiaries

Name	Country of Incorporation	Percentage of Equity Interest Held by the consolidated entity		Investment	
		2006	2005	2006	2005
		%	%	<i>\$'000</i>	<i>\$'000</i>
Mount Gibson Mining Limited	Australia	100	100	17,631	6,798
WHTK Pty Ltd	Australia	100	100	–	–
Geraldton Bulk Handling Pty Ltd	Australia	100	100	–	–
Asia Iron Holdings Limited	Hong Kong	73	63	24,800	3,987
• Asia Iron (Nanjing) Co., Ltd	China	73	63	–	–
• Asia Iron Limited	Hong Kong	73	63	–	–
• Jiangsu Investment Pty Ltd	Australia	73	63	–	–
• Extension Hill Pty Ltd	Australia	73	63	–	–
• Austral Iron Pty Ltd	Australia	73	63	–	–
• AP Mining Pty Ltd	Australia	73	63	–	–
• Westralian Iron Pty Ltd	Australia	73	63	–	–
• MGM Pipelines Pty Ltd	Australia	73	63	–	–
				<u>42,431</u>	<u>10,785</u>

10. Assets held for sale

On 7 June 2006 Mount Gibson advised the ASX that it had signed an agreement with China's third largest steel producer, the Shougang Group, for the sale of the Consolidated Entity's entire 73% interest in Asia Iron for \$52.5 million.

The agreement was subject to Foreign Investment Review Board (FIRB) approval and the minority shareholders in Asia Iron not exercising an option to match the Shougang offer. Minority shareholders had 28 days to exercise an option to match the Shougang offer.

On 6 July 2006 Mount Gibson advised the ASX that it has received notice of an election to purchase the Consolidated Entity's shareholding in Asia Iron from a minority shareholder, Sinom Investments. Sinom Investments notice to match the Shougang offer resulted in a binding agreement for the sale of the Consolidated Entity's entire 73% interest in Asia Iron on the same terms as those previously agreed with Shougang. As a result of Sinom Investments' election, the condition precedent to the Shougang agreement could not be satisfied. The consolidated entity therefore terminated the Shougang agreement to allow the sale to Sinom Investments.

Sinom Investments obtained FIRB approval on 2 August 2006 and completion of the sale by the consolidated entity of its 73% interest in Asia Iron to Sinom Investments occurred on 21 August 2006 with the \$52.5 million being placed in escrow pending environmental approval which is expected by the end of 2006.

If environmental approval is not obtained by 30 November 2007, Sinom Investments may terminate the agreement and the sale shares will be returned to the consolidated entity. Consequently, the consolidated entity would then retain its indirect interest in the Extension Hill Magnetite Project and would re-assess the options available to it in respect of the project.

As at 30 June 2006, Asia Iron and its subsidiaries was classified as a disposal group and was held for sale.

The major classes of assets and liabilities of Asia Iron measured at the lower of carrying amount and fair value less cost to sell as at 30 June 2006 in the Consolidated Balance Sheet are as follows:

	<i>Notes</i>	2006 \$'000
Assets		
Cash	4	2,849
Trade and other receivables		216
Prepayments		115
Property, plant and equipment	11	3,158
Deferred acquisition, exploration, evaluation and development costs	12	<u>39,755</u>
Assets classified as held for sale		<u><u>46,093</u></u>
Liabilities		
Trade and other payables		(1,568)
Interest bearing liabilities	15	<u>(1,500)</u>
Liabilities directly associated with assets classified as held for sale		<u>(3,068)</u>
		<u>43,025</u>
<i>Less: Minority interest thereon</i>		<u>(11,776)</u>
Net assets attributable to disposal of Asia Iron Holdings Limited		<u><u>31,249</u></u>

11. Property, plant and equipment

	<i>Notes</i>	CONSOLIDATED		COMPANY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Freehold land – at cost		3,020	5	5	5
Plant and equipment – at cost		10,057	2,433	–	–
Accumulated depreciation		(1,214)	(546)	–	–
		8,843	1,887	–	–
Plant and equipment under lease – at cost		6,095	13,456	–	–
Accumulated depreciation		(3,024)	(3,604)	–	–
		3,071	9,852	–	–
Buildings – at cost		6,709	6,111	–	–
Accumulated depreciation		(997)	(549)	–	–
		5,712	5,562	–	–
Buildings under lease – at cost		522	522	–	–
Accumulated depreciation		(241)	(163)	–	–
		281	359	–	–
Capital works in progress – at cost		2,576	–	–	–
Total property, plant and equipment					
At cost		28,979	22,527	5	5
Total accumulated depreciation		(5,476)	(4,862)	–	–
		23,503	17,665	5	5
Attributable to assets held for sale	10	(3,158)	–	–	–
		20,345	17,665	5	5

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
<i>Notes</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
(a) Assets pledged as security				
The value of assets pledged as security are:				
Plant and equipment	8,843	1,887	–	–
Plant and equipment under lease	3,071	9,852	–	–
Buildings	5,712	5,562	–	–
Buildings under lease	281	359	–	–
	<u>17,907</u>	<u>17,660</u>	<u>–</u>	<u>–</u>
b Reconciliations				
Reconciliations of the carrying amounts of property, plant and equipment at the beginning and end of the current and previous financial year:				
Plant and equipment				
Carrying amount at the beginning of the year	1,887	1,514	–	–
Additions	7,666	618	–	–
Additions through acquisition of entities	–	82	–	–
Transfers	–	66	–	–
Disposals	(36)	(7)	–	–
Depreciation expense	<u>(674)</u>	<u>(386)</u>	<u>–</u>	<u>–</u>
Carrying amount at the end of the year	<u>8,843</u>	<u>1,887</u>	<u>–</u>	<u>–</u>
Plant and equipment under lease				
Carrying amount at the beginning of the year	9,852	9,548	–	–
Additions	2,783	2,784	–	–
Transfers	–	(66)	–	–
Disposals	(6,485)	(55)	–	–
Depreciation expense	<u>(3,079)</u>	<u>(2,359)</u>	<u>–</u>	<u>–</u>

APPENDIX III
FINANCIAL INFORMATION ON MOUNT GIBSON

	<u>CONSOLIDATED</u>		<u>COMPANY</u>	
	2006	2005	2006	2005
<i>Notes</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Carrying amount at the end of the year	3,071	9,852	–	–
Buildings				
Carrying amount at the beginning of the year	5,562	5,615	–	–
Additions	597	379	–	–
Depreciation expense	(447)	(432)	–	–
Carrying amount at the end of the year	<u>5,712</u>	<u>5,562</u>	<u>–</u>	<u>–</u>
Buildings under lease				
Carrying amount at the beginning of the year	359	462	–	–
Additions	–	21	–	–
Depreciation expense	(78)	(124)	–	–
Carrying amount at the end of the year	<u><u>281</u></u>	<u><u>359</u></u>	<u><u>–</u></u>	<u><u>–</u></u>

12. Deferred acquisition, exploration, evaluation and development costs

	<i>Notes</i>	CONSOLIDATED		COMPANY	
		2006	2005	2006	2005
		<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Deferred acquisition, exploration, evaluation and development costs carried forward in respect of mining areas of interest:					
Mt Gibson Hematite		4,022	4,022	–	–
Extension Hill Hematite		154	–	–	–
Mt Gibson Magnetite		34,547	19,874	–	–
Koolanooka South Magnetite		5,208	5,208	–	–
		43,931	29,104	–	–
Attributable to disposal group	10	(39,755)	–	–	–
		<u>4,176</u>	<u>29,104</u>	<u>–</u>	<u>–</u>
Reconciliation					
Carrying amount at beginning of the year		29,104	17,889	–	–
Additions		15,641	11,881	25	–
Exploration expenditure written off		(814)	(666)	(25)	–
		43,931	29,104	–	–
Attributable to disposal group	10	(39,755)	–	–	–
		<u>4,176</u>	<u>29,104</u>	<u>–</u>	<u>–</u>

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploitation or sale of the respective mining areas. Amortisation of costs carried forward for the development phase is not being recognised pending commencement of production.

13. Mine properties

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
<i>Notes</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Mine development expenditure	91,603	37,398	–	–
Accumulated amortisation	(40,036)	(22,267)	–	–
	<u>51,567</u>	<u>15,131</u>	<u>–</u>	<u>–</u>
Reconciliation				
Carrying amount at beginning of the year	15,131	8,529	–	–
Additions	54,205	24,159	–	–
Amortisation	(17,769)	(17,557)	–	–
Carrying amount at the end of the year	<u>51,567</u>	<u>15,131</u>	<u>–</u>	<u>–</u>

14. Trade and other payables

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
<i>Notes</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Current				
Trade creditors	7,333	4,004	175	85
Accruals and other payables	10,503	6,359	166	45
	<u>17,836</u>	<u>10,363</u>	<u>341</u>	<u>130</u>

Trade creditors and other payables are non-interest bearing and are normally settled on 30 day terms.

15. Interest-bearing loans and borrowings

	Notes	CONSOLIDATED		COMPANY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current					
Lease liability	<i>a</i>	1,594	2,361	–	–
Unearned revenue		–	419	–	–
		<u>1,594</u>	<u>2,780</u>	<u>–</u>	<u>–</u>
Non-Current					
Lease liability	<i>a</i>	<u>4,247</u>	<u>8,938</u>	<u>–</u>	<u>–</u>
Attributable to disposal group not included above – see Note 10	<i>b</i>	1,500	–	–	–

Terms and condition relating to the above financial instruments:

- a** Finance leases are repayable monthly with final instalments due in November 2014. Interest is charged at an average rate of 7.97%. Secured by first mortgage over the leased assets.
- b** Commercial bill facility held with National Australia Bank. Interest is charged at an average rate of 5.99% and expires on 28 February 2011. The commercial bill is secured by first mortgage over the land located at Yanda Farm, Western Australia which is owned by Westralian Iron Pty Ltd, a wholly owned subsidiary of Asia Iron Holdings Limited.

	Notes	CONSOLIDATED		COMPANY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
c Financing facilities available					
At reporting date, the following financing facilities had been negotiated and were available:					
Total facilities:					
Bank multiple advance	<i>i</i>	20,474	1,000	–	–
Finance leases		5,841	10,258	–	–
Guarantee facility	<i>i</i>	5,526	2,701	–	–
Export line of credit	<i>i</i>	–	4,000	–	–
Commercial bill		1,500	–	–	–
		<u>33,341</u>	<u>17,959</u>	<u>–</u>	<u>–</u>
Facilities used at reporting date:					
Bank multiple advance	<i>i</i>	–	–	–	–
Finance leases		5,841	10,258	–	–
Guarantee facility	<i>i</i>	5,526	493	–	–
Export line of credit	<i>i</i>	–	–	–	–
Commercial bill		1,500	–	–	–
		<u>12,867</u>	<u>10,751</u>	<u>–</u>	<u>–</u>
Facilities unused at reporting date:					
Bank multiple advance	<i>i</i>	20,474	1,000	–	–
Finance leases		–	–	–	–
Guarantee facility	<i>i</i>	–	2,208	–	–
Export line of credit	<i>i</i>	–	4,000	–	–
Commercial bill		–	–	–	–
		<u>20,474</u>	<u>7,208</u>	<u>–</u>	<u>–</u>

i The security pledge for these facilities is a fixed and floating charge over all the assets and undertakings of the consolidated entity.

16. Derivatives

	<i>Notes</i>	CONSOLIDATED		COMPANY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current Asset					
Foreign currency forward contracts and options	34(c)	2,541	–	–	–
Current Liability					
Foreign currency forward contracts and options	34(c)	1,470	–	–	–

17. Provisions

	<i>Notes</i>	CONSOLIDATED		COMPANY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current					
Employee benefits		451	238	–	–
Road resealing		12	62	–	–
		463	300	–	–
Non-Current					
Employee benefits		14	–	–	–
Decommissioning Rehabilitation		688	655	–	–
		702	655	–	–

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
<i>Notes</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Movement in provisions:				
<i>Road Resealing</i>				
Carrying amount at beginning of the year	62	–	–	–
Provision for period	100	62	–	–
Amounts utilised during the period	(150)	–	–	–
Carrying amount at end of the year	12	62	–	–
<i>Decommissioning Rehabilitation</i>				
Carrying amount at beginning of the year	655	623	–	–
Unwinding of discount on rehabilitation provision	33	32	–	–
Carrying amount at end of the year	688	655	–	–

18. Issued capital

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
<i>Notes</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
a Ordinary shares				
Issued and full paid	86,851	79,381	86,851	79,381

	2006		2005	
	Number of Shares	\$'000	Number of Shares	\$'000
b <i>Movement in ordinary shares on issue</i>				
Beginning of the financial year	368,519,793	79,381	291,565,822	40,848
Conversion of convertible notes	–	–	7,916,667	2,375
Equity placement	–	–	49,760,604	32,305
Issue of shares	40,000	10	–	–
Exercise of options	33,498,926	7,460	19,276,700	4,811
Less capital raising costs	–	–	–	(958)
End of the financial year	402,058,719	86,851	368,519,793	79,381

c *Terms and conditions of contributed equity*

Ordinary shares have the right to receive dividends as declared, and in the event of winding up Mount Gibson, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of Mount Gibson.

Effective from 1 July 1998, the Corporation legislation in place abolished the concept of authorised capital and par values. Accordingly, Mount Gibson does not have authorised capital nor par value in respect of its issued shares.

d *Share options*

As at balance date the following Options over unissued Shares were on issue:

Exercise Price	Exercise Date/Period	2006	2005
		Number	Number
22 cents	On or before 15 October 2005	–	30,523,300
25 cents	On or before 31 December 2006	7,256,920	4,500,000
50 cents	On or before 31 December 2007	5,000,000	5,000,000
55 cents	On or before 31 December 2008	5,000,000	5,000,000
78 cents	On or before 31 December 2006	823,712	–
90 cents	On or before 30 June 2010	2,000,000	–
90 cents	On or before 23 October 2010	3,000,000	–
110 cents	On or before 23 October 2012	2,000,000	–
		25,080,632	45,023,300

In addition, as at 30 June 2006, there were 4,175,000 (2005: 6,400,000) options granted but not issued under the Employee Share Scheme. The options were granted on the basis that the employees must complete employment service to 31 December 2007 before the options vest. Once vested the options will be exercisable at 78 cents each and expire on 31 December 2009.

Share options carry no right to dividends and no voting rights.

19. Reserves

	<i>Notes</i>	CONSOLIDATED		COMPANY	
		2006	2005	2006	2005
		<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Option premium reserve	<i>a</i>	5,954	1,631	5,954	1,631
Net unrealised gains/(losses) reserve	<i>b</i>	(1,790)	–	(2,255)	–
Other reserves	<i>c</i>	(3,691)	–	–	–
		<u>473</u>	<u>1,631</u>	<u>3,699</u>	<u>1,631</u>

a Option premium reserve

The option premium reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration.

Balance at the beginning of the year	1,631	–	1,631	–
Share based payments	<u>4,323</u>	<u>1,631</u>	<u>4,323</u>	<u>1,631</u>
Balance at the end of the year	<u>5,954</u>	<u>1,631</u>	<u>5,954</u>	<u>1,631</u>

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
<i>Notes</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
b				
<i>Net unrealized gains/(losses) reserve</i>				
This reserve records movement for available-for-sale financial assets to fair value and gains and losses on hedging instruments determined to be effective cash flow hedges.				
Balance at the beginning of the year	–	–	–	–
Application of AASB 132 and AASB 139	1,165	–	1,050	–
Net unrealised losses on available-for-sale financial assets	(3,305)	–	(3,305)	–
Net gains on cash flow hedges	465	–	–	–
Release to income statement on expiry of cash flow hedges	(115)	–	–	–
Balance at the end of the year	<u>(1,790)</u>	<u>–</u>	<u>(2,255)</u>	<u>–</u>
c				
<i>Other reserves</i>				
Foreign currency translation reserve	(465)	–	–	–
Consolidation reserve	(3,226)	–	–	–
	<u>(3,691)</u>	<u>–</u>	<u>–</u>	<u>–</u>

Balances at 30 June 2006 represent the total movement during the year.

20. Retained earnings/(accumulated losses)

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
<i>Notes</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Balance at the beginning of the year	(13,383)	(26,885)	(13,483)	(13,098)
Net profit/(loss) attributable to members of Mount Gibson	23,479	13,502	7,517	(385)
Balance at the end of the year	10,096	(13,383)	(5,966)	(13,483)

21. Minority interests

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
<i>Notes</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Opening balance	8,956	6,344	–	–
Disposal by Mount Gibson Mining Limited of shares in Extension Hill Pty Ltd	–	(6,344)	–	–
Issue of capital by Asia Iron Holdings Limited	3,226	8,956	–	–
Share of current year loss	(406)	–	–	–
Closing balance	11,776	8,956	–	–

22. Expenditure commitments

	NOTES	CONSOLIDATED		COMPANY	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
a Exploration Expenditure Commitments					
	<i>i</i>				
Minimum obligations not provided for in the financial report and are payable:					
Not later than one year		906	826	-	-
Later than one year but not later than five years		3,332	3,128	-	-
		<u>4,238</u>	<u>3,954</u>	<u>-</u>	<u>-</u>
b Operating Lease Commitments					
	<i>ii</i>				
Minimum lease payments					
Not later than one year		9,455	594	-	-
Later than one year but not later than five years		10,627	970	-	-
		<u>20,082</u>	<u>1,564</u>	<u>-</u>	<u>-</u>
c Finance Lease and Hire Purchase Commitments					
	<i>iii</i>				
Minimum lease payments					
Not later than one year		2,001	3,232	-	-
Later than one year but not later than five years		4,438	10,481	-	-
Later than five years		610	-	-	-
		<u>7,049</u>	<u>13,713</u>	<u>-</u>	<u>-</u>
Total minimum lease payments		7,049	13,713	-	-
Future finance charges		(1,208)	(2,414)	-	-
		<u>5,841</u>	<u>11,299</u>	<u>-</u>	<u>-</u>
Total lease liability accrued for:					
Current					
Finance leases		1,594	2,361	-	-
Non-Current					
Finance leases		4,247	8,938	-	-
		<u>5,841</u>	<u>11,299</u>	<u>-</u>	<u>-</u>

- i In order to maintain current rights to explore and mine the tenements at Talling Peak, Mt Gibson, Koolanooka, Extension Hill and Mintaja Coal, the consolidated entity is required to perform minimum exploration work to meet the expenditure requirements specified by the Department of Industry and Resources.
- ii Operating leases:
- operating lease for office space with an initial lease term of 5 years and an implicit interest rate of 4%.
 - operating lease for machinery has a term of 5 years and expires in September 2008.
- iii Finance leases and hire purchases have an average term of 4.5 years with the option to purchase the asset at the completion of the lease term for a pre-agreed amount. The average discount rate implicit in the leases is 7.97%. Secured lease liabilities are secured by a charge over the leased assets.

23. Employee benefits

	CONSOLIDATED		COMPANY	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
The aggregate employee benefits liability is comprised of:				
Accrued wages, salaries and on-costs	1,544	629	43	25
Provisions	465	238	-	-
	<u>2,009</u>	<u>867</u>	<u>43</u>	<u>25</u>

24. Share-based payment plans

Employee share scheme

An employee share scheme has been established where Mount Gibson may, at the discretion of the board, grant options over the ordinary shares of Mount Gibson. The options, issued for nil consideration, are granted in accordance with performance guidelines established by the directors of Mount Gibson. All directors, officers and employees are eligible for this scheme.

APPENDIX III
FINANCIAL INFORMATION ON MOUNT GIBSON

Information with respect to the number of options granted and issued under the employee share scheme is as follows:

	<u>2006</u>		<u>2005</u>	
	<i>No. of</i>	<i>Weighted</i>	<i>No. of</i>	<i>Weighted</i>
	<i>Options</i>	<i>average</i>	<i>Options</i>	<i>average</i>
		<i>exercise price</i>		<i>exercise price</i>
		<i>(cents)</i>		<i>(cents)</i>
Balance at beginning of year	20,900,000	25.0	–	–
granted and issued	9,073,712	91.7	21,900,000	25.0
forfeited	(1,900,000)	56.9	(1,000,000)	25.0
exercised	(2,993,080)	25.0	–	–
Balance at year end	<u>25,080,632</u>	<u>57.4</u>	<u>20,900,000</u>	<u>25.0</u>
Exercisable at year end	<u>13,080,632</u>	<u>37.8</u>	<u>–</u>	<u>–</u>

The outstanding balance of options granted and issued as at 30 June 2006 is represented by:

Exercise Price	Exercise Date	Vesting Date	No. of Options
25 cents	On or before 31 December 2006	31-Dec-05	7,256,920
50 cents	On or before 31 December 2007	31-Dec-05	5,000,000
55 cents	On or before 31 December 2008	31-Dec-06	5,000,000
78 cents	On or before 31 December 2009	31-Dec-05	823,712
90 cents	On or before 30 June 2010	01-Jul-08	2,000,000
90 cents	On or before 23 October 2010	24-Oct-08	3,000,000
110 cents	On or before 23 October 2012	24-Oct-10	2,000,000
			<u>25,080,632</u>

In addition, as at 30 June 2006, there were 4,175,000 options granted but not issued under the Employee Share Scheme. The options were granted on the basis that the employees must complete employment service to 31 December 2007 before the options vest, at which time they will be issued to the respective employees. Once vested the options will be exercisable at 78 cents each and expire on 31 December 2009. As at the date of this report, none of the options had vested.

The remaining contractual life for the options on issue as at 30 June 2006 is between 1 and 6 years (2005: 1 and 2 years).

The range for exercise prices for options on issue at the end of the year was \$0.25-\$1.10 (2005: \$0.25).

The weighted average fair value of options granted during the year was \$0.43 (2005: \$0.19).

The fair value of the equity-settled share options granted under the option plan is estimated as at the date of grant using a binomial model taking into account the terms and conditions upon which the options were granted.

Listed below are the inputs to the binomial model for the respective options granted during the financial period:

Grant date	31-Dec-05	4-Oct-05	4-Oct-05	4-Oct-05
Share price at grant date	\$0.70	\$0.86	\$0.86	\$0.86
Exercise price	\$0.78	\$0.90	\$0.90	\$1.10
Risk free interest rate	5.09%	5.40%	5.40%	5.40%
Volatility factor	60%	60%	60%	60%
Expiry date	31-Dec-09	30-Jun-10	23-Oct-10	23-Oct-12

25. Earnings per share

Basic earnings per share amount are calculated by dividing net profit for the year attributable to ordinary equity holders of Mount Gibson by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of Mount Gibson by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

	CONSOLIDATED	
	2006	2005
	<i>\$'000</i>	<i>\$'000</i>
Profits used in calculating basic and diluted earnings per share	23,479	13,502
	Number of Shares	Number of Shares
Weighted average number of ordinary shares used in calculating basic earnings per share	390,533,080	318,817,812
Effect of dilution		
– Share options	<u>8,624,527</u>	<u>12,232,478</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u><u>399,157,607</u></u>	<u><u>331,050,290</u></u>

7,000,000 options have not been included in the calculation of diluted earnings per share as the exercise price is greater than the market value of the share and therefore considered to be anti-dilutive.

Conversions, calls, subscriptions or issues after 30 June 2006

Since the end of the financial year 18,000 options have been converted to ordinary shares. There have been no other conversions to, calls of, or subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of this report.

26. Dividends paid and proposed

No amounts have been paid, declared or recommended by Mount Gibson by way of dividend since the commencement of the year.

27. Contingent liability***Litigation***

The consolidated entity has received correspondence from lawyers acting for some of the minority shareholders in Asia Iron alleging that the previous managing director made certain representations to the minority shareholders on behalf of the consolidated entity and threatening legal action on the basis that the Consolidated Entity's decision to sell its interest in Asia Iron resulted in a breach of those representations. The consolidated entity disputes the assertions of the minority shareholders. The consolidated entity is unable at present to give an estimate of the financial impact of this threatened legal action.

28. Director and executive disclosures***a Details of Key Management Personnel****i Directors*

WB Willis	Chairman
BG Johnson	Deputy Chairman
L Tonkin	Managing director (appointed 25 October 2005)
AD Rule	Finance director (appointed 1 July 2005)
CL Readhead	Non-executive director
IA Macliver	Non-executive director
G Liu	Non-executive director (appointed 12 August 2005, retired 22 February 2006)

ii Executives

SP Coates	Exploration Manager
DP Garcia	Commercial director (Asia Iron Holdings Limited)
PJ Jones	Project Manager
KJ Malaxos	Chief executive officer (Mount Gibson Mining Limited)

b Compensation of Specified Key Management Personnel*i Compensation Policy*

The compensation policy of Mount Gibson and its Controlled Entities has been put in place to ensure that:

- compensation policies and systems support Mount Gibson's wider objectives and strategies;
- key management personnel remuneration is aligned to the long-term interests of Shareholders within an appropriate control framework; and
- there is a clear relationship between the key management personnel performance and remuneration.

The board of directors is responsible for determining and reviewing compensation arrangements for the directors and executive officers. The board assesses the appropriateness of the nature and amount of emoluments of all officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and Executive team. To assist in achieving these objectives, the nature and amount of executive directors' and officers' emoluments are linked to Mount Gibson's financial and operational performance. The maximum total compensation payable to non-executive directors is \$300,000 and was approved by Shareholders on 18 November 2005. All directors and employees have the opportunity to qualify for participation in the Employee Share Scheme.

(A) Remuneration Committee

The Remuneration Committee of the board of directors of Mount Gibson is responsible for determining and reviewing compensation arrangements for the directors, the managing director, finance director and all other key management personnel.

The Remuneration Committee assesses the appropriateness of the nature and amount of compensation of key management personnel on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

(B) Compensation Structure

In accordance with best practice corporate governance, the structure of non-executive director and executive compensation is separate and distinct.

(C) Non-Executive Director Compensation

Objective

The Board seeks to set aggregate compensation at a level that provides Mount Gibson with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate compensation of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 18 November 2005 when the shareholders approved an aggregate compensation of \$300,000 per year. The amount of aggregate compensation sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The Board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of Mount Gibson. Non-executive directors have long been encouraged by the Board to hold shares in Mount Gibson (purchased by the director on market). It is considered good governance for directors to have a stake in Mount Gibson on whose board they sit.

The compensation of non-executive directors for the period ending 30 June 2006 is detailed in Note 28(b)(ii).

(D) *Executive Compensation**Objective*

The entity aims to reward executives with a level and mix of compensation commensurate with their position and responsibilities within the entity so as to:

- reward executives for company, business unit and individual performance against targets set by to appropriate benchmarks;
- align the interests of executives with those of shareholders;
- link rewards with the strategic goals and performance of Mount Gibson; and
- ensure total compensation is competitive by market standards.

Structure

In determining the remuneration package, the Remuneration Committee reviews the individual's remuneration with the use of market data for positions with comparable companies. Where appropriate, the package is adjusted so as to keep pace with market trends and ensure continued remuneration competitiveness. In conducting a comparative analysis, Mount Gibson's expected performance for the year is considered in the context of Mount Gibson's capacity to fund remuneration budgets. From time to time, a review of the total remuneration package by an independent consultant in this field is undertaken to provide an independent reference point.

Compensation consists of the following key elements:

- Fixed compensations
- Variable compensations
- Short-term incentive (STI); and
- Long-term incentive.

(E) Fixed Compensation*Objective*

Fixed compensation is reviewed annually by the Remuneration Committee. The process consists of a review of companywide and individual performance, relevant comparative compensation in the market and internally and, where appropriate, external advice on policies and practices.

Structure

The components of the executive fixed remuneration are determined individually and may include:

- cash remuneration;
- accommodation and travel benefits;
- motor vehicle, parking and other benefits; and
- reimbursement of entertainment, home office and telephone expenses.

(F) Variable Compensation – Short Term Incentive (STI)*Objective*

STI are linked to clearly specified performance targets and provide rewards for materially improved Company performance. The total potential STI available is set at a level so as to provide sufficient incentive to executives to achieve the operational targets and such that the cost to the consolidated entity is reasonable in the circumstances.

Structure

Actual STI payments granted depend on the extent to which specific operating targets set at the beginning of the financial year are met. The operational targets consist of a number of Key Performance Indicators covering both financial and non-financial measures of performance.

On an annual basis, the individual performance of each executive is rated and the Remuneration Committee determines the amount of STI to be allocated to each executive. Payments made are delivered as a cash bonus in the following reporting period.

(G) Variable Compensation – Long Term Incentive (LTI)*Objective*

LTI rewarded to Executive directors and Senior Executives do not have a direct link to Mount Gibson performance but in the opinion of the Board, they provide an incentive to increase performance of the business over an extended period.

Structure

LTI grants to executives are delivered in the form of options, rights or fully paid shares.

Note 28c provides details of options granted under the LTI plan.

ii Compensation of Key Management Personnel

	Short Term		Post Employment		Share-Based Payment		Total	Total Performance Related %
	Salary & Fees \$'000	Cash Bonus \$'000	Non Monetary Benefits \$'000	Superannuation \$'000	Retirement Benefits \$'000	Options \$'000		
Directors								
WB Willis #								
2006	106	-	-	9	-	15	130	11%
2005	117	-	-	6	-	29	152	19%
BG Johnson								
2006	673	-	34	-	-	3,114	3,821	81%
2005	345	250	88	-	-	1,405	2,088	79%
L Tonkin								
2006	316	250	1	28	-	399	994	65%
AD Rule								
2006	300	150	2	27	-	224	703	53%
CL Readhead								
2006	48	-	-	-	-	7	55	13%
2005	42	-	-	-	-	15	57	26%
IA Macliver								
2006	44	-	-	4	-	7	55	13%
2005	38	-	-	4	-	15	57	26%
Executives								
SP Coates								
2006	183	8	-	16	-	41	248	20%
2005	131	10	-	13	-	31	185	22%
DP Garcia								
2006	399	-	-	13	-	-	412	-
PJ Jones								
2006	275	-	1	25	-	13	314	4%
KJ Malaxos								
2006	246	4	20	23	-	28	321	10%
2005	208	10	6	19	-	31	274	15%
2006	2,590	412	58	145	-	3,848	7,053	
2005	881	270	94	42	-	1,526	2,813	

Included in Bill Willis' fees is a \$36,000 retainer for the provision of consulting services to Mount Gibson Mining Limited during the financial year.

iii Compensation by Category: Key Management Personnel

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Short-term	3,060	1,245	158	136
Post employment	145	42	10	7
Share-based payment	3,848	1,526	3,848	1,526
	<u>7,053</u>	<u>2,813</u>	<u>4,016</u>	<u>1,669</u>

iv Contract for Services

As at the date of this report, the consolidated entity had entered into employment contracts with the following Executive directors:

Luke Tonkin

The key terms of his contract are as follows:

- 5 years from 24 October 2005 to 24 October 2010
- There are no termination benefits at the completion of the contract term. However, if Mount Gibson wishes to terminate the contract other than if Mr Tonkin is guilty of any grave misconduct, serious or persistent breach of the terms of the contract or wilful neglect in the discharge of the Duties, Mount Gibson is obliged to pay out the remaining term of the contract to a maximum of two years. If Mr Tonkin wishes to terminate the contract, he must provide three months notice.

Alan Rule

The key terms of his contract are as follows:

- 5 years from 1 July 2005 to 30 June 2010
- There are no termination benefits at the completion of the contract term. However, if Mount Gibson wishes to terminate the contract other than if Mr Rule is guilty of any grave misconduct, serious or persistent breach of the terms of the contract or wilful neglect in the discharge of the Duties, Mount Gibson is obliged to pay out the remaining term of the contract to a maximum of two years. If Mr Rule wishes to terminate the contract, he must provide three months notice.

c Compensation Options: Granted and Vested During the Year

During the financial year, the directors or their nominees were issued Options approved by shareholders at a General Meeting and Executives or their nominees were issued Options under the directors, officers, employees and other permitted persons Option Plan.

Options granted as part of director and executive emoluments have been valued using the Binomial option pricing model. The value per option at grant date is calculated using the following assumptions:

Grant date	31-Dec-05	4-Oct-05	4-Oct-05	4-Oct-05
Share price at grant date	\$0.70	\$0.86	\$0.86	\$0.86
Exercise price	\$0.78	\$0.90	\$0.90	\$1.10
Risk free interest rate	5.09%	5.40%	5.40%	5.40%
Volatility factor	60%	60%	60%	60%
Expiry date	31-Dec-09	30-Jun-10	23-Oct-10	23-Oct-12

Terms and Conditions for each grant:

30 June 2006	Terms and Conditions for each grant						
	Vested Number	Granted Number	Grant date	Fair value per option at grant date \$	Exercise price per option \$	First exercise date	Last exercise date/ expiry date
Directors							
AD Rule	-	2,000,000	4-Oct-05	0.464	0.90	1-Jul-08	30-Jun-10
L Tonkin	-	3,000,000	4-Oct-05	0.478	0.90	24-Oct-08	23-Oct-10
L Tonkin	-	2,000,000	4-Oct-05	0.518	1.10	24-Oct-10	23-Oct-12
Executives							
SP Coates	-	250,000	31-Dec-05	0.332	0.78	31-Dec-07	31-Dec-09
PJ Jones	-	250,000	31-Dec-05	0.332	0.78	31-Dec-07	31-Dec-09
	-	<u>7,500,000</u>					

30 June 2005	Terms and Conditions for each grant						
	Vested Number	Granted Number	Grant date	Fair value per option at grant date \$	Exercise price per option \$	First exercise date	Last exercise date/ expiry date
Directors							
BG Johnson	-	5,000,000	16-Mar-05	0.5516	0.50	31-Dec-05	31-Dec-07
BG Johnson	-	5,000,000	16-Mar-05	0.5716	0.55	31-Dec-06	31-Dec-08
Executives							
KJ Malaxos	-	750,000	15-Dec-04	0.0807	0.25	31-Dec-05	31-Dec-06
JP Arbuckle	-	750,000	15-Dec-04	0.0807	0.25	31-Dec-05	31-Dec-06
JR Tyers	-	1,000,000	15-Dec-04	0.0807	0.25	31-Dec-05	31-Dec-06
SP Coates	-	750,000	15-Dec-04	0.0807	0.25	31-Dec-05	31-Dec-06
C Lee	-	300,000	15-Dec-04	0.0807	0.25	31-Dec-05	31-Dec-06
	-	<u>13,550,000</u>					

d Option holdings of Key Management Personnel

30 June 2006	Balance at	Granted as	Options	Net Change	Balance at	Vested at 30 June 2006		
	Beginning				End of	Total	Not	Exercisable
1 July 2005	of Period	Remuneration	Exercised	(Lapsed/ Disposed)	30 June 2006		Exercisable	Exercisable
Directors								
WB Willis	2,440,000	-	(1,440,000)	-	1,000,000	1,000,000	-	1,000,000
BG Johnson	12,500,000	-	-	(7,500,000)	5,000,000	-	-	-
L Tonkin	-	5,000,000	-	-	5,000,000	-	-	-
AD Rule	-	2,000,000	-	-	2,000,000	-	-	-
CL Readhead	1,250,000	-	(750,000)	-	500,000	500,000	-	500,000
IA Macliver	1,250,000	-	(750,000)	-	500,000	500,000	-	500,000
Executives								
SP Coates	750,000	250,000	-	-	1,000,000	750,000	-	750,000
DP Garcia	-	-	-	-	-	-	-	-
PJ Jones	-	250,000	-	-	250,000	-	-	-
KJ Malaxos	750,000	-	(400,000)	-	350,000	350,000	-	350,000
Total	18,940,000	7,500,000	(3,340,000)	(7,500,000)	15,600,000	3,100,000	-	3,100,000
30 June 2005								
30 June 2005	Balance at	Granted as	Options	Net Change	Balance at	Vested at 30 June 2005		
	Beginning				End of	Total	Not	Exercisable
1 July 2004	of Period	Remuneration	Exercised	(Lapsed/ Disposed)	30 June 2005		Exercisable	Exercisable
Directors								
WB Willis	2,440,000	-	-	-	2,440,000	1,440,000	-	1,440,000
BG Johnson	6,460,000	10,000,000	-	(3,960,000)	12,500,000	-	-	-
CL Readhead	1,250,000	-	-	-	1,250,000	720,000	-	720,000
IA Macliver	1,944,444	-	(694,444)	-	1,250,000	750,000	-	750,000
Executives								
SP Coates	-	750,000	-	-	750,000	-	-	-
JP Arbuckle	-	750,000	-	-	750,000	-	-	-
JR Tyers	-	1,000,000	-	-	1,000,000	-	-	-
C Lee	-	300,000	-	-	300,000	-	-	-
KJ Malaxos	-	750,000	-	-	750,000	-	-	-
Total	12,094,444	13,550,000	(694,444)	(3,960,000)	20,990,000	2,910,000	-	2,910,000

e Shareholding of Key Management Personnel

	Balance 1 July 2005 Ord	Granted as Remuneration Ord	On Exercise of Options Ord	Net Change Other Ord	Balance 30 June 2006 Ord
30 June 2006					
Directors					
WB Willis	420,000	–	1,440,000	(380,000)	1,480,000
BG Johnson	–	–	2,500,000	(2,500,000)	–
L Tonkin	–	–	–	–	–
AD Rule	–	–	–	–	–
CL Readhead	177,500	–	750,000	(200,000)	727,500
IA Macliver	1,200,000	–	750,000	(950,000)	1,000,000
Executives					
SP Coates	900,000	–	–	40,000	940,000
DP Garcia	–	–	–	–	–
PJ Jones	–	–	–	–	–
KJ Malaxos	25,000	–	400,000	(400,000)	25,000
Total	<u>2,722,500</u>	<u>–</u>	<u>5,840,000</u>	<u>(4,390,000)</u>	<u>4,172,500</u>
	Balance 1 July 2004 Ord	Granted as Remuneration Ord	On Exercise of Options Ord	Net Change Other Ord	Balance 30 June 2005 Ord
30 June 2005					
Directors					
WB Willis	420,000	–	–	–	420,000
BG Johnson	–	–	–	–	–
CL Readhead	177,500	–	–	–	177,500
IA Macliver	1,081,666	–	694,444	(576,110)	1,200,000
Executives					
SP Coates	1,595,000	–	–	(695,000)	900,000
JP Arbuckle	–	–	–	–	–
JR Tyers	7,220	–	–	–	7,220
C Lee	–	–	–	–	–
KJ Malaxos	–	–	–	25,000	25,000
Total	<u>3,281,386</u>	<u>–</u>	<u>694,444</u>	<u>(1,246,110)</u>	<u>2,729,720</u>

All equity transactions with key management personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

f Loans to Specified Key Management Personnel

There were no loans to key management personnel during the year.

*g Other Transactions and Balances with Key Management Personnel**Services*

Pullinger Readhead Lucas, of which Mr CL Readhead is a partner, provided legal services to Mount Gibson and consolidated entity. The fees, paid under normal commercial terms and conditions, were \$1,546 (2005: \$3,237) and \$7,631 (2005: \$16,997) respectively.

Amounts recognised at the reporting date in relation to other transactions:

	CONSOLIDATED	
	2006	2005
	<i>\$'000</i>	<i>\$'000</i>
Assets and Liabilities		
Current Liabilities		
Trade Creditors	—	—
Total Liabilities	—	—
Revenues and Expenses		
Corporate expenses	8	17
Total Expenses	<u>8</u>	<u>17</u>

29. Related party disclosure***Ultimate parent***

Mount Gibson Iron Limited is the ultimate Australian parent company.

Wholly-owned group transactions

Loans were made by Mount Gibson to wholly owned subsidiaries. Interest of \$2,795,958 (2005: \$1,857,257) was charged on the loan to Mount Gibson Mining Limited at 7%pa during the year. All other loans are interest free and have no fixed repayment date.

Director-related entity transactions

There are no director-related entity transactions other than those specified in Note 28.

30. Auditors' remuneration

	CONSOLIDATED		COMPANY	
	2006	2005	2006	2005
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Amounts received or due and receivable by Ernst & Young for:				
An audit or review of the financial report of the entity and any other entity in the consolidated entity	100	45	24	12
Other services in relation to the entity and any other entity in the consolidated entity	40	–	–	–
	140	45	24	12
	140	45	24	12

31. Segment information

The consolidated entity operates primarily in the mining sector, through the exploration, evaluation and development of its iron ore deposits in the Midwest region of Western Australia.

32. Events after the balance sheet date

On 24 July 2006, Mount Gibson announced the intention to merge with Aztec Resources Limited (Aztec), representing a landmark consolidation of Australia's emerging iron ore sector. The merger will result in the creation of a leading independent Australian iron ore company, with a market capitalisation of approximately \$600 million (assuming dilution for all in-the-money Mount Gibson and Aztec options), an asset portfolio offering near term cash flow, immediate growth potential supported by longer life profile and longer term development opportunities. Mount Gibson proposes to implement the merger by means of an off-market scrip takeover bid for all shares in Aztec. Under the bid, Mount Gibson offered Aztec shareholders 1 new share for every 3 shares held in Aztec, valuing each Aztec share at \$0.263 based on Mount Gibson's volume weighted average price on 21 July 2006 of \$0.789, being the last trading day before announcement of the offer. The Offer is subject to a number of conditions, including a minimum acceptance condition of 90%, regulatory approvals, certain prescribed occurrences not having occurred and no material adverse change, acquisitions or disposals. Aztec's major shareholder, Cambrian Mining Plc, has granted an option to Mount Gibson over Aztec shares equivalent to 15.27% of Aztec's issued capital, at the Offer price.

Completion of the sale by the consolidated entity of its 73% interest in Asia Iron was completed on 21 August 2006 with \$52.5 million being placed in escrow pending environmental approval which is expected by the end of 2006.

33. Financial risk management objectives and policies

The Consolidated Entity's principal financial instruments, other than derivatives, comprise bank loans, finance leases and hire purchase contracts, cash and short-term deposits.

The main purpose of these financial instruments is to raise finance for the Consolidated Entity's operations.

The consolidated entity has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The consolidated entity also enters into derivatives transactions, principally forward currency contracts. The purpose is to manage the currency risks arising from the Consolidated Entity's operations and its sources of finance.

The main risks arising from the Consolidated Entity's financial instruments are interest rate risk, credit risk and foreign currency risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Consolidated Entity's policy is to manage its interest cost using a mix of fixed and variable rate debt, and to keep between 50% and 75% of its borrowings at fixed rates of interest.

Credit risk

The Consolidated Entity's maximum exposures to credit risk at balance date in relation to each class of recognised financial assets, other than derivatives, is the carrying amount of those assets as indicated in the statement of financial position. In relation to derivative financial instruments, whether recognised or unrecognised, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement. The Consolidated Entity's maximum credit risk exposure in relation to forward exchange contracts is the full amount of the foreign currency it will be required to pay or purchase when settling the forward exchange contract, should the counterparty not pay the currency it is committed to deliver to Mount Gibson. At reporting date the net amount was A\$1,071,486 (2005: \$328,672).

The consolidated entity minimises concentrations of credit risk in relation to trade receivables by undertaking transactions with a number of customers and by the use of letters of credit which guarantee 90% of receivable amount at the time of sale. There are no significant concentrations of credit risk within the consolidated entity.

Foreign currency risk

As a result of receipts being denominated in US dollars, the Consolidated Entity's cash flow can be affected significantly by movements in the US\$/A\$ exchange rates.

The consolidated entity has entered into forward exchange contracts designed as a hedge of anticipated future receipts that will be denominated in US dollars.

It is the Consolidated Entity's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

At 30 June 2006, the consolidated entity had hedged 48% of its foreign currency sales for which firm commitments existed at the balance sheet date, extending to 31 August 2006.

34. Financial instruments***a Interest rate risk***

The Consolidated Entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities are shown on the adjacent page.

APPENDIX III

FINANCIAL INFORMATION ON MOUNT GIBSON

The Consolidated Entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities are as follows:

	Floating interest rate		Fixed interest rate maturing in:				Non-interest bearing		Total carrying amount per statement of financial position		Weighted average effective interest rate	
	2006	2005	1 year or less		over 1 to 5 years		2006	2005	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	%	%
i) Financial assets												
Cash	4,333	33,633	84	-	-	-	131	-	4,548	33,633	5.29	4.59
Trade and other receivables	-	-	-	-	-	-	6,180	5,862	6,180	5,862	N/A	N/A
Unlisted shares	-	-	-	-	-	-	-	400	-	400	N/A	N/A
Listed shares	-	-	-	-	-	-	1,248	2,542	1,248	2,542	N/A	N/A
Derivatives	-	-	-	-	-	-	2,541	-	2,541	-	N/A	N/A
Total financial assets	4,333	33,633	84	-	-	-	10,100	8,804	14,517	42,437		
ii) Financial liabilities												
Trade and other payables	-	-	-	-	-	-	17,836	9,593	17,836	9,593	N/A	N/A
Derivatives	-	-	-	-	-	-	1,470	-	1,470	-	N/A	N/A
Lease liabilities	-	-	1,594	2,361	4,247	8,938	-	-	5,841	11,299	7.97	7.87
Unearned revenue	-	-	-	419	-	-	-	-	-	419	N/A	7.15
Total financial liabilities	-	-	1,594	2,780	4,247	8,938	19,306	9,593	25,147	21,311		

b Net fair values

All recognised financial assets and liabilities in the consolidated entity have been recognised at their net fair values at balance date.

The recognised financial assets and liabilities in the consolidated entity as at 30 June 2005, except for available for sale financial assets and derivatives, have been recognised at their net fair value as detailed below.

	Carrying Value at 30 June 2005 \$'000	Net Fair Value at 30 June 2005 \$'000
Available for sale financial assets	2,942	3,992
Derivatives	-	115
	2,942	4,107

The net fair value, representing the mark to market of a financial asset or a financial liability, is the amount at which the asset could be exchanged or liability settled in a current transaction between willing partners after allowing for transaction costs.

c Hedging instruments*i Hedges for specific commitments*

The consolidated entity has entered into forward exchange contracts and foreign exchange option contracts at reporting date designed as a hedge of anticipated future receipts that will be denominated in US dollars.

This hedge has been treated as effective, in accordance with AASB 139

As at 30 June 2006 the following foreign exchange contracts were outstanding:

	2006			2005		
	US\$'000	A\$'000 equivalent	Fair Value A\$'000	US\$'000	A\$'000 equivalent	Fair Value A\$'00
Forward Exchange Contracts						
contract rate 0.7397	9,000	12,167	48			
contract rate 0.7287	9,000	12,351	214			
contract rate 0.7070	6,000	8,487	366			
contract rate 0.7455				10,000	13,414	165
	24,000	33,005	628	10,000	13,414	165
Collar Option	60,000	83,443	443			
call strike price 0.760/0.750/0.770/0.740/0.750/0.745						
put strike price 0.7245/0.718/0.7335/0.72/0.715/0.711						
Collar Option				36,500	50,093	51
call strike price 0.720/0.725/0.730/0.733						
put strike price 0.800/0.770/0.780/0.800						
Convertible Collar Option				11,500	15,333	(101)
call strike price 0.750						
put strike price 0.800						
barrier rate 0.7998						
Total	84,000	116,448	1,071	58,000	78,840	115

All of the above contracts mature by 30 April 2007.

6. **The following is the directors' report and auditors' report of Mount Gibson which is extracted from the 2006 annual report of Mount Gibson (all monetary amounts are stated at A\$).**

DIRECTORS' REPORT

The directors submit their report for the year ended 30 June 2006 for Mount Gibson Iron Limited ("Company") and the consolidated entity incorporating the entities that it controlled during the financial year ("consolidated entity").

DIRECTORS

The names and details of Mount Gibson's directors in office during the financial period and until the date of this report are set out below. directors were in office for the entire period unless otherwise stated.

NAMES, QUALIFICATIONS, EXPERIENCE AND SPECIAL RESPONSIBILITIES

Bill Willis – *AssocDipGeol RMIT, FAusIMM, MGSA, AMP109*
Chairman, non-executive director

Mr Willis is a geologist with extensive technical and management experience gained over more than 40 years in the Australian mining sector, mostly in iron ore. He was executive director and chief executive of Robe River Mining Co Pty Limited from 1993 to 1999 inclusive and held senior management positions with North Limited and Peko Wallsend Pty Ltd. During a twenty year period with BHP Pty Ltd he was variously responsible for exploration, mine geology and management of iron ore production at the BHP's iron ore mines at Koolyanobbing, Cockatoo Island and Yampi Sound, and responsible for exploration and mine geology at Mt Newman. Mr Willis consults to the group on a part-time basis, is a member of the Audit and Remuneration Committees and has overall responsibility for Corporate Governance. During the past three years Mr Willis has not served as a director of any other listed companies.

Brian Johnson – *B.E., MIEAust*

Deputy chairman

Mr Johnson is a civil engineer with extensive experience in the construction and mining industries in Australia, South East Asia and North America. Mr Johnson was a founding director and shareholder of Mount Gibson Mining Limited. He has held a number of directorships in listed public companies. As a major shareholder and chief executive, Mr Johnson was instrumental in establishing Portman Limited's presence in the iron ore industry between 1991 and 1994, developing mines at Koolyanobbing and Cockatoo Island. He also personally partnered Mr Lang Hancock in the development and operation of McCamey's Monster iron ore mine in the Pilbara, prior to its sale to the BHP Group. Mr Johnson has experience in dealing with regional steel mills and major trading houses through his previous involvement in the production of coking coal, manganese and iron ore. Mr Johnson has been managing director since the inception of Mount Gibson. On 15 October 2005, Mr Johnson resigned as managing director and was appointed Deputy Chairman of Mount Gibson. Mr Johnson is the non-executive chairman of Envirogold Limited and Linc Energy Limited. During the past three years Mr Johnson has not served as a director of any other listed companies.

Luke Tonkin – *B.E., MAusIMM, AICD*

Managing director

Mr Tonkin was appointed as managing director on 25 October 2005. Mr Tonkin has extensive experience in the resource industry traversing multi-commodities of gold, nickel, tantalum, tin & lithium. He has held General Management roles within some of Australia's largest, more complex operations namely WMC's Kambalda Nickel Operations, St Ives Gold Operations and Leinster Nickel Operations. Mr Tonkin's most recent role was Chief Executive Officer of Sons of Gwalia, the world's largest Tantalum producer and third largest Australian listed gold producer, assisting administrators restructure Mount Gibson. Mr Tonkin has a proven track record of implementing large-scale investment, divestment, transition and integration plans. During the past three years Mr Tonkin has not served as a director of any other listed companies.

Alan Rule – *B.Comm, B.Acc, CA*

Finance director

Mr Rule was appointed finance director on 1 July 2005. He is a chartered accountant with extensive experience in the mining industry in Australia. He held the position of chief financial officer of Western Metals Limited and more recently St Barbara Mines Limited. He has considerable experience in international financing of mining projects and implementation of accounting controls and systems. Mr Rule was previously finance director of Asia Iron Holdings Limited. Mr Rule is a non-executive director of Resource Mining Corporation Limited. During the past three years Mr Rule served as a director of Nustar Mining Corporation Limited.

Craig Readhead – *B. Juris, LL.B, AICD*

Non-Executive director

Mr Readhead has spent the last 26 years practising in the resources law area and is a partner of law firm Pullinger Readhead Lucas. Mr Readhead has had a significant legal role in the development of a number of mining projects within Australia, Africa and South East Asia. He is chairman and a non-executive director of Heron Resources Ltd, Agincourt Resources Ltd and Halcyon Group Ltd, Frankland River Olive Company Limited, and is past President of the Australian Mining and Petroleum Law Association, and past Vice-President of the Association of Mining and Exploration Companies. Mr Readhead is a member of the Audit and Remuneration Committees. During the past three years Mr Readhead has also served as a director of Pioneer Nickel Ltd, New World Alloys Ltd.

Ian Macliver – *B.Comm, CA, F Fin, AICD*

Non-Executive director

Mr Macliver is managing director of Grange Consulting Group Pty Ltd, which provide specialist corporate advisory services to both listed and unlisted companies. He has many years experience as a senior executive and director of both resource and industrial companies with particular responsibility for capital raising and other corporate initiatives. Mr Macliver is chairman and a non-executive director of Stratatel Ltd, BioProspect Ltd and is a non-executive director of Port Bouvard Ltd, and Ottoman Energy Ltd. Mr Macliver is Chairman of the Audit and Remuneration Committees. During the past three years Mr Macliver has also served as a director of Commoditel Ltd.

Alan Jones – CA*Non-Executive director*

Mr Jones was appointed as a non-executive director on 28 July 2006. Mr Jones is a chartered accountant with extensive senior management and board experience in listed and unlisted Australian public companies, particularly in the construction, engineering, finance and investment industries. He is a non-executive director of Mulpha Australia Limited, Sun Hung Kai & Co. Limited (Hong Kong), Allied Group Limited (Hong Kong) and Allied Properties Limited (Hong Kong). Mr Jones has been involved in the successful merger and acquisition of a number of public companies in Australia and internationally. During the past three years Mr Jones has not served as a director of any other listed companies.

Guoping Liu*Non-Executive director*

Mr Guoping Liu is the Vice President of China Railway Materials and Supply Corporation (“CRMSC”) a Government owned entity ranked 60th by revenue in the top 500 enterprises in China. He has strong connections in Government and the steel industry in China, and extensive international trading experience within the USA, Europe, and South America. During the past three years Mr Liu has not served as a director of any other listed companies. Mr Guoping Liu was appointed a director on 12 August 2005 and retired as a director on 22 February 2006.

COMPANY SECRETARY**Angela Dent – BBus, CA**

Ms Dent consults to a number of public and private companies, as a Management Accountant and Company Secretary. She has experience in financial and management accounting, and statutory requirements, in Australia and South East Asia.

INTERESTS IN THE SHARES AND OPTIONS OF MOUNT GIBSON

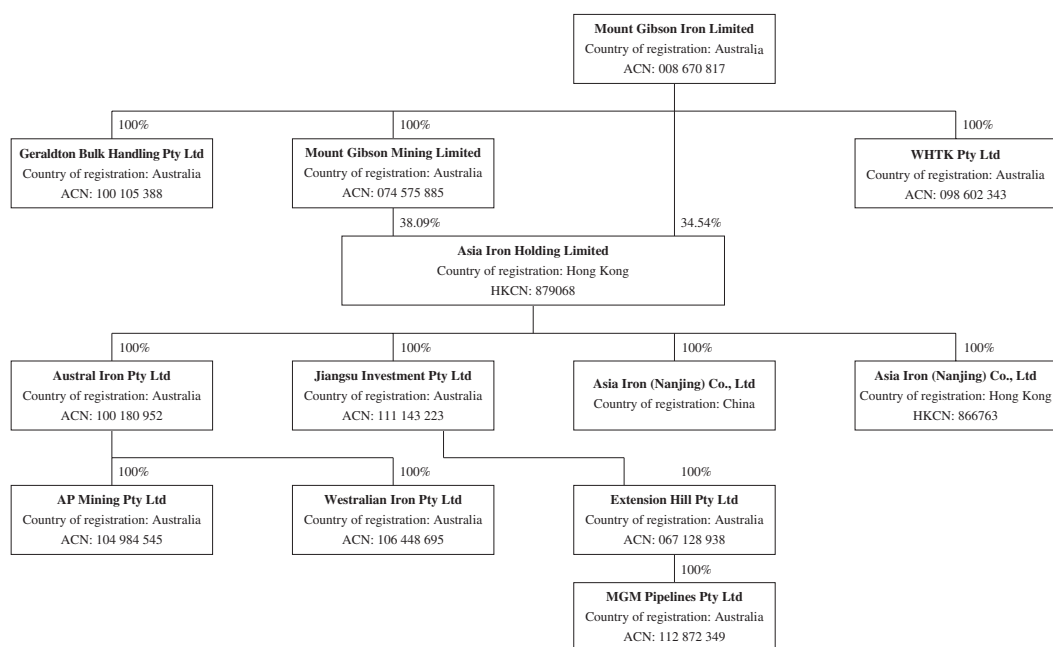
As at the date of annual report 2006, the interests of the directors in the shares and Options of Mount Gibson were:

	Ordinary Shares	Options over Shares
WB Willis	1,480,000	1,000,000
BG Johnson	–	5,000,000
L Tonkin	–	5,000,000
AD Rule	–	2,000,000
CL Readhead	727,500	500,000
IA Macliver	1,000,000	500,000
AS Jones	–	–

CORPORATE INFORMATION

Corporate Structure

Mount Gibson Iron Limited is a company limited by shares that is incorporated and domiciled in Australia. It is the ultimate parent entity and has prepared a consolidated financial report incorporating the entities that it controlled during the financial year. The structure of the consolidated entity as at 30 June 2006 was as follows:



Following completion of the sale of Asia Iron Holdings Limited, as set out in note 10 in the financial statements, the corporate structure of the consolidated entity is:



Nature of Operations and Principal Activities

The principal activities of the entities within the consolidated entity are:

- mining of hematite deposits at Tallering Peak; and
- exploration and development of hematite deposits in the Mid-West region of Western Australia.

Employees

The consolidated entity employed 120 employees as at 30 June 2006 (2005: 71 employees).

Future Funding

As at the date of this report the consolidated entity has sufficient funds or funding to develop and mine the Tallering Peak iron deposits.

REVIEW AND RESULTS OF OPERATIONS

Operating Results for the Period

A summary of the operating results for the consolidated entity is set out below:

	Consolidated	
	2006	2005
	<i>\$'000</i>	<i>\$'000</i>
Operating Profit Before Tax	16,151	22,032
Taxation Benefit/(Expense)	6,922	(8,530)
Operating Profit After Tax	23,073	13,502
Loss Attributable to Minority Interest	406	–
	<hr/>	<hr/>
Net Profit Attributable to Members of Mount Gibson	<u>23,479</u>	<u>13,502</u>

The income tax benefit reflects the recognition in the current period of tax losses available for use by the consolidated entity.

Tallering Peak Hematite Operations

During December 2005 Mount Gibson announced that detailed mine schedules to exploit the current ore reserve had recently been completed which indicated that development rates at Tallering Peak would need to be increased to sustain 3 Mtpa of ore production through to the end of mine life.

The increased rate of development stripping commenced in January 2006 following the mobilisation of additional hired mining equipment which will give the operation the capacity to load and haul approximately 32 Mtpa of ore and waste annually over the next two years.

The upper zone of the Tallering Peak resource was sparsely preproduction drilled due to drill rig access limitations as a consequence of steep topography. Reconciliation of ore during the 6 months to 30 June 2006 from the upper zone of Tallering Peak under-reconciled against the resource model. This is not expected to materially affect the total resource available for exploitation as the upper zone of the resource contributes less than 4% of the total ore tonnes.

During the six months to June 2006, further ore was mined from the upper section of the Tallering Peak resource where the density of the geological information above the current pit floor was limited. The cut back of the T3c pit is now well established and has now entered the area of the Tallering Peak resource that has been better defined by recent infill drilling. As the cut back of T3c progresses, higher grade hematite ore will be encountered and ore zones will become more continuous.

Infill resource definition drilling to improve the short to medium-term scheduling capability of Tallering Peak operations progressed satisfactorily during the 6 months to 30 June 2006. Completion of drilling is scheduled for October 2006 with modelling and detailed resource estimation to follow.

Results to date confirm the general nature of the resource, as defined by the previous broadly spaced drilling, with the new data better defining local variations in geometry and grades.

Tallering Peak's secondary ore source, T5 Open Pit, is currently mined by a large scale owner operated fleet which will complete mining from this ore source in June 2007.

The second half of 2005/06 has prepared the consolidated entity for growth with Mount Gibson focusing resources on improving access to deeper ore zones, enabling Tallering Peak to achieve sustainable ore production of 3 Mtpa. During the months of July and August 2006, a total in excess of 750,000 tonnes of ore was mined. Given the encouraging infill drilling results below the current pit floor and the mine's demonstrated capacity to substantially increase total material movements and ore production, Mount Gibson is confident of mining 3 Mtpa of ore in the 2006/07 financial year.

APPENDIX III
FINANCIAL INFORMATION ON MOUNT GIBSON

Production summary for		Sept Qtr	Dec Qtr	Mar Qtr	Jun Qtr	YTD
12 months	Unit	2005	2005	2006	2006	2006
		<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>	<i>'000</i>
Mining						
– Waste mined	bcm	932	1,243	1,627	2,763	6,565
– Ore mined	wmt	471	248	254	149	1,122
Crushing						
– Lump	wmt	354	204	187	120	865
– Fines	wmt	190	68	107	120	485
– Low Grade Screen	wmt	17	143	98	–	258
		561	415	392	240	1,608
Transported to Mullewa						
Railhead						
– Lump	wmt	335	194	105	176	810
– Fines	wmt	173	106	94	114	487
		508	300	199	290	1,297
Transported to Geraldton						
Port						
– Lump	wmt	320	236	110	166	832
– Fines	wmt	186	113	78	126	503
		506	349	188	292	1,335
Shipping						
– Lump	wmt	322	300	97	170	889
– Fines	wmt	178	128	50	141	497
		500	428	147	311	1,386
Shipping						
– Lump	dmt	317	296	96	168	877
– Fines	dmt	174	125	49	137	485
		491	421	145	305	1,362

Production rates at Talling Peak for the 12 months ended 30 June 2006 compared with the 12 months ended 30 June 2005 were:

- waste mining increased by 73%;
- ore tonnes mined decreased by 42% and
- ore tonnes sold decreased by 26%.

Revenue from the sale of ore decreased by 5% in 2006 from the previous year as the mine embarked on major cut-backs of existing open pits. This resulted in a decrease of 26% in ore tonnes sold from 1,838,000 tonnes in 2005 to 1,362,000 tonnes in 2006, which was partially offset by an increase in the realised selling prices per tonne of ore sold of 29% in 2006 over the previous year.

Total cost of sales decreased marginally over the previous year whilst the cost per tonne sold increased by 33% which is directly related to Mount Gibson's inability to access ore whilst significant open pit cut backs were in progress. The increase in cost per tonne sold can also be attributed to significant cost increases in fuel, labour, tyres and consumables in line with cost increases experienced by all mine operators in the Western Australian mining sector. It is anticipated that the cost per tonne sold will decrease as the mine has achieved 3 Mtpa rates.

Extension Hill Magnetite Project

The Extension Hill Magnetite Project involves the proposed mining of magnetite ore from the Extension Hill tenements and the concentrating of that ore to produce 5 Mtpa of magnetite concentrate, which would be transported via a 270 kilometre slurry pipeline from Extension Hill to the port of Geraldton for storage and loading onto vessels. The feasibility study for the Extension Hill Magnetite Project was finalised in early 2006 containing a mineral resource of 240 Mt of magnetite ore.

Mount Gibson Iron Limited and Mount Gibson Mining Limited entered into an agreement on 5 July 2006 with Sinom Investments Limited ("Sinom Investments") for the sale to Sinom Investments of their combined 73% interest in Asia Iron Holdings Limited ("Asia Iron"), the ultimate owner of the Extension Hill Magnetite Project.

On completion, which occurred on 21 August 2006, the sale proceeds of \$52.5 million were placed in escrow until environmental approval is received. A decision on environmental approval is anticipated by the end of 2006.

If environmental approval is not obtained by 30 November 2007, Sinom Investments may terminate the agreement and the sale shares will be returned to the consolidated entity. Consequently, the consolidated entity would then retain its indirect interest in the Extension Hill Magnetite Project and would re-assess the options available to it in respect of the project.

Extension Hill Direct Shipping Ore Project

The consolidated entity has recently completed a desktop study into the feasibility of the Extension Hill Direct Shipping Ore (“DSO”) project. The purpose of the study was to demonstrate robust economics of an assumed base case project strategy, identify major risks and opportunities, and to identify key focus areas for the Definitive Feasibility Study (“DFS”).

The desktop study has shown that the project has robust economics, minimal technical risks and relatively low capital requirements. The most significant risks to the project are timing and implementation. The desktop study estimates are within a ± 15 to 25% range and therefore are not as reliable as the results of a DFS.

The consolidated entity has commenced a DFS which will examine the most favourable development alternatives. The DFS will refine the commercial, technical, financial, social, economic and environmental prerequisites for a mining operation of this nature. The DFS will, given the normal risks associated with mining projects, enhance the estimated operational and financial results defined in the desktop study. The DFS is scheduled to be completed by the end of December 2006. Given the detail and currency of the Extension Hill Magnetite Project Feasibility Study, it is anticipated that both the cost and time to complete the Extension Hill DSO DFS is deliverable.

The consolidated entity is targeting to have the first shipment from the Extension Hill DSO project commence in the first quarter of 2008, subject to the successful completion of the DFS and subsequent board approval. Project commencement is also subject to the readiness of the new Geraldton Port Authority Berth 5 ship loader, completion of the Consolidated Entity’s port facilities, availability of rail capacity, transport route selection, environmental approval, statutory approvals and construction of site infrastructure.

The environmental approval process for the mining of the project is at an advanced stage, with notification periods having expired and submissions having been made by interested parties. The outcome of the requisite application is expected by the end of 2006.

All key native title agreements for the project are in place.

Of the 3 Mtpa of DSO to be produced at Extension Hill, 1.4 Mtpa is committed under existing sales contracts.

Review of Financial Condition

During the year, the consolidated entity incurred \$54.2 million (2005: \$24.1 million) in waste development expenditure of which, \$35.5 million was incurred in the 6 months ended 30 June 2006. In accordance with its usual accounting practice, waste development expenditure for the period has been capitalised in the Consolidated Entity's balance sheet and will be amortised over the expected life of the mine. The Consolidated Entity's focus on substantially increasing waste development to ensure 3 Mtpa of sustainable ore production in the future combined with reduced ore sales during the 6 months ended 30 June 2006 reduced cash on hand to \$4.5 million.

Net assets increased by 42% to \$109.2 million.

During the course of the financial year, holders of 33.49 million options exercised their options resulting in \$7.5 million in equity funding for Mount Gibson.

The consolidated entity disposed of property, plant and equipment with an aggregate fair value of \$6.4 million that were financed by means of finance leases, reducing lease liabilities to \$5.8 million.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the consolidated entity other than those referred to elsewhere in annual report 2006 or the financial statements or notes there to.

SIGNIFICANT EVENTS AFTER BALANCE DATE

On 24 July 2006, Mount Gibson announced the intention to merge with Aztec Resources Limited (“Aztec”), representing a landmark consolidation of Australia’s emerging iron ore sector. The merger will result in the creation of a leading independent Australian iron ore company with a market capitalisation of approximately \$600 million (assuming dilution for all in-the-money Mount Gibson and Aztec options), an asset portfolio offering near term cash flow, immediate growth potential supported by longer-life profile and longer term development opportunities. Mount Gibson proposes to implement the merger by means of an off-market scrip takeover bid for all shares in Aztec. Under the bid, Mount Gibson offered Aztec shareholders 1 new share for every 3 shares held in Aztec (“Offer”), valuing each Aztec share at \$0.263 based on Mount Gibson’s volume weighted average price on 21 July 2006 of \$0.789, being the last trading day before announcement of the offer. The Offer is subject to a number of conditions, including a minimum acceptance condition of 90%, regulatory approvals, certain prescribed occurrences not having occurred and no material adverse change, acquisitions or disposals. Aztec’s major shareholder, Cambrian Mining Plc, granted an option to Mount Gibson over Aztec shares equivalent to 15.27% of Aztec’s issued capital, at the Offer price.

Completion of the sale by the consolidated entity of its 73% interest in Asia Iron was completed on 21 August 2006 with \$52.5 million being placed in escrow pending environmental approval which is expected by the end of 2006.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Other than as referred to in the Review and Results of Operations and in annual report 2006, further information as to likely developments in the operations of the entity and likely results of those operations would, in the opinion of the directors, be speculation and not in the best interest of Mount Gibson.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The consolidated entity has developed Environmental Management Plans for its operations at Tallering Peak and the rail head at Mullewa. The Environmental Management Plans have been approved by the West Australian Government Departments’ of Industry & Resources, Environment and, Conservation and Land Management.

The consolidated entity holds various environmental licenses and authorities, issued under both State and Federal law, to regulate its mining and exploration activities in Australia. These licenses include conditions and regulation in relation to specifying limits on discharges into the environment, rehabilitation of areas disturbed during the course of mining and exploration activities, and the storage of hazardous substances.

There have been no material breaches of the Consolidated Entities licenses and all mining and exploration activities have been undertaken in compliance with the relevant environmental regulations.

SHARE OPTIONS

Unissued shares

Details of Options over ordinary shares in Mount Gibson on issue as at balance date and at the date of annual report 2006 are:

Exercise Price	Exercise Date/Period	Options on issue at	
		Balance date	Date of report
25 cents	On or before 31 December 2006	7,256,920	7,238,920
50 cents	On or before 31 December 2007	5,000,000	5,000,000
55 cents	On or before 31 December 2008	5,000,000	5,000,000
78 cents	On or before 31 December 2006	823,712	823,712
90 cents	On or before 30 June 2010	2,000,000	2,000,000
90 cents	On or before 23 October 2010	3,000,000	3,000,000
110 cents	On or before 23 October 2012	<u>2,000,000</u>	<u>2,000,000</u>
	Total	<u><u>25,080,632</u></u>	<u><u>25,062,632</u></u>

In addition, as at 30 June 2006, there were 4,175,000 options granted but not issued under the Employee Share Scheme. The options were granted on the basis that the employees must complete employment service to 31 December 2007 before the options vest, at which time they will be issued to the respective employees. Once vested the options will be exercisable at 78 cents each and expire on 31 December 2009.

As at the date of annual report 2006, none of the options had vested. Option holders do not have any right, by virtue of the Option, to participate in any share issue of Mount Gibson.

Shares issued as a result of the exercise of options

During the financial year, 33,516,380 options were exercised to acquire fully paid ordinary shares in Mount Gibson at a weighted average exercise price of \$0.22. Since the end of the financial year, a further 18,000 options have been exercised, at a weighted average exercise price of \$0.25.

DIVIDENDS

No dividends were paid during the period and no recommendation is made as to dividends.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Mount Gibson has, during the financial period, entered into deeds of access and indemnity with each director. These deeds provide access to documentation and indemnification against liability for loss suffered, as a result of any act or omission, to the extent permitted by the Corporations Act 2001, from conduct of the Consolidated Entity's business.

During the financial year, Mount Gibson has paid premiums in respect of a contract insuring all the directors of Mount Gibson against costs incurred in defending proceedings except for conduct involving:

- a wilful breach of duty; or
- a contravention of sections 182 or 183 of the Corporations Act 2001, as permitted by section 199B of the Corporations Act 2001.

The total amount of insurance contract premiums paid was \$57,127. This amount has not been included in directors' and executives' remuneration.

REMUNERATION REPORT

This report outlines the remuneration arrangements in place for directors and executives of the consolidated entity.

Remuneration Policy

The Remuneration Policy of Mount Gibson and its Controlled Entities has been put in place to ensure that:

- remuneration policies and systems support Mount Gibson's wider objectives and strategies;
- directors' and senior executives' remuneration is aligned to the long-term interests of shareholders within an appropriate control framework; and
- there is a clear relationship between the executives' performance and remuneration.

Remuneration Structure

In accordance with best practice corporate governance, the structure of non-executive director, executive director and senior executive management remuneration is separate.

NON-EXECUTIVE DIRECTOR REMUNERATION**Objective**

The board seeks to set aggregate remuneration at a level which provides Mount Gibson with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 18 November 2005 when Shareholders approved an aggregate remuneration of \$300,000 per year.

Each non-executive director receives a fee for being a director of Mount Gibson.

Non-executive directors should be adequately remunerated for their time and effort and the risks involved. Non-executive directors are remunerated to recognise the responsibilities, accountabilities and associated risks of directors.

All non-executive directors' performance and remuneration is reviewed on an annual basis by the chairman.

Non-executive directors' fixed remuneration will comprise the following elements:

- cash remuneration; and
- superannuation contributions made by Mount Gibson.

Non-executive directors are eligible to receive options under Mount Gibson Employee Option Scheme, subject to approval by shareholders.

Board operating costs do not form part of non-executive directors' remuneration.

Non-executive directors have long been encouraged by the board to hold shares in Mount Gibson (purchased by the director on market). It is considered good governance for directors to have a stake in Mount Gibson on whose board they sit. The non-executive directors of Mount Gibson can participate in the Employee Share Plan which provides incentives where specified criteria are met.

EXECUTIVE DIRECTORS AND SENIOR EXECUTIVES REMUNERATION

Objective

Mount Gibson aims to reward executive directors and senior executives with a level and mix of remuneration commensurate with their position and responsibilities within Mount Gibson and so as to:

- reward the executive directors and senior executives for company and individual performance against targets set by reference to appropriate benchmarks;
- align the interest of the executive directors and senior executives with those of shareholders;

- link reward with the strategic goals and performance of Mount Gibson; and
- ensure total remuneration is competitive by market standards.

Fixed Remuneration

The components of the executive directors and senior executives fixed remuneration are determined individually and may include:

- cash remuneration;
- accommodation and travel benefits;
- motor vehicle, parking and other benefits; and
- reimbursement of entertainment, home office and telephone expenses.

The executive directors' remuneration is reviewed on an annual basis by the non-executive directors. The senior executives' remuneration is reviewed on an annual basis by the managing director.

In determining the remuneration package, the Remuneration Committee reviews the individual's remuneration with the use of market data for positions with comparable companies. Where appropriate, the package is adjusted so as to keep pace with market trends and ensure continued remuneration competitiveness. In conducting a comparative analysis, Mount Gibson's expected performance for the year is considered in the context of Mount Gibson's capacity to fund remuneration budgets. From time to time, a review of the total remuneration package by an independent consultant in this field is undertaken to provide an independent reference point.

VARIABLE REMUNERATION**Short-term Incentive (STI)**

The executive directors and senior executives may receive variable remuneration in the form of STI. STI are linked to clearly specified performance targets and provide rewards for materially improved Mount Gibson performance. The total potential STI available is at the boards discretion but is measured to provide sufficient incentive to the executive directors and senior executives to achieve the operational targets and such that the cost to the consolidated entity is reasonable in the circumstances.

Actual STI payments granted depend on the extent to which specific operating targets set at the beginning of the financial year are met. The operational targets consist of a number of Key Performance Indicators covering both financial and non-financial measures of performance.

On an annual basis, the individual performance of each executive is reviewed and the Remuneration Committee determines the amount of STI to be allocated to each executive. Payments made are delivered as a cash bonus in the following reporting period.

Long-term Incentive (LTI)

LTI rewarded to executive directors and senior executives do not have a direct link to Mount Gibson performance but in the opinion of the board, they provide an incentive to increase performance of the business over an extended period.

LTI grants to executives are delivered in the form of options, rights or fully paid shares.

Employment Contracts

As at the date of this report, the consolidated entity had entered into employment contracts with the following executive directors:

Luke Tonkin

The key terms of his contract are as follows:

- 5 years from 24 October 2005 to 24 October 2010
- There are no termination benefits at the completion of the contract term. However, if Mount Gibson wishes to terminate the contract other than if Mr Tonkin is guilty of any grave misconduct, serious or persistent breach of the terms of the contract or wilful neglect in the discharge of the Duties, Mount Gibson is obliged to pay out the remaining term of the contract to a maximum of two years. If Mr Tonkin wishes to terminate the contract, he must provide three months notice.

Alan Rule

The key terms of his contract are as follows:

- 5 years from 1 July 2005 to 30 June 2010
- There are no termination benefits at the completion of the contract term. However, if Mount Gibson wishes to terminate the contract other than if Mr Rule is guilty of any grave misconduct, serious or persistent breach of the terms of the contract or wilful neglect in the discharge of the Duties, Mount Gibson is obliged to pay out the remaining term of the contract to a maximum of two years. If Mr Rule wishes to terminate the contract, he must provide three months notice.

DIRECTOR REMUNERATION FOR THE YEAR ENDED 30 JUNE 2006

		Short Term			Post Employment		Share Based	Total	% Performance Related
		Salary & Fees	Non Monetary	STI Bonuses	Superannuation	Retirement Benefits	Options		
WB Willis	2006	105,505	-	-	9,495	-	14,735	129,735	11%
<i>Non-executive Chairman</i>	2005	116,731	-	-	6,229	-	29,230	152,190	19%
BG Johnson	2006	673,424	33,814	-	-	-	3,113,988	3,821,226	81%
<i>Deputy chairman</i>	2005	344,669	88,309	250,000	-	-	1,405,809	2,088,787	79%
L Tonkin	2006	316,396	1,051	250,000	28,476	-	399,479	995,402	65%
<i>Managing director</i>									
AD Rule	2006	300,000	1,822	150,000	27,417	-	224,444	703,683	53%
<i>Finance director</i>									
CL Readhead	2006	48,000	-	-	-	-	7,368	55,368	13%
<i>Non-executive director</i>	2005	41,951	-	-	-	-	14,615	56,566	26%
IA Macliver	2006	44,037	-	-	3,963	-	7,368	55,368	13%
<i>Non-executive director</i>	2005	38,485	-	-	3,476	-	14,615	56,576	26%
G Liu	2006	-	-	-	-	-	-	-	-
<i>Non-executive director</i>									

Mr Tonkin, Mr Rule and Mr Liu were appointed directors of Mount Gibson on 24 October 2005, 1 July 2005 and 12 August 2005 respectively. Mr Liu retired as a director on 22 February 2006.

REMUNERATION OF THE 5 NAMED EXECUTIVES WHO RECEIVED THE HIGHEST REMUNERATION FOR THE YEAR ENDED 30 JUNE 2006

		Short Term			Post Employment		Share Based	Total	% Performance Related
		Salary & Fees	Non Monetary	STI Bonuses	Superannuation	Retirement Benefits	Options		
DP Garcia	2006	398,655	–	–	12,777	–	–	411,432	–
<i>Commercial director – Asia Iron Holdings Limited</i>									
KJ Malaxos	2006	245,833	19,728	4,167	22,500	–	28,085	320,313	10%
<i>Chief executive officer – Mount Gibson Mining Limited</i>									
	2005	207,692	6,412	10,000	19,592	–	31,285	274,981	15%
PJ Jones	2006	275,229	1,410	–	24,771	–	13,171	314,581	4%
<i>Project manager</i>									
SP Coates	2006	182,580	–	7,500	16,425	–	41,265	247,770	20%
<i>Exploration manager</i>									
	2005	130,780	–	10,000	12,670	–	31,285	184,735	22%
BS Wesley	2006	129,019	1,663	5,000	11,366	–	13,171	160,219	11%
<i>Group financial controller</i>									

All executive directors and executives are engaged through Controlled Entities of Mount Gibson.

OPTIONS GRANTED AS PART OF REMUNERATION FOR THE YEAR ENDED 30 JUNE 2006

	Grant Date	Exercise Price	Grant Number	Value per Option @ Grant Date	Value of Options Granted During the Year	Vesting Date	Exercised Number	Value at Date Option Lapsed	Total Value of Options Exercised and Lapsed During Year	% of Remuneration
AD Rule	4-Oct-05	\$0.90	2,000,000	\$0.464	928,000	1-Jul-08	N/A	N/A	N/A	31.9%
L Tonkin	4-Oct-05	\$0.90	3,000,000	\$0.478	1,434,000	24-Oct-08	N/A	N/A	N/A	29.5%
L Tonkin	4-Oct-05	\$1.10	2,000,000	\$0.518	1,036,000	24-Oct-10	N/A	N/A	N/A	10.6%
SP Coates	31-Dec-05	\$0.78	250,000	\$0.332	83,000	31-Dec-07	N/A	N/A	N/A	5.3%
PJ Jones	31-Dec-05	\$0.78	250,000	\$0.332	83,000	31-Dec-07	N/A	N/A	N/A	4.2%
BS Wesley	31-Dec-05	\$0.78	250,000	\$0.332	83,000	31-Dec-07	N/A	N/A	N/A	8.2%

Options granted as part of director and executive emoluments have been valued using the Binomial option pricing model. The value per option at grant date is calculated using the following assumptions:

Grant date	31-Dec-05	4-Oct-05	4-Oct-05	4-Oct-05
Share price at grant date	\$0.70	\$0.86	\$0.86	\$0.86
Exercise price	\$0.78	\$0.90	\$0.90	\$1.10
Risk free interest rate	5.09%	5.40%	5.40%	5.40%
Volatility factor	60%	60%	60%	60%
Expiry date	31-Dec-09	30-Jun-10	23-Oct-10	23-Oct-12

DIRECTORS' MEETINGS

The numbers of meetings of directors (including meetings of Committees of directors) held during the year and the number of meetings attended by each director is as follows:

	Directors' Meetings	Audit Committee Meetings	Remuneration Committee
Number of Meetings Held	19	2	1
WB Willis	18	2	1
BJ Johnson	15	–	–
L Tonkin	14	–	–
AD Rule	19	–	–
CL Readhead	18	2	1
IA Macliver	17	2	1
G Liu	1	–	–

Mr Tonkin, Mr Rule and Mr Liu were appointed directors of Mount Gibson on 24 October 2005, 1 July 2005 and 12 August 2005 respectively. Mr Liu retired as a director on 22 February 2006.

TAX CONSOLIDATION

Mount Gibson and its 100% owned controlled entities have formed a tax consolidated group with effect from 1 April 2006. Members of the consolidated entity have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly owned controlled entities on a pro-rate basis. In addition the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date, the possibility of default is remote. The head entity of the tax consolidated group is Mount Gibson Iron Limited.

PROCEEDINGS ON BEHALF OF MOUNT GIBSON

There are no proceedings on behalf of Mount Gibson under section 237 of the Corporations Act 2001 in the financial year or at the date of this report.

ROUNDING

Amounts in annual report 2006 and the accompanying financial report have been rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to Mount Gibson under ASIC Class Order 98/0100. Mount Gibson is an entity to which the class order applies.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Mount Gibson support and have adhered to the principles of corporate governance. Mount Gibson's corporate governance statement is contained in the additional ASX information section of the annual report.

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with section 307C of the Corporations Act 2001, the directors received the independence declaration from the auditor of Mount Gibson Iron Limited on page 28 of the annual report 2006 of Mount Gibson.

NON-AUDIT SERVICES

There were no non-audit services provided by the entity's auditor, Ernst & Young, during the financial year ended 30 June 2006.

Signed in accordance with a resolution of the directors.

Bill Willis

Chairman

Perth, 4th September 2006.

Independent Audit Report to Members of Mount Gibson Iron Limited**Scope*****The financial report and directors' responsibility***

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for Mount Gibson Iron Limited and the consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises both Mount Gibson and the entities it controlled during that year.

The directors of Mount Gibson are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of Mount Gibson and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion to the members of Mount Gibson. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of Mount Gibson.

Independence

We are independent of Mount Gibson and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the directors of Mount Gibson a written Auditor's Independence Declaration a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion

In our opinion, the financial report of Mount Gibson Iron Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of Mount Gibson Iron Limited and the consolidated entity at 30 June 2006 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia

Ernst & Young

V W Tidy

Partner

7. **A letter from the reporting accountants of the Company summarizing the principal differences between Australian accounting standards and Hong Kong Financial Reporting Standards**



GRAHAM H.Y. CHAN & CO.

CERTIFIED PUBLIC ACCOUNTANTS
HONG KONG

Unit 1, 15/F., The Center,
99 Queen's Road Central,
Hong Kong

The Directors,
APAC Resources Limited
32/F., China Online Centre
333 Lockhart Road
Wanchai
Hong Kong

Dear Sirs,

Principal differences between Australian Accounting Standards (“AASB”) and Hong Kong Financial Reporting Standards (“HKFRS”) – acquisition of shares in Mount Gibson Iron Limited

We refer to your request to provide summaries of the principal differences between AASB and HKFRS and in particular, the differences concerning all items in the financial statements of Mount Gibson Iron Limited (“Mount Gibson”).

Our summaries are presented in the following sections:

- A. Similarities and differences between AASB and HKFRS concerning all items in Mount Gibson’s financial statements – based on HKFRS which become effective for accounting periods beginning on or after 1 January 2005.
- B. General background of AASB and HKFRS.
- C. Principal differences between AASB and HKFRS.
- D. Principal differences between Pre-2005 Australian accounting standards and Hong Kong accounting standards which are commonly encountered.

A. Similarities and differences between AASB and HKFRS concerning all items in Mount Gibson’s financial statements – based on HKFRS which become effective for accounting periods beginning on or after 1 January 2005

Based on the published information, there should be no major differences in reported amounts under the two accounting standards so far as the financial statements of Mount Gibson are concerned. The accounting policies of Mount Gibson are materially consistent with those of the Company. The amount reported for each of the items will be similar and no reconciliation with regard to net asset and income are necessary.

B. General background of AASB and HKFRS

Both AASB and HKFRS are basically derived from International Financial Reporting Standards (“IFRS”), which is the body of financial accounting principles and rules commonly accepted by the constituent professional accountancy bodies, statement preparers, auditors, investors, analysts, regulators and other users of the markets.

AASB and HKFRS are principally based on, copied from and substantially the same as IFRS.

HKFRS are effective for accounting periods beginning on or after 1 January 2005.

AASB are effective for accounting periods beginning on or after 1 January 2005.

C. Principal differences between AASB and HKFRS

There is no principal difference between AASB and HKFRS.

D. Principal differences between Pre-2005 Australian accounting standards and Hong Kong accounting standards which are commonly encountered.

There is no principal differences between Pre-2005 Australian accounting standards and Hong Kong accounting standards.

Graham H.Y. Chan & Co.

Certified Public Accountants (Practising)

Hong Kong

12 December 2008

1. **The following is the reproduction of certain paragraphs of the management discussion and analysis as contained in the 2008 annual report of Mount Gibson (all monetary amounts are stated at A\$).**

TALLERING PEAK

- Record ore production – up 31% on the previous year
- Record crushing and screening throughput – up 24% on the previous year
- Record road haulage – up 15% on the previous year
- Record rail cartage – up 3% on the previous year
- Established substantial final product stockpiles increasing operational flexibility and ensuring increased future ore sales
- Completion of infill resource drilling extends mineralisation and enhances Reserve reconciliation
- Safety and environmental performance improvement

The 2007/08 year has seen Tallering Peak exceed its targeted production rate of 3 million tonnes per annum (Mtpa) with a total of 3,841,000 tonnes produced.

Early in the year, material movement and ore production immediately climbed over the previous year's levels, causing stockpiles to expand ahead of infrastructure improvements at Geraldton Port.

Increased ore production during the first quarter of the year saw ore being sourced from multiple stages of the Main Range orebody. Mine productivity improved markedly as the pit floor area increased while the establishment of the T2 north-east cut back continued as planned.

Infill resource drilling of the T2 mineralisation, which commenced the previous year, was completed by September 2007 with 17 reverse circulation drill holes – totalling 1,202 metres – being drilled. As a result, Mount Gibson has significantly enhanced its understanding of the complex T2 resource while extending mineralisation and allowing the final pit design to extend in this area.

Staged mining of the Talling Peak Main Range orebody continued during the second quarter with production rates approaching record levels and the T6A cut back providing the majority of the high grade ore mined, while medium grade blending ore was sourced from the T2 area.

The long-awaited commissioning of the Berth 5 ship loader at Geraldton Port saw loading of the first ship commence on 23 January 2008, with lump iron ore from Talling Peak being loaded onto the iron ore carrier, Cape Courage.

Mount Gibson loaded seven ships from the new ship loader during the first quarter of 2008, at an average loading rate 55% higher than was previously achieved by the Berth 4 facilities, reducing loading time by more than 20 hours.

The Main Range Talling Peak cutbacks continued in the third quarter of the year with the commencement of T6A2 benches and continuation of the T2A cut back which guaranteed continuity of ore supplies with subsequent T3C benches complete and T6A1 nearing completion.

The new Berth 5 ship loader's critical contribution to building iron ore export capacity from the Port became evident in the last quarter of the year, with Talling Peak posting its highest shipping tonnage to date. It is anticipated that further improvements in ship loading rates will occur as the Geraldton Port Authority eliminates unplanned outages and becomes more proficient in loading vessels at the new facility.

Thirty new rail wagons were received by Talling Peak during the June 2008 quarter and were fully commissioned by mid-July. Combined with the sizable crushed stocks at the Rivudini rail storage facility, this additional rail capacity provides further upside for shipping rates in the first half of 2008/09.

Despite increased shipping rates, the very strong operational performance at Talling Peak resulted in limited draw-down of stockpiles resulting in a year-end ore and product stockpile total of approximately 1.8 million tonnes.

The outlook for Talling Peak in the coming year is very encouraging. The current high levels of ore stocks – initially due to Port delays and then later due to above-target production – will translate into a positive and sustained impact on the year's exports particularly in the second half of the 2008/09 financial year given continued strong customer demand.

Crushing throughput at Tallering Peak improved by 24% to 3.36 million tonnes compared with the corresponding period last year. Further enhancements to the crushing circuit are scheduled for next financial year which are expected to improve plant reliability allowing further increases in output.

Beyond the 2008/09 financial year, Tallering Peak's strip ratios decline rapidly which significantly enhances cash flow from the operation.

KOOLAN ISLAND

- First full year of shipments completed
- Major site infrastructure and mobile fleet substantially installed and commissioned
- Record final quarter material movement, crushing and shipping
- Main Pit seawall, dewatering and rehabilitation activities commenced
- Cut back of Main Pit commenced
- Power upgrade increases efficiency and crushing capacity
- Significant exploration targets identified

Following Koolan Island's first shipment in June 2007, the 2007/08 year represented the first full year of shipments from the operation.

The ramp-up of production commenced the previous year continued into the first quarter of the new year, with approximately 2 million bank cubic metres of material being mined and a 66% increase in ore production. Wet commissioning of the crushing and screening facility led to a 150% increase in crusher throughput over the previous quarter, while shipments more than trebled.

A power upgrade in September 2007 enhanced the operation's ability to operate the crushing and screening facility while simultaneously loading ore carriers.

Ore production continued to increase to record levels throughout the latter part of 2007 following a focus on Main Pit West, Mullet Pit and the Barramundi Limb of East Pit. As scheduled, shipments began to decline from December during the monsoonal wet season and accelerated strongly after the season ended in March.

Various approvals for rehabilitation activities were received in October 2007 – with dewatering, rehabilitation of the footwall and construction of a seawall across Arbitration Cove commencing in December and continuing throughout the remainder of the year.

Operations at Koolan Island were restricted in the early part of 2008 due to particularly adverse weather conditions associated with two tropical cyclones and higher than average rainfall during the wet season. Accordingly, crushing and shipping rates were lower than those achieved in the December quarter but remained in line with forecasts.

In the final quarter of the year, Koolan Island returned to record levels of material movement – at 2.8 million bank cubic metres – and also achieved record crushing and shipping rates nearing 4 million tonnes on an annualised basis. This result augurs well for the operation to achieve its medium-term target of 4 Mtpa by the September quarter of 2010 following planned production ramp-up over the next two years.

The operation dispatched 13 shipments for the last quarter of the financial year, with an annual total for its first full year of 40 shipments.

Satellite open pit operations – East Pit and Barramundi Limb – developed as anticipated, while scheduled staging of Mullet Pit generated higher than planned ore volumes due to some localised conservatism in the geological model. Main Pit West has continued to expose wider benches as mining advances, improving productivity from this area. Ore production from the lower grade satellite pits is expected to continue through to the 2012 financial year.

A significant increase in total material movement from Koolan Island is scheduled for the coming year, as the cut back of Main Pit accelerates. To ensure this is completed as efficiently as possible, the mine drilling and excavator fleet has recently been enhanced with the commissioning of a SFK12 blast hole drill rig and a Hitachi 3600 excavator.

Koolan Island presents a number of organic growth opportunities owing to high prospectivity with identified untested hematite outcrops, and Main Pit ore surface extensions along strike and down dip providing outstanding synclinal and anticlinal structural targets.

EXTENSION HILL DIRECT SHIPPING ORE (DSO) PROJECT

- Definitive Feasibility Study confirms potential for strong financial returns
- State and Commonwealth Government environmental approvals granted
- Operation on track for production in first half of 2009
- Capital construction commenced
- Design and engineering works well advanced
- Various supply contracts awarded

The company completed a Definitive Feasibility Study (DFS) in August 2007, which confirmed that a 3 Mtpa hematite mining operation at Extension Hill will generate strong financial returns. Increases in capital and operating costs outlined in the DFS – over those in the June 2006 desktop study – are expected to offset by increased project revenue to yield similar project valuations.

Mount Gibson advanced the Extension Hill project throughout the year however the rate of progress was impeded by onerous Environmental Ministerial conditions and as a consequence, delays in the environmental approvals process. These delays have adversely impacted the capital and operating costs for the project which has been unnecessary and disappointing.

The project was eventually granted environmental approval to proceed by the State Government in October 2007 – with the issue of Ministerial Statement 753 – and the Commonwealth Government gave its approval in December 2007.

The Environmental Management Plan (EMP) for the project required by the Ministerial Statement was submitted to the Department of Environment and Conservation (DEC) in November 2007.

After assessment and comment by the DEC, revised EMPs were submitted in April 2008.

APPENDIX IV MANAGEMENT DISCUSSION AND ANALYSIS OF MOUNT GIBSON

Formal EMP approval is required prior to commencement of ground disturbing activities which presents a critical project milestone. In early July 2008, the Environmental Protection Authority (EPA) provided written advice that the DEC was happy with the EMP as submitted and the EMPs have been forwarded to the Commonwealth Government for approval.

Other plans, proposals and applications submitted and approved – or in the process of approval – during the year included:

- Project Management Plan for construction and operation of the Extension Hill mine as required by the Department of Consumer and Employee Protection
- Mining Proposal as required by the Department of Industry and Resources
- Application to transport processed hematite ore from Extension Hill to Geraldton Port, as required by the Environmental Protection Authority
- Environmental Works application as required by the Department of Environment and Conservation
- Application for a Water Abstraction Licence from the Department of Water
- Application to upgrade haul roads
- Building permit applications.

While these approvals are not considered to be in doubt, the majority are pending Commonwealth Government approval of the EMP.

The DFS highlighted the value of additional Mining Reserves to the project. Infill and extensional drilling in the area of the Extension Hill DSO open cut will commence once the EMP is approved by the Commonwealth Government and permitting of mining operations is completed late in 2008. Drilling has the potential to significantly increase the Reserve base and much of the Resource is expected to convert to Reserves.

Although delayed, development of the project has progressed, with many long lead capital items being tendered and off-site capital construction underway including a 250,000 tonne ore storage facility at Geraldton Port. Delays to the project have increased the capital expenditure forecast from \$85 million to in excess of \$100 million with the project being relatively insensitive to capital cost due to its low capital intensity.

Design and engineering works are well advanced or completed – covering storage and handling facilities at Geraldton Port, a rail siding at Perenjori, haul roads construction and realignment, the mine’s crushing and screening plant and site infrastructure and services.

Exploration drilling to locate suitable sources of process and potable water for the mine confirmed sufficient quantities to meet the mine’s requirements, and site bores have been installed.

A number of contracts have been finalised, including contracts for the supply, construction and operation of a 130-person accommodation village, supply and erection of the main office complex, and supply and installation of site communications. Rail contracts for the haulage of 3 Mtpa of iron ore from Perenjori to the Geraldton Port have been executed and rolling stock is expected to arrive from China in the March quarter of 2009.

EXPLORATION

Tallering Peak

Mount Gibson’s current exploration focus at Tallering Peak is the identification of targets for future drilling campaigns.

Early in 2008 a detailed ground based gravity survey was undertaken, focusing on the poorly drilled North Ridge, with a total of around 75 line kilometres surveyed at a station spacing of 40 metres. Gravity surveys identify areas containing rocks of higher density which may indicate hematite mineralisation.

The data generated from this survey has been processed and is currently being modelled to determine if a significant drilling target exists. Preliminary results suggest that there is a coincident gravity anomaly and zone of less intense magnetics at the northern end of the ridge which may result from a buried hematite alteration zone.

The survey has also confirmed the T1 area, located on the Main Ridge, as a potential ore source at Tallering Peak.

Koolan Island

Koolan Island provided the major focus of Mount Gibson's exploration activities during the year.

In the first half of the year, rapid expansion of the infill and extensional drilling program commenced the previous year delivered excellent results.

The program focused on the Main West, Barramundi West, Barramundi South, Acacia, Acacia East, Mullet-Acacia and Eastern-Barramundi deposits. The drilling of these deposits included both infill holes to gain greater pierce point density and extensional holes evaluating areas where the mineralisation remains open along strike and down dip. During the 2007 year, 23,967 metres of drilling was completed in 272 holes.

This program was completed in early December ahead of the wet season and the RC drill rig demobilised, after having delivered a number of encouraging results with many intercepts indicating greater mineralisation thickness than in existing models.

Infill and extensional drilling recommenced in May 2008 with 74 holes for 4,709 metres completed by the end of June and resource models for all target areas are being continually updated as drilling progresses.

In January 2008 Mount Gibson announced a new diamond drilling program at Koolan Island to test down dip extent of the Main Pit hematitic surface, and to determine if the Acacia hematitic surface also extended, connecting at depth with the Main Pit hematitic surface.

Two drill holes were completed in the target area in May 2008. Both holes intersected both the Main and Acacia surfaces at depth, with all intersections displaying typical Main and Acacia mineralisation and encouraging widths identified.

The drilling also confirmed that the Main Pit mineralisation extends at least 300 metres below the ultimate designed pit depth, and that the Acacia mineralised surface appears to extend approximately 1.4 kilometres down dip to form a continuous surface with the Main Pit mineralised surface.

APPENDIX IV MANAGEMENT DISCUSSION AND ANALYSIS OF MOUNT GIBSON

Mount Gibson is highly encouraged by these results given that the down dip extent of Main, Acacia, Barramundi and Mullet surfaces have not been previously tested by drilling. These new intersections extend known mineralisation down an additional 300 vertical metres, demonstrating the outstanding exploration targets and resource upside which exists at Koolan Island.

Given the success of these first two drill holes, a further 10,000 metres of diamond drilling has been approved by Mount Gibson's Board in order to continue testing of the deep Main Pit extensions and the Acacia Limb. Drilling commenced in August 2008.

Extension Hill

No exploration work has been conducted at Extension Hill since March 2006 while processes related to environmental and other statutory approvals are underway. Significant – and ongoing – resource definition and extensional drilling programs are planned to commence as soon as statutory approvals authorising site access are received

RESOURCES & RESERVES

as at 30 June 2008

KOOLAN ISLAND

Mineral resources	Mt	Fe%	SiO ₂ %	Al ₂ O ₃ %	P%
Measured	<u>1.45</u>	<u>63.0</u>	<u>7.56</u>	<u>1.19</u>	<u>0.020</u>
Indicated	<u>49.4</u>	<u>62.9</u>	<u>8.06</u>	<u>0.974</u>	<u>0.017</u>
Inferred	<u>18.3</u>	<u>62.6</u>	<u>8.37</u>	<u>0.926</u>	<u>0.017</u>
Total	<u>69.1</u>	<u>62.8</u>	<u>8.13</u>	<u>0.966</u>	<u>0.017</u>
Mineral reserves					
Proved	<u>1.43</u>	<u>63.2</u>	<u>7.40</u>	<u>1.18</u>	<u>0.020</u>
Probable	<u>27.9</u>	<u>63.7</u>	<u>6.22</u>	<u>1.01</u>	<u>0.016</u>
Total	<u>29.4</u>	<u>63.7</u>	<u>6.28</u>	<u>1.02</u>	<u>0.017</u>

APPENDIX IV MANAGEMENT DISCUSSION AND ANALYSIS OF MOUNT GIBSON

TALLERING PEAK

Mineral resources		<i>Mt</i>	<i>Fe%</i>	<i>SiO₂%</i>	<i>Al₂O₃%</i>	<i>P%</i>
	Measured	<u>12.2</u>	<u>63.1</u>	<u>3.98</u>	<u>2.18</u>	<u>0.026</u>
	Indicated	<u>3.91</u>	<u>59.3</u>	<u>7.22</u>	<u>3.01</u>	<u>0.053</u>
	Inferred	<u>1.08</u>	<u>56.1</u>	<u>12.1</u>	<u>4.67</u>	<u>0.065</u>
	Total	<u>17.2</u>	<u>61.8</u>	<u>4.95</u>	<u>2.49</u>	<u>0.033</u>
Mineral reserves	Proved	<u>12.0</u>	<u>62.3</u>	<u>4.57</u>	<u>2.37</u>	<u>0.025</u>
	Probable	<u>2.61</u>	<u>58.4</u>	<u>7.69</u>	<u>3.51</u>	<u>0.029</u>
	Total	<u>14.6</u>	<u>61.6</u>	<u>5.13</u>	<u>2.57</u>	<u>0.026</u>

EXTENSION HILL

Mineral resources		<i>Mt</i>	<i>Fe%</i>	<i>SiO₂%</i>	<i>Al₂O₃%</i>	<i>P%</i>
	Indicated	<u>12.8</u>	<u>60.0</u>	<u>5.36</u>	<u>1.75</u>	<u>0.064</u>
	Inferred	<u>6.69</u>	<u>59.6</u>	<u>6.76</u>	<u>1.77</u>	<u>0.056</u>
	Total	<u>19.5</u>	<u>59.9</u>	<u>5.84</u>	<u>1.76</u>	<u>0.060</u>
Mineral reserves	Probable	<u>12.84</u>	<u>60.3</u>	<u>5.48</u>	<u>1.64</u>	<u>0.062</u>
	Total	<u>12.84</u>	<u>60.3</u>	<u>5.48</u>	<u>1.64</u>	<u>0.062</u>

APPENDIX IV MANAGEMENT DISCUSSION AND ANALYSIS OF MOUNT GIBSON

TOTAL MINERAL RESOURCES	<i>Mt</i>	<i>Fe%</i>	<i>SiO₂%</i>	<i>Al₂O₃%</i>	<i>P%</i>
	<u>105.8</u>	<u>62.1</u>	<u>7.19</u>	<u>1.36</u>	<u>0.028</u>
TOTAL MINERAL RESERVES	<i>Mt</i>	<i>Fe%</i>	<i>SiO₂%</i>	<i>Al₂O₃%</i>	<i>P%</i>
	<u>56.8</u>	<u>62.4</u>	<u>5.80</u>	<u>1.56</u>	<u>0.029</u>

Note: Reserves exclude ore and product stocks.

The information in this report relating to Mineral Resources is based on information compiled by Rolf Forster, who is a member of the Australasian Institute of Mining and Metallurgy. Rolf Forster is a consultant to Mount Gibson Mining Limited, and has sufficient experience relevant to the styles of mineralisation and type of deposit under consideration and to the activity he is undertaking, to qualify as a Competent Person as defined in the December 2004 Edition of the “Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves”. Rolf Forster has consented to the inclusion of the matters in this report based on his information in the form and context in which it appears.

The information in this report relating to Mining Reserves is based on information compiled by Rolf Forster and Weifeng Li, who are both members of the Australasian Institute of Mining and Metallurgy. Rolf Forster and Weifeng Li are consultants to Mount Gibson Mining Limited, and have sufficient experience relevant to the styles of mineralisation and type of deposit under consideration and to the activity which they are undertaking, to each qualify as a Competent Person as defined in the December 2004 Edition of the “Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves”. Rolf Forster and Weifeng Li have consented to the inclusion of the matters in this report based on their information in the form and context in which it appears.

2. The following is the reproduction of certain paragraphs of the management discussion and analysis as contained in the 2007 annual report of Mount Gibson (all monetary amounts are stated at A\$).

Having achieved its targeted production rate of three million tonnes per annum (Mtpa) in the first half of 2006, Mount Gibson's Tallering Peak mine has seen significant mining progress since this time.

In the month of September 2006, record ore crushing and screening throughput of 286,017 tonnes was achieved, for a record quarterly result of 719,000 tonnes. In addition, the delivery and subsequent commissioning of the necessary mining fleet to increase annual material movements to sustain 3 Mtpa of ore production was completed.

The record production seen during the September quarter resulted in a significant increase in ore stockpiles, enhancing the company's ability to blend material at the optimum specification for shipping. In line with the increase in the mine's ore production, crushing, road transport and rail transport capabilities also increased with facilities meeting or exceeding required production rates.

The December quarter saw a focus on infill drilling results which continued to confirm the widths and high grades of mineral resources at the mine. Development of the T6A pit – a slow and difficult process due to its steep topography – also progressed, resulting in a pleasing reduction of future production risk.

While this development resulted in a reduced mining rate, the ore tonnage transported to Mullewa and railed to Geraldton both increased to record levels.

Mining rates at Tallering Peak were necessarily constrained by management during the early part of 2007 as a result of undue shipping delays at the Geraldton Port. The T5 open pit development and production was suspended, and ore stocks remained high as significant ship congestion persisted at the Port due to increased activity, poor loading rates and unplanned Port outages.

The Geraldton Port Authority's (GPA) announcement in late January that a new ship-loading facility will be commissioned by the end of 2007 augurs well for the Port's continuing ability to be able to service Mount Gibson as their largest customer.

APPENDIX IV MANAGEMENT DISCUSSION AND ANALYSIS OF MOUNT GIBSON

Development of the T3C and T6A pits continued to expose high grade hematite mineralisation for future ore supplies, with the March completion of the T3C pit pre-strip confirming its ability to produce high grade ore as planned.

In the final quarter of the year, environmental approval to clear the T2 pit was granted and subsequent clearing of this area and pioneering work to establish the upper bench of the pit is well advanced. Early results have continued to demonstrate the existence of significant mineralisation below the current resource.

Waste stripping and ore production remained at similar levels to the previous quarter as a result of the continued congestion and poor loading rates at the Geraldton Port. In line with the GPA's assurance that its new ship-loading facility will be operational by calendar year-end, Mount Gibson plans to increase rail capacity in the second half of 2007 to make full use of the Port's expanded services.

The outlook for Tallering Peak in the coming year is very encouraging. The current high levels of ore stocks due to the Port delay and strong production will translate into a positive and sustained impact on the year's exports once this impediment is removed.

Exploration

Tallering Peak's existing sustainable Life of Mine (LOM) Plan – confirming the capacity of the mine to produce 3 Mtpa annually until 2013 – will be continually updated as Mount Gibson continues to explore in and around Tallering Peak with the intention of extending current resources and identifying additional resources.

There is a significant possibility of extending the mine's life with the development of an area to the north-east described as T1 and extending the resource below the existing Main Range T2 open pit. The exploration target in the T1 area is subject to native title and discussions have progressed with the claimants in an attempt to gain access to this area for follow-up exploration.

Extension Hill Magnetite Project

As announced in last year's Annual Report, Mount Gibson decided to divest its stake in Asia Iron Holdings Limited – and therefore the Extension Hill Magnetite Project – completing the transaction this year, with the final instalment transferred in May 2007.

The sale has lowered the financial and technical risk profile of the company, enabling Mount Gibson the option to fund the development costs of the Extension Hill Direct Shipping Ore (DSO) project without diluting shareholder funds through significant equity capital raisings or substantial borrowings.

Mount Gibson will now exploit the DSO hematite-geothite resource close to the surface while retaining the rights to all hematite iron ore in the Mount Gibson Ranges within the tenement area.

Extension Hill Direct Shipping Ore (DSO) Project

The Extension Hill hematite deposit has JORC-compliant Probable Reserves of 12.1 million tonnes, and the results of a Detailed Feasibility Study (DFS) carried out this year confirm that a 3 Mtpa hematite mining operation can be established quickly.

The Western Australian Minister for the Environment has advised that the project can proceed, with official approval from State and Federal governments expected by November 2007. The Mount Gibson Board has approved commencement of the DSO operations as soon as possible with the expectation that production will commence in late 2008.

Early in the year the DFS demonstrated that the project can provide outstanding financial returns in a short timeframe, with minimal technical risks and relatively low capital requirements. The completed DFS reinforced the findings of the initial desktop study.

The project's estimated production life has been set at five to seven years, with excellent potential for significant increases in reserves – both inside and adjacent to the present pit design.

Another focus of the DFS was road and port facility design, with the Great Northern Highway realignment and haul road underpass design passed to Main Roads WA (MRWA) for review and approval. Approval is expected in October 2007.

The DFS generally validated the broad strategies and parameters assumed for the desktop study, and evaluated multiple operating options with related costs, timing and risks. Other factors influencing development in the Mid-West – outside Mount Gibson's direct control – have become more apparent and better understood, confirming that it is these factors that will drive the timing of development scenarios.

APPENDIX IV MANAGEMENT DISCUSSION AND ANALYSIS OF MOUNT GIBSON

Documentation required for Department of Industry and Resources (DoIR) and Department of Environment and Conservation (DEC) Works Approval applications has been prepared and is in the process of lodgement.

Baseline studies for flora, fauna, water and fire monitoring and management have also been designed with fieldwork currently in progress.

Ongoing work on road, rail and port construction and operation has been successful in identifying a number of options – any one of which offer significant time and cost savings over the scenarios evaluated in the DFS. At the Geraldton Port, Mount Gibson is in discussion with existing stakeholders and other interested parties over a range of joint or Mount Gibson-owned storage facilities.

The acquisition of Aztec Resources Limited in February 2007 enabled the Koolan Island project to be fully funded and major infrastructure works to be substantially complete. Our merged and integrated team has worked tirelessly to complete critical infrastructure which has allowed us to meet planned production timelines, culminating in the milestone achievement of its first iron ore shipment in June 2007 to China.

The shipped ore was mined and stockpiled from the Eastern and Mullet pits which will continue to account for a bulk of mine production over the next two years prior to the commencement of Main Pit. Mount Gibson has forecast that 3 Mt will be produced from Koolan Island in the coming year, with its targeted production of 4 Mtpa to be reached in 2010.

Operationally, the focus throughout the year progressed mine establishment and completed infrastructure construction thus achieving Koolan Island's first shipment by the end of the 2006/07 financial year. The construction schedule was demanding however major infrastructure was completed, including wharf, jetty, rock causeway, deck, berthing equipment, crushing and screening plant, ship loader, accommodation, offices and access roads.

The accommodation camp has capacity of 239 ensuite rooms. The village's services are fully installed and connected, and multi-purpose buildings such as the wet mess are operational.

The Koolan Island airstrip was lengthened by 230 metres and bitumen sealed, eliminating lost time due to the company's inability to safely land on a rain-affected strip during periods of inclement weather.

During the coming year Mount Gibson will complete minor capital infrastructure projects whilst preparing to access Koolan Island Main Pit. Preparatory works, which will take approximately two years, will include the construction of a seawall across Arbitration Cove, pit dewatering and footwall rehabilitation. During this period iron ore production will be sourced from satellite open pits and the extension to Main Pit known as Main West.

Exploration

To ensure the long-term future of Koolan Island, Mount Gibson has commenced detailed geological mapping and intensive resource drilling. This is primarily focused on confirming Koolan Island's current resource of 53.3 million tonnes but is ultimately directed to increasing the reserve base of the operation through extensional and additional exploration success.

Mount Gibson currently plans to operate Koolan for the next nine years, based on the work to date. Exploration will continue to focus on additional resources and with the cooperative support of Koolan Island's traditional indigenous land owners, the Dambimangari, the exploration search may broaden.

Infill drilling has focused on the Barramundi West and Barramundi South deposits to enhance grade definition and locate the boundaries of these deposits which were drilled in 2006. Infill drilling also progressed at Main West, returning encouraging results and extending the Main West resource.

Surface mapping and sampling progressed at the Main West deposit and the Mackerel Prospect areas to locate additional resource targets and to sterilise areas chosen for waste dumps.

To the north and east of the Mullet-Acacia deposit, mapping and sampling also commenced with random rock chip samples on outcropping hematite horizons recording values greater than 60% Fe.

Discussions continue with the Kimberley Land Council to negotiate a Heritage and Access Agreement for nearby areas of interest that are situated adjacent to the Koolan Island Exploration Licence.

APPENDIX IV MANAGEMENT DISCUSSION AND ANALYSIS OF MOUNT GIBSON

RESOURCES

AT 30 JUNE 2007, ABOVE 50% Fe

TALLERING PEAK

	<i>Tonnes millions</i>	<i>Fe %</i>	<i>SiO₂ %</i>	<i>Al₂O %</i>	<i>P %</i>
Measured	14.0	63.4	3.85	2.13	0.023
Indicated	5.51	59.2	7.45	2.86	0.049
Inferred	<u>1.53</u>	<u>54.4</u>	<u>13.1</u>	<u>4.28</u>	<u>0.075</u>
Total	<u>21.0</u>	<u>61.6</u>	<u>5.47</u>	<u>2.48</u>	<u>0.033</u>

EXTENSION HILL

	<i>Tonnes millions</i>	<i>Fe %</i>	<i>SiO₂ %</i>	<i>Al₂O %</i>	<i>P %</i>
Indicated	12.8	60.0	5.36	1.75	0.063
Inferred	<u>6.69</u>	<u>59.6</u>	<u>6.76</u>	<u>1.77</u>	<u>0.056</u>
Total	<u>19.5</u>	<u>59.9</u>	<u>5.84</u>	<u>1.76</u>	<u>0.060</u>

KOOLAN ISLAND

	<i>Tonnes millions</i>	<i>Fe %</i>	<i>SiO₂ %</i>	<i>Al₂O %</i>	<i>P %</i>
Measured	1.49	63.6	6.71	1.19	0.021
Indicated	43.6	63.6	6.68	1.16	0.021
Inferred	<u>17.7</u>	<u>62.0</u>	<u>9.04</u>	<u>0.99</u>	<u>0.020</u>
Total	<u>62.8</u>	<u>63.2</u>	<u>7.34</u>	<u>1.11</u>	<u>0.021</u>
Total	<u><u>103.3</u></u>	<u><u>62.2</u></u>	<u><u>6.68</u></u>	<u><u>1.51</u></u>	<u><u>0.031</u></u>

APPENDIX IV MANAGEMENT DISCUSSION AND ANALYSIS OF MOUNT GIBSON

The information in this report relating to Mineral Resources at Talling Peak and Extension Hill is based on information compiled by Rolf Forster, who is a member of the Australasian Institute of Mining and Metallurgy.

The information in this report relating to Mineral Resources at Koolan Island is based on information compiled by Chris Arnold (CPGeo), principal of Chris Arnold Resource Consultants. Chris Arnold is a Member of the Australasian Institute of Mining and Metallurgy.

Rolf Forster and Chris Arnold are consultants to Mount Gibson Mining Limited, and have sufficient experience relevant to the styles of mineralisation and type of deposit under consideration and to the activity which they are undertaking, to each qualify as a Competent Person as defined in the December 2004 Edition of the “Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves”.

Rolf Forster and Chris Arnold have consented to the inclusion of the matters in this report based on their information in the form and context in which it appears.

RESERVES

AT 30 JUNE 2007

TALLERING PEAK

	<i>Tonnes millions</i>	<i>Fe %</i>	<i>SiO₂ %</i>	<i>Al₂O %</i>	<i>P %</i>
Proven	14.1	62.7	4.46	2.29	0.023
Probable	<u>4.15</u>	<u>58.3</u>	<u>8.26</u>	<u>3.68</u>	<u>0.032</u>
Total	<u>18.3</u>	<u>61.7</u>	<u>5.32</u>	<u>2.60</u>	<u>0.025</u>
Ore + Product Stockpiles	<u>0.60</u>	<u>60.5</u>	<u>7.09</u>	<u>2.61</u>	<u>0.030</u>

APPENDIX IV MANAGEMENT DISCUSSION AND ANALYSIS OF MOUNT GIBSON

EXTENSION HILL

	<i>Tonnes millions</i>	<i>Fe %</i>	<i>SiO₂ %</i>	<i>Al₂O %</i>	<i>P %</i>
Probable	<u>12.8</u>	<u>60.3</u>	<u>5.48</u>	<u>1.64</u>	<u>0.062</u>
Total	<u>12.8</u>	<u>60.3</u>	<u>5.48</u>	<u>1.64</u>	<u>0.062</u>

KOOLAN ISLAND

	<i>Tonnes millions</i>	<i>Fe %</i>	<i>SiO₂ %</i>	<i>Al₂O %</i>	<i>P %</i>
Proven	1.48	63.6	6.69	1.19	0.021
Probable	<u>28.4</u>	<u>64.9</u>	<u>5.25</u>	<u>0.98</u>	<u>0.018</u>
Total	<u>29.9</u>	<u>64.8</u>	<u>5.32</u>	<u>0.99</u>	<u>0.018</u>
Ore + Product Stockpiles	<u>0.39</u>	<u>61.6</u>	<u>6.09</u>	<u>3.48</u>	<u>0.030</u>
Total	<u><u>62.0</u></u>	<u><u>62.9</u></u>	<u><u>5.38</u></u>	<u><u>1.63</u></u>	<u><u>0.029</u></u>

The information in this report relating to Ore Reserves is based on information compiled by Rolf Forster and Weifeng Li, who are both members of the Australasian Institute of Mining and Metallurgy.

Rolf Forster and Weifeng Li are consultants to Mount Gibson Mining Limited, and have sufficient experience relevant to the styles of mineralisation and type of deposit under consideration and to the activity which they are undertaking, to each qualify as a Competent Person as defined in the December 2004 Edition of the “Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves”.

Rolf Forster and Weifeng Li have consented to the inclusion of the matters in this report based on their information in the form and context in which it appears.

- 3. The following is the reproduction of certain paragraphs of the management discussion and analysis as contained in the 2006 annual report of Mount Gibson (all monetary amounts are stated at A\$).**

Tallering Peak Hematite Operations

Now in its second full year, the Tallering Peak hematite operation includes the Tallering Peak hematite mine, crushing and screening plant, the rail loading facility at Mullewa and the ore storage and loading facilities at the Port of Geraldton.

Tallering Peak had a very strong physical and financial performance in the first half of the financial year as the mine completed the first stage of multiple small open pits. MGI generated strong cash flows which set the foundation for large cut backs of existing pits in the second half of the financial year. The large cut backs involved the removal of very large quantities of waste rock. This allowed development of the mine to the stage where production of 3Mtpa for the remaining Life of Mine (“LOM”) at Tallering Peak is possible on a sustainable basis.

Ore production for the year totalled 1,122,000 tonnes whilst ore sold totalled 1,362,000 tonnes. Ore production expectations in the second half of the year were not achieved. This was due to the under reconciliation of the resource in the upper sections of the geological resource resulting from limited drill rig access caused by the steep local topography. This is not expected to materially affect the total mining resource as the upper section contributes less than 4% of the total ore tonnes.

Material movement from Tallering Peak accelerated substantially in the second half of the year compared with the first. Material movements in the first half averaged 390,000 BCM per month whilst rates of approximately 1,000,000 BCM per month were achieved by the end of the financial year. Tallering Peak will maintain these rates over the next two years to ensure sustainable ore production rates of 3Mtpa can be achieved.

The LOM plan for Tallering Peak will be continually updated and further information is acquired however the current information indicates that the strip ratio will decline significantly in 2008-09 and continue to decline through to the completion of the mine life. There is a significant possibility of extending the mine life at Tallering Peak with the development of an area to the North East described as T1. This area was originally explored by Western Mining in the late 1960’s with the establishment of an adit into the mineralised hill and some limited surface drilling. Hematite was intersected in both the adit and drilling which gives MGI confidence that further hematite discoveries in the area are possible. The exploration target in the T1 area is subject to native title and discussions have commenced with the claimants in an attempt to gain access to this area for follow up exploration.

The remaining LOM plan at Talling Peak will see the mine develop at least a further three cut backs in order to access the deepest areas of the known ore reserve. The remaining LOM strip ratio will be in the order of 5:1 tonne for tonne. The current satellite open cut T5, which produces lower grade higher contaminant hematite ore for blending with the premium high grade and high quality ore from the Main pit, is scheduled to be completed in first half of the 2007-08 financial year.

Talling Peak lifted production considerably in the second half of the financial year by introducing large scale mobile fleet to the operation and by selling, at a profit, the smaller scale equipment used to initially establish the mine. The introduction of the larger fleet has been timely given the substantial increases in costs in the Western Australian resource sector. Although costs at Talling Peak have increased MGI has been able to mitigate some of the increases by introducing larger more productive equipment however future efficiencies will be pursued in order to maintain current unit costs against an escalation in fuel, consumable and wages costs. MGI has also focussed on owner operating rather than contracting out mining and crushing services. MGI has experienced an increase of contractor margins in this period of unprecedented demand for labour, services and materials. To this end MGI closed out the crushing and screening contract on site and purchased the installed equipment. Although this impacted on cash spend the unit operating costs for crushing and screening have been reduced and the throughput increased significantly.

Subsequent to the end of the 2005/06 financial year, Talling Peak exceeded targeted ore production rates in the September quarter and has achieved an annualised production rate of 3Mtpa. Ore production rates and material movements have been at record levels whilst ore grade and contaminant levels have been within contract specifications. MGI has also demonstrated that the mine, road transport and rail infrastructure can operate at 3Mtpa production rates and the Geraldton Port is well placed to deliver increased capacity with the introduction of a second iron ore ship loading facility due for completion early in 2008.

Operational risk mitigation and safety management in the workplace is MGI's highest management priority, and Talling Peak's management team are constantly working to improve safety awareness, reduce Lost Time Injuries and develop a "safety culture" among employees and contractors at all sites. The Lost Time Injury Frequency Rate and Disabling Injury Frequency Rate has improved over 90% since November 2005 and is in line with the industry average which reflects a significant improvement in the safety culture and risk management controls of the site. MGI will continue to adopt meaningful risk management strategies and controls that minimise the risks to people and plant.

Environmental performance is a critical “licence to operate” issue for mine management, and Talling Peak continues to make significant improvements in the management of local fauna and flora, rehabilitation, waste disposal, mine impact monitoring and dust and emissions controls. Despite severe skills shortages in the mining industry in Western Australia, MGI has successfully recruited new management and expanded the Talling Peak workforce in line with the significant increase in output from the mine during the year. MGI continues to be one of largest employers in the Mid West region, and employs most of its mine personnel from Geraldton or other towns in the Mid West region. MGI will continue to employ local and regional employees as a clear and demonstrable commitment to the Mid West and the region’s future growth, development and prosperity.

Extension Hill DSO Hematite Project

MGI completed a comprehensive desktop study and is nearing completion of a definitive feasibility study (“DFS”) into the development of a hematite mining and direct shipping operation located at Extension Hill in the Mt Gibson Range 85 kilometres east of Perenjori 260km east-south-east of Geraldton.

The desktop study demonstrates that the project can provide outstanding financial results in a short time-frame with minimal technical risks and relatively low capital requirements. This result is due to short construction times, minimal pre-strip enabling full ore production by the third month of mining and strong iron ore prices.

Most significant risks to the project lie in the implementation of development activities, particularly at the Geraldton Port and timing of production start-up.

MGI owns 100% of the Extension Hill DSO (“Direct Shipping Ore”) Hematite project and intends, subject to Board approval, to develop the project irrespective of whether the magnetite project at Extension Hill proceeds or not. The DFS is expected to be completed by December 2006, with submission of a project proposal to the MGI Board shortly thereafter. Project commencement would then be subject to receipt of all statutory approvals, readiness of the new Berth 5 ship loader in Geraldton, completion of MGI’s port facilities, availability of rail capacity, completion of road upgrades, and construction of site infrastructure. MGI is targeting the first quarter of calendar 2008 for first product shipment from Geraldton, subject to various environmental and statutory approvals.

The Extension Hill DSO project has JORC compliant Probable Reserves of 12.1 million tonnes already established within a designed open pit which demonstrates a life of mine waste to ore ratio of less than 1:1. There is excellent potential for significant increases in Reserves once environmental approvals are granted, both inside and adjacent to the present pit design. Shipment of up to 3 million tonnes per annum of product is envisaged, depending on final Reserves and off-site transport capacities. Lump and Fines product will be shipped in an approximate 50/50 ratio.

The Extension Hill DSO project can be substantially funded by the \$52.5 million proceeds of the sale of Mount Gibson Iron's 73% interest in Asia Iron Holdings which owns the Extension Hill Magnetite Project.

The operation will directly employ approximately 110 people on site, with a further 60 involved in contract transport operations. The operating plan is likely to involve conventional truck and hydraulic excavator open pit mining, ore crushing and screening on-site to produce blended Lump and Fines products, road transport 85 kilometres to Perenjori, then by rail in specially designed ore carrying rail wagons for the final 240 kilometre journey to the new Berth 5 storage shed at the Port of Geraldton. From there, product would be exported in Panamax sized vessels directly to customers in China and throughout Asia.

Extensive investigation into the design and operation of MGI's second port facility is being conducted.

Asia Iron Sale

On 7 June 2006 MGI advised ASX that it had signed an agreement with China's third largest steel producer, the Shougang Group, for the sale of MGI and Mount Gibson Mining Limited's ("MGM") entire 73% interest in Asia Iron Holdings Limited ("Asia Iron") for \$52.5 million. The agreement was subject to FIRB approval and the minority shareholders in Asia Iron not exercising an option to match the Shougang offer. Minority shareholders had 28 days to exercise an option to match the Shougang offer.

On 6 July 2006 MGI advised ASX that it has received notice of an election to purchase MGI and MGM's shareholding in Asia Iron from a minority shareholder, Sinom Investments Limited ("Sinom"). Sinom's notice to match the Shougang offer resulted in a binding agreement for the sale of MGI and MGM's entire 73% interest in Asia Iron to Sinom on the same terms as those previously agreed with Shougang.

Sinom obtained FIRB approval for the Asia Iron acquisition on 2 August and the proceeds have been placed in escrow pending Environmental Approval, which is not expected until late 2006 or early 2007. In the event Environmental Approval is not obtained by 30 November 2007, the agreement with Sinom can be terminated, and the 73% interest in Asia Iron returned to MGI and MGM.

The board's decision to divest its Asia Iron stake, and therefore the Extension Hill Magnetite Project, lowers MGI's financial and technical risk profile and enables MGI to fund the development costs of the Extension Hill DSO project without diluting shareholders through significant equity capital raisings or increasing debt through substantial borrowings. The development of the Extension Hill Magnetite Project would have exposed MGI to unacceptably high levels of debt and would have had a significant dilutionary effect on current shareholders. Given the escalating operational and capital costs associated with new and existing resources projects in Western Australia and the inability for large scale projects to be delivered on schedule due to a shortage of skilled labour, engineering resources and protracted delivery times for major items of capital equipment the sale of MGI's stake in Asia Iron was considered by the Board to be in the best interest of MGI shareholders. MGI has retained all the rights to hematite iron ore in the Mt Gibson Ranges.

TAKEOVER OF AZTEC RESOURCES

Mount Gibson is the first of the current generation of junior iron ore companies to achieve large scale iron ore production in the Mid West region whilst being recognised as a leader of the Mid West iron ore industry and a driving force behind the development of regional infrastructure. Mount Gibson has gained "first mover" status as a junior iron ore company and has taken the initiative to grow the company further during a period of strong iron ore prices whilst at the same time balancing and diversifying Mount Gibson's portfolio of assets.

On 24 July 2006, Mount Gibson announced a takeover offer for Aztec, by offering one Mount Gibson share for every three Aztec shares.

The takeover bid is an important element of Mount Gibson's growth strategy that delivers both MGI and Aztec shareholders ASX 200 status, a significantly higher production capability and an asset portfolio that is based in Australia. Mount Gibson and Aztec shareholders will participate in a company that has a balanced and diversified asset base which helps to mitigate the risks associated with companies owning and operating single asset mining ventures. The merged company will enhance business performance by combining intellectual capital, reducing costs, combining production, reducing operational risk and improving access to future funding whilst providing all shareholders with a potential market re-rating.

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Based on the projected production capacity of the merged company, consensus iron ore pricing and publicly available cost information, strong earnings growth is possible. The merger of the two companies creates Australia's leading pure-play iron ore producer and places the combined company in a strong position to participate from a position of strength in any future accretive expansion opportunities.

Mount Gibson's takeover offer was strongly endorsed by the largest shareholders in both Aztec and Mount Gibson. Aztec's largest shareholder Cambrian Mining Plc granted an option to Mount Gibson, which Mount Gibson has since exercised, to acquire an initial stake of 15.24% of Aztec's issued capital (reduced from 19.9% after the issue of shares in respect of outstanding options). Cambrian has accepted Mount Gibson's offer in relation to its remaining interest in Aztec.

At the time of writing this report, Mount Gibson had a relevant interest of 33.2% in Aztec.

Mount Gibson Corporate Mineral Resources									
		<i>M tonnes</i>	<i>Fe%</i>	<i>SiO₂%</i>	<i>Al₂O₃%</i>	<i>P%</i>	<i>S%</i>	<i>MgO%</i>	<i>LOI%</i>
Measured	>57% Fe	8.37	63.6	4.35	2.19	0.02	0.07	0.58	1.42
	50-57% Fe	0.80	54.6	11.5	3.78	0.04	0.47	1.77	3.16
	Total >50% Fe	9.17	62.8	4.98	2.33	0.03	0.11	0.68	1.57
Indicated	>57% Fe	21.7	62.2	4.41	1.78	0.05	-	0.60	3.79
	50-57% Fe	3.68	55.3	9.73	3.16	0.07	-	0.97	6.21
	Total >50% Fe	25.4	61.2	5.19	1.98	0.05	-	0.65	4.14
Inferred	>57% Fe	5.51	61.5	5.52	1.59	0.05	-	-	4.12
	50-57% F3	2.66	54.7	11.1	2.76	0.08	-	0.58	6.28
	Total >50% Fe	8.17	59.3	7.33	1.97	0.06	-	-	4.82
Sub-Totals	>57% Fe	35.6	62.4	4.57	1.84	0.04	-	-	3.28
	50-57% FE	7.14	55.0	10.4	3.08	0.07	-	0.91	5.89
Mount Gibson Corporate									
Grand Total		42.7	61.2	5.55	2.05	0.05	-	-	3.72

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ORE RESERVES AS AT 30 JUNE 2006

Mount Gibson Corporate Mining Reserves	<i>M tonnes</i>	<i>Fe%</i>	<i>SiO%</i>	<i>Al₂O₃%</i>	<i>P%</i>	<i>S%</i>	<i>MgO%</i>	<i>LOI%</i>
Total Proven	9.11	61.7	4.87	2.34	0.02	0.08	0.64	1.57
Total Probable	23.4	61.3	4.51	1.80	0.05	–	–	4.02
Mount Gibson Corporate								
Grand Total	32.5	61.4	4.61	1.95	0.04	–	–	3.34

A detailed breakdown of Mount Gibson's Reserves and Resources as at 30 June 2006 was released to the ASX on 3 August 2006.

RESERVES AND RESOURCES

Exploration and development work during the year to 30 June 2006 has increased Mount Gibson's 100% owned Mining Reserve 75%, up from 18.6 Mt to 32.5 Mt. This increase is primarily due to:

- Establishment of a Probable Reserve for the Extension Hill Hematite deposit at Mt Gibson;
- Development of a sustainable Life-of-Mine Plan for Tallering Peak incorporating stockpiling strategies, enabling planned blending of subgrade material;
- Successful drilling at Tallering Peak allowing commitment to a cutback on the existing T5 pit;
- Increased product prices.

Mineral Resources (also 100% owned) have increased 27%, up from 33.6 Mt to 42.7 Mt, due to:

- Successful drilling extending the Extension Hill Hematite deposit at Mt Gibson;
- Successful drilling extending the T5 deposit at Tallering Peak;
- Reporting of Resources to a lower Fe cut-off to more accurately reflect mine planning requirements.

Resources are reported at 57% Fe and 50% Fe lower cut-offs, with total Resources now including 50%-57% Fe material (subgrade). Some, but not necessarily all, of this subgrade converts to mining Reserves. No lower cut-off grades are quoted for mining Reserves, as cut-offs vary on a monthly basis throughout the mine life. The Life-of-Mine schedule targets consistent lump and fines product grades to meet customer specifications. Mining Reserves are the sum of scheduled production, and incorporate mining dilution, stockpiling, blending and transport strategies.

EXPLORATION

Exploration activity during the year has contributed significantly to the growth of the company, with a 27% increase in established Mineral Resources achieved. This was backed by development and mining feasibility studies at both Tallering Peak and Extension Hill, which resulted in a 75% increase in reported Mining Reserves.

TALLERING PEAK

Total non-production drilling at Tallering Peak during the year amounted to 11,453m of RC in 123 holes and 2,446m of diamond core in 20 holes. Most work was infill and extensional resource definition drilling, with geotechnical investigations accounting for the bulk of the diamond core.

Drilling of 35 extensional RC holes at the T5 deposit in late 2005 was successful, allowing commitment to a significant cutback on the T5 pit which was to have been exhausted by March 2006. Infill and extensional drilling on the main range pit continues to better define the orebody around the active mining area (T3), and has identified additional material in the T2 area immediately to the north-east. Exploration drilling further along the main ridge to the north-east (T1 area) is scheduled to begin immediately land access agreements are put in place.

Validation, compilation and synthesis of existing data across the entire lease area at Tallering Peak has been facilitated by the purchase and successful implementation of acQure software, an industry-standard database platform specifically designed to meet the requirements of integrated explorers and producers like Mount Gibson. A number of follow-up targets have been selected for further work, with some drilling already completed in the Central Ridge area, a kilometre north-west of T3 and 2.5km along-strike from T5.

EXTENSION HILL

Total drilling at Extension Hill during the year amounted to 3,476m of RC in 41 holes and 363.1m of PQ core in nine holes. Surface mapping was also completed to support revision of the three-dimensional geological interpretation.

Three discrete drilling programs were completed. A program of deep RC holes towards the northern end of Extension Hill extended both magnetite and hematite zones of known mineralisation, a program of short RC holes better defined shallow hematite mineralisation and highlighted potential in detrital material off the flanks of the main hill, while a very specific program of nine PQ core holes (83mm core) was also completed to obtain hematite ore for metallurgical test work.

Re-sampling of hematite zones of interest in RC drillholes is underway to provide better resolution data in areas of composited samples, mainly to allow mining dilution sensitivity studies to be conducted.

Large areas of excellent hematite exploration potential are known at Extension Hill which have not been drilled due to the presence of a Declared Rare Flora (*darwinia masonii*). Flora surveys conducted this year and mechanisms documented in the Public Environmental Review will allow exploration through these areas once environmental approval is granted. Significant increases in hematite Resources and Reserves are anticipated.

OTHER AREAS

Four short diamond core holes were drilled at Asia Iron's Irwin River Coal project to provide material for quality testing and flotation work. All four holes successfully intersected both known coal seams.

Environmental and ethnographic surveys were completed over tenements at Wolla Wolla and Walebing, enabling on-ground field activities to commence in the coming year.

Geological mapping and some ground magnetics surveys were conducted at Mt Yule, Wolla Wolla and Koolanooka South to assist in identification of drilling targets.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group.

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained in this circular, the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS BY DIRECTORS AND CHIEF EXECUTIVES

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by the Directors of Listed Issuers contained in the Listing Rules, were as follows:

(a) Long position in Shares and underlying shares of the Company

Name of Directors	Capacity in which interests are held	Number of shares/underlying shares held in the Company			Total interests as to % to the issued share capital of the Company (Note 1)
		Interests in shares	Interests under equity derivatives	Total Interests	
Mr. Cao Zhong	Beneficial owner	–	133,000,000 (Note 2)	133,000,000	2.81%
Mr. Liu Yongshun	Beneficial owner	–	150,000,000 (Note 2)	150,000,000	3.17%
Ms. Chong Sok Un	Beneficial owner and interest of controlled corporation (Note 3)	614,260,000	115,000,000 (Note 2 & 4)	729,260,000 (Note 5)	15.42%

Name of Directors	Capacity in which interests are held	Number of shares/underlying shares held in the Company			Total interests as to % to the issued share capital of the Company (Note 1)
		Interests in shares	Interests under equity derivatives	Total Interests	
Mr. Zhou Luyong	Beneficial owner	–	33,000,000 (Note 2)	33,000,000	0.70%
Mr. Chen Zhaoqiang	Beneficial owner	–	33,000,000 (Note 2)	33,000,000	0.70%
Mr. Yue Jialin	Interest of controlled corporation (Note 6)	16,179,602	119,339,960	135,519,562 (Note 7)	2.87%
Mr. Wong Wing Kuen, Albert	Beneficial owner	–	3,000,000 (Note 2)	3,000,000	0.06%
Mr. Chang Chu Fai, Johnson Francis	Beneficial owner	–	2,000,000 (Note 2)	2,000,000	0.04%

Notes:

- The percentage of shareholding was calculated on the basis of the Company's issued share capital of 4,728,659,055 Shares as at the Latest Practicable Date.
- The relevant interests are share options granted pursuant to the Company's share option scheme adopted on 22 September 2004 (the "Scheme"). Upon exercise of the share options in accordance with the Scheme, the Shares in the share capital of the Company are issuable.
- These Shares are held by Sparkling Summer Limited ("Sparkling Summer") and Rise Cheer Investments Limited ("Rise Cheer"), both of which are wholly-owned subsidiaries of COL Capital Limited ("COL"). COL is 38.56% owned by Vigor Online Offshore Limited which in turn is a wholly-owned subsidiary of China Spirit Limited ("China Spirit") in which Ms. Chong Sok Un maintains 100% beneficial interest. COL is therefore deemed to have interests in the Shares and underlying shares in which Sparkling Summer and Rise Cheer are interested. Ms. Chong Sok Un is therefore deemed to have interests in the Shares and underlying shares through her 100% interest in China Spirit.
- This represents 110,000,000 share options granted to Ms. Chong Sok Un and an interest in 5,000,000 units of warrants giving rise to an interest in 5,000,000 underlying shares held by Sparkling Summer. The warrants entitle the holders to subscribe at any time during the period from 5 February 2007 to 4 February 2010 (both days inclusive) for fully paid shares at an initial subscription price of HK\$0.30 per share (subject to adjustments).

5. This represents the interests held by: (i) Sparkling Summer as to 314,260,000 Shares and 5,000,000 units of warrants giving rise to an interest in 5,000,000 underlying shares, (ii) Rise Cheer as to 300,000,000 Shares, and (iii) 110,000,000 share options granted to Ms. Chong Sok Un.
6. These Shares are registered/will be registered (as the case may be) in the name of and beneficially owned by Profit Harbour Investments Limited, the entire issued share capital of which is owned by Mr. Yue Jialin.
7. This represents an interest in 16,179,602 Shares and an interest in 119,339,960 units of warrants giving rise to an interest in 119,339,960 underlying shares. The warrants entitle the holders to subscribe at any time during the period from 5 February 2007 to 4 February 2010 (both days inclusive) for fully paid shares at an initial subscription price of HK\$0.30 per share (subject to adjustments).

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

Save as disclosed above, none of the Directors or proposed directors of the Company (if any) was a director or employee of a company which had any interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO.

(b) Interests in competing businesses

As at the Latest Practicable Date, none of the Directors nor their respective associates had any business which competes or is likely to compete, either directly or indirectly, with any businesses of the Group.

(c) Interests in assets

As at the Latest Practicable Date, none of the Directors had any direct or indirect interests in any assets which had been acquired or disposed of by, or leased to, or which were proposed to be acquired or disposed of by or leased to any members of the Group since 31 December 2007, being the date to which the latest published audited consolidated financial statements of the Company were made up.

(d) Interests in contracts

None of the Directors was materially interested in any contracts or arrangements entered into by any members of the Group and subsisting as at the Latest Practicable Date which were significant in relation to the business of the Group.

(e) Remuneration of the Directors

There will be no variation in relation to the remuneration payable to and benefits in kind receivable by the Directors in consequence of the subscription of MG Shares in respect of the Aggregated Commitments.

3. DISCLOSURE OF INTERESTS BY SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to the Directors and chief executives of the Company, the following persons (not being Directors or chief executives of the Company) had, or were deemed to have, interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company or the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had an option in respect of such capital:

Long position in Shares and underlying shares of the Company

Name of Shareholders	Capacity in which interests are held	Number of shares/underlying shares held in the Company			Total interests as to % to the issued share capital of the Company (Note 1)
		Interests in shares	Interests under equity derivatives	Total Interests	
Benefit Rich Limited	Beneficial owner	600,000,000	60,000,000 (Note 2)	660,000,000	13.96%
Shougang Holding (Hong Kong) Limited	Interest of controlled corporation (Note 4)	896,000,000	60,000,000	956,000,000 (Note 3)	20.22%
Rise Cheer Investments Limited	Beneficial owner	300,000,000	–	300,000,000	6.34%
COL Capital Limited	Interest of controlled corporation (Note 5)	614,260,000	5,000,000 (Note 6)	619,260,000 (Note 7)	13.10%
Sun Hung Kai & Co. Limited	Interest of controlled corporation (Note 9)	598,472,893	–	598,472,893 (Note 8)	12.65%

Name of Directors	Capacity in which interests are held	Number of shares/underlying shares held in the Company			Total interests as to % to the issued share capital of the Company (Note 1)
		Interests in shares	Interests under equity derivatives	Total Interests	
Allied Properties (H.K.) Limited	Interest of controlled corporation (Note 9)	598,472,893	–	598,472,893	12.65%
Allied Group Limited	Interest of controlled corporation (Note 10)	598,472,893	–	598,472,893	12.65%
Lee and Lee Trust	Interest of controlled corporation (Note 11)	598,472,893	–	598,472,893	12.65%

Notes:

- The percentage of shareholding was calculated on the basis of the Company's issued share capital of 4,728,659,055 Shares as at the Latest Practicable Date.
- This represented an interest in 600,000,000 Shares and an interest in 60,000,000 units of warrants giving rise to an interest in 60,000,000 underlying shares. The warrants entitle the holders to subscribe at any time during the period from 5 February 2007 to 4 February 2010 (both days inclusive) for fully paid shares at an initial subscription price of HK\$0.30 per share (subject to adjustments).
- This represents the interests held by: (i) Benefit Rich Limited ("**Benefit**") as to 600,000,000 shares and 60,000,000 units of warrants giving rise to an interest in 60,000,000 underlying shares, (ii) Easymade Investments Limited ("**Easymade**") as to 100,000,000 shares, and (iii) Prime Success Investments Limited ("**Prime Success**") as to 196,000,000 shares, all of which are wholly-owned subsidiaries of Shougang Holding (Hong Kong) Limited ("**Shougang**") as at the Latest Practicable Date.
- Benefit, Easymade and Prime Success are wholly-owned subsidiaries of Shougang as at the Latest Practicable Date. Accordingly, Shougang was deemed to have the same long position as Benefit, Easymade and Prime Success under the SFO.
- These Shares are held by Sparkling Summer Limited ("**Sparkling Summer**") and Rise Cheer Investments Limited ("**Rise Cheer**"), both of which are wholly-owned subsidiaries of COL Capital Limited ("**COL**"). COL is 38.62% owned by Vigor Online Offshore Limited which in turn is a wholly-owned subsidiary of China Spirit Limited ("**China Spirit**") in which Ms. Chong Sok Un maintains 100% beneficial interest. COL is therefore deemed to have interests in the Shares and underlying shares in which Sparkling Summer and Rise Cheer are interested.

6. This represents an interest in 5,000,000 units of warrants giving rise to an interest in 5,000,000 underlying shares held by Sparkling Summer. The warrants entitle the holders to subscribe at any time during the period from 5 February 2007 to 4 February 2010 (both days inclusive) for fully paid shares at an initial subscription price of HK\$0.30 per share (subject to adjustments).
7. This represents the interests held by: (i) Sparkling Summer as to 314,260,000 Shares and 5,000,000 units of warrants giving rise to an interest in 5,000,000 underlying shares, and (ii) Rise Cheer as to 300,000,000 Shares.
8. This represents the interests held by: (i) Itso Limited (“**Itso**”) as to 11,000,000 Shares, and (ii) Sun Hung Kai Strategic Capital Limited (“**SHKSC**”) as to 587,472,893 Shares, both of which are indirect wholly-owned subsidiaries of Sun Hung Kai & Co. Limited (“**SHK**”). Accordingly, SHK is deemed to have the same long position as Itso and SHKSC under the SFO.
9. SHK is a non wholly-owned subsidiary of AP Emerald Limited (“**APE**”). APE is a wholly-owned subsidiary of AP Jade Limited which in turn is a wholly-owned subsidiary of Allied Properties (H.K.) Limited (“**APL**”). Accordingly, APL is deemed to have the same long position as SHK under the SFO.
10. APL is a non wholly-owned subsidiary of Allied Group Limited (“**AGL**”). Accordingly, AGL is deemed to have the same long position as SHK under the SFO.
11. Mr. Lee Seng Hui, Ms. Lee Su Hwei and Mr. Lee Seng Huang are the trustees of Lee and Lee Trust (“**LL Trust**”), being a discretionary trust. They together owned approximately 44.51% interest in the issued share capital of AGL. Accordingly, LL Trust is deemed to have the same long position as SHK under the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Directors and chief executives of the Company were not aware of any other persons (other than Directors or chief executives of the Company) who had, or were deemed to have, interests or short positions in the shares and underlying shares of the Company (including any interests in options in respect of such capital), which would fall to be disclosed to the Company or the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital.

4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with any members of the Group excluding contracts expiring or determinable by the employer within one year without payment of compensations other than statutory compensation.

5. MATERIAL LITIGATIONS

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or claim of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened by or against any member of the Group.

6. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the Latest Practicable Date and are or may be material:

- (i) the underwriting agreement dated 8 November 2006 entered into between the Company and Sun Hung Kai International Limited in relation to the proposed issue of 1,259,000,000 rights shares of the Company at a subscription price of HK\$0.30 per rights share on the basis of one rights share for every existing Share, such rights issue was subsequently completed on 1 February 2007;
- (ii) the placing agreement dated 9 November 2006 entered into between the Company and Sun Hung Kai Investment Services Limited in relation to the placing of 800,000,000 new Shares issued by the Company at HK\$0.30 per Share, which was subsequently completed on 28 February 2007;
- (iii) the conditional sale and purchase agreement dated 9 February 2007 entered into between Fortune Desire Investments Limited (a direct wholly-owned subsidiary of the Company) and Timely Rich Limited (a direct wholly-owned subsidiary of Shougang Holding (Hong Kong) Limited) relating to the sale and purchase of the 19,754,646 MG Shares at the consideration of HK\$102,427,839.51;
- (iv) the acquisition agreement dated 16 February 2007 entered into between Asia Pacific Resources Group Company Limited as the vendor, Mung Kin Keung as the guarantor and the Company as the purchaser in relation to the conditional acquisition of 10,000 shares in China Mineral Resource Limited at the consideration of HK\$450,000,000, which was subsequently terminated on 1 February 2008;
- (v) the conditional share and option subscription agreement dated 20 March 2007 entered into between the Company and Australasian Resources Limited in relation to the subscription of 28,000,000 shares and an option to subscribe for 14,000,000 shares of Australasian Resources Limited at the consideration of HK\$174,846,000;

- (vi) the conditional sale and purchase agreement dated 29 May 2007 entered into between Siberian Worldwide Ltd., Charlie Lam Leung Seng and Super Grand Investments Limited (a direct wholly-owned subsidiary of the Company) in relation to the sale and purchase of 304,290,200 shares of China Primary Resources Holdings Limited at the consideration of HK\$115,630,275.24;
- (vii) the conditional sale and purchase agreement dated 29 May 2007 entered into between Asia Bright International Limited, Zhang Yuhong and Super Grand Investments Limited (a direct wholly-owned subsidiary of the Company) in relation to the sale and purchase of 286,123,640 shares of China Primary Resources Holdings Limited at the consideration of HK\$108,726,982.44;
- (viii) the conditional sale and purchase agreement dated 29 May 2007 entered into between First South International Limited, Mai Wei Liang and Super Grand Investments Limited (a direct wholly-owned subsidiary of the Company) in relation to the sale and purchase of 272,498,680 shares of China Primary Resources Holdings Limited at the consideration of HK\$103,549,498;
- (ix) the placing agreement dated 4 July 2007 entered into between the Company and Sun Hung Kai International Limited and 3V Capital Limited (as joint placing agents) in relation to the placing of 665,000,000 new Shares issued by the Company at HK\$1.29 per Share;
- (x) the placing and subscription agreement dated 5 October 2007 entered into between the Company, Benefit Rich Limited (as vendor), Shougang Holding (Hong Kong) Limited (as warrantor) and CITIC Securities Corporate Finance (HK) Limited (as placing agent) in relation to the placing of 400,000,000 existing Shares and subscription of 400,000,000 new Shares at HK\$1.48 per Share;
- (xi) the conditional sale and purchase agreement dated 13 July 2008 entered into between APAC Resources Investments Limited (a direct wholly-owned subsidiary of the Company) and Leaping Far Investments Limited in relation to the sale and purchase of the entire issued share capital of Good China Limited and the assignment of a loan for an aggregate consideration of HK\$1,200,000,000, which was subsequently terminated on 3 October 2008;
- (xii) the legally binding heads of agreement entered into between the Company and Mount Gibson on 2 November 2008 pursuant to which the Company and Mount Gibson agreed on the key terms which will be contained in the definitive agreements in respect of, amongst other things, the offtake agreements and the underwriting agreement (which is further described in paragraph (xiii) below); and

(xiii) the underwriting agreement entered into between APAC Resources Investments Limited (a direct wholly-owned subsidiary of the Company, as the underwriter), the Company (as the guarantor) and Mount Gibson on 20 November 2008 in relation to the underwriting of up to 82,900,000 new shares in Mount Gibson (in priority to any other underwriters to the Rights Issue) by APAC Resources Investments Limited at an issue price of A\$0.60 per share. Assuming that the Shortfall Shares are all taken up by the underwriter, the aggregate subscription price to be paid is A\$49,740,000 (equivalent to approximately HK\$256,161,000) and the underwriter will receive from Mount Gibson a fee of 3.5% of the value of the Underwriting Commitment.

7. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion or advice which is contained in this circular:

Name	Qualification
Graham H. Y. Chan & Co.	Certified Public Accountants (Practising)

Graham H. Y. Chan & Co. has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or report dated 12 December 2008 and references to its name in the form and context in which it appears.

8. EXPERT'S INTEREST IN ASSETS

As at the Latest Practicable Date, Graham H. Y. Chan & Co. has not had any shareholding in any member of the Group nor the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Graham H. Y. Chan & Co. has not had any direct or indirect interests in any assets which had since 31 December 2007 (being the date to which the latest published audited consolidated financial statements of the Group were made up) been acquired or disposed of by or leased to any member of the Group or which are proposed to be acquired or disposed of by or leased to any member of the Group.

9. CORPORATE INFORMATION

Registered office	Clarendon House 2 Church Street Hamilton HM11 Bermuda
Head office and principal place of business	32/F China Online Centre 333 Lockhart Road Wanchai Hong Kong
Hong Kong branch share registrar and transfer office	Tricor Secretaries Limited 26th Floor Tesbury Centre 28 Queen's Road East Wanchai Hong Kong

10. GENERAL

- (a) The company secretary of the Company is Ms. Fung Sam Ming. Ms. Fung is an associate member of The Institute of Chartered Secretaries and Administrators.
- (b) As at the Latest Practicable Date, the Company had a causal vacancy in respect of its qualified accountant. The Company has not yet identified a suitable candidate and it will issue a separate announcement upon appointment of the qualified accountant.
- (c) This circular is prepared in both English and Chinese. In the event of inconsistency, the English text shall prevail.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be made available for inspection during normal business hours at the office of the Company of 32/F., China Online Centre, 333 Lockhart Road, Wanchai, Hong Kong from the date of this circular up to and including 29 December 2008:

- (a) the memorandum of association and Bye-laws of the Company;
- (b) the material contracts referred to under the paragraph headed "Material contracts" in this appendix;

- (c) the annual reports of the Company for the two financial years ended 31 December 2007 and the interim report of the Company for the six months ended 30 June 2008;
- (d) the accountants report from Graham H. Y. Chan & Co. on unaudited pro-forma financial information of the Group which includes a written statement in respect of the adjustments of the unaudited pro-forma financial information, the text of which is set out in Appendix II to this circular;
- (e) the consent letter from Graham H. Y. Chan & Co. referred to under the paragraph headed “Expert and consent” in this appendix;
- (f) the letter from Graham H. Y. Chan & Co. summarising the principal differences between Australian accounting standards to HKFRS and the accounting policies between the Company and Mount Gibson;
- (g) the annual reports of Mount Gibson for the three financial years ended 30 June 2008;
- (h) the circular of the Company dated 12 April 2007 relating to the subscription of 28,000,000 ordinary shares and 14,000,000 options in Australasian Resources Limited;
- (i) the circular of the Company dated 22 June 2007 relating to, inter alia, the conditional sale and purchase of 12.66% of the issued share capital of China Primary Resources Holdings Limited;
- (j) the circular of the Company dated 4 August 2008 relating to the conditional acquisition of the entire issued share capital of Good China Limited; and
- (k) this circular.

NOTICE OF THE SGM



APAC RESOURCES

APAC RESOURCES LIMITED

亞太資源有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 1104) (Warrant Code: 324)

NOTICE IS HEREBY GIVEN that a special general meeting (the “**Meeting**”) of APAC Resources Limited (the “**Company**”) will be held at 7th Floor, Board Room, The Dynasty Club, South West Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong on Monday, 29 December 2008 at 11:00 a.m. for the purpose of considering and if thought fit, passing with or without amendments, the following resolution as ordinary resolution of the Company and no shareholder of the Company (the “**Shareholder**”) shall abstain from voting:

ORDINARY RESOLUTION

“**THAT** the aggregated subscription of (a) 32,829,629 new shares in Mount Gibson Iron Limited (“**Mount Gibson**”) in respect of the Shareholding Commitment by the Company (through its wholly-owned subsidiaries); and (b) up to 82,900,000 new shares in Mount Gibson (which does not include the Shareholding Commitment) in respect of the Underwriting Commitment by APAC Resources Investments Limited, at an issue price of A\$0.60 per share and an aggregate consideration of A\$69,437,777 (assuming that the 82,900,000 new shares in Mount Gibson are all taken up by APAC Resources Investments Limited as the underwriter) (“**Aggregated Commitments**”) (the details of which are set out in the circular dated 12 December 2008 (the “**Circular**”) despatched by the Company to its shareholders, a copy of which has been produced to the Meeting marked “A” and initialled by the chairman of the Meeting for identification purpose), be and is hereby approved, and **THAT** the transactions contemplated under the Aggregated Commitments be and are hereby approved, and **THAT** the directors of the Company (the “**Directors**”) be and are hereby authorised to do such acts and execute such other documents with or without amendments and affix the common seal of the Company thereto (if required) as they may consider necessary, desirable or expedient to carry out or give effect to or otherwise in connection with or in relation to the Aggregated Commitments and the transactions contemplated thereunder, and **THAT** any action taken by the Directors prior to the date of the Meeting in connection with the Aggregated Commitments and any other transactions contemplated thereunder and which was not inconsistent with any matter approved by this resolution be and is hereby approved, confirmed and ratified.

* For identification purpose only

NOTICE OF THE SGM

For the purpose of this ordinary resolution,

- (a) “**Rights Issue**” means the 1 for 5 renounceable rights issue to be conducted by Mount Gibson at an issue price of A\$0.60, details of which are set out in the Circular;
- (b) “**Shareholding Commitment**” means the Company’s full entitlement (through its wholly-owned subsidiaries) under the Rights Issue in relation to those shares in Mount Gibson owned by the Company (through its wholly-owned subsidiaries) as at 2 November 2008, namely, 32,829,629 new shares in Mount Gibson to be subscribed for under the Rights Issue; and
- (c) “**Underwriting Commitment**” means the underwriting of up to 82,900,000 new shares in Mount Gibson (not taken up by shareholders of Mount Gibson in the Rights Issue, which does not include the Shareholding Commitment) under the underwriting agreement entered into between APAC Resources Investments Limited (as the underwriter), the Company (as the guarantor) and Mount Gibson on 20 November 2008 (a copy of which has been produced to the Meeting marked “B” and initialled by the chairman of the Meeting for identification purpose), in priority to any other underwriters to the Rights Issue by APAC Resources Investments Limited.”

By Order of the Board
APAC RESOURCES LIMITED
Cao Zhong
Chairman

Hong Kong, 12 December 2008

Registered office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head office and principal place of business in Hong Kong:
32/F China Online Centre
333 Lockhart Road
Wanchai
Hong Kong

NOTICE OF THE SGM

Notes:

1. Any member of the Company entitled to attend and vote at the Meeting is entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member of the Company. A member who is the holder of two or more Shares of the Company may appoint more than one proxy to represent him to attend and vote on his behalf.
2. A form of proxy for use in connection with the Meeting is enclosed with this notice. To be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a certified copy of that power of attorney or authority must be deposited at the branch share registrar of the Company, Tricor Secretaries Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.
3. The subscription of new shares in Mount Gibson in respect of the Shareholding Commitment is, in itself a discloseable transaction pursuant to Rule 14.06(2) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("**Listing Rules**") and does not require approval by Shareholders pursuant to Rule 14.33 of the Listing Rules. However, this subscription, when aggregated with the subscription of the new shares in Mount Gibson in respect of the Underwriting Commitment, will constitute a major transaction within the meaning of Rule 14.06(3) of the Listing Rules. Accordingly, The Stock Exchange of Hong Kong Limited has indicated that the subscription of new shares in Mount Gibson in respect of the Aggregated Commitments will be subject to the approval of the Shareholders at the Meeting in accordance with the requirements of Chapter 14 of the Listing Rules. No Shareholder will be required to abstain from voting at the Meeting. To this end, if Shareholders' approval is not obtained in respect of the Aggregated Commitments, then the Company will proceed with the subscription of new shares in Mount Gibson in respect of the Shareholding Commitment only. If the Shareholding Commitment takes place prior to the Meeting, the Company shall proceed with subscription of the new shares in Mount Gibson in respect of the Shareholding Commitment on the basis that it is a discloseable transaction. Accordingly, the Shareholding Commitment and the Underwriting Commitment are not inter-conditional.
4. The Company currently has Australian Foreign Investment Review Board ("**FIRB**") approval due to expire on 8 January 2009 to increase its holding in Mount Gibson to 29%. The Underwriting Agreement provides that if a fresh FIRB approval is not received prior to the Underwriting Agreement becoming unconditional, APAC Resources Investments Limited (or its related body corporate) will proceed to underwrite the Underwriting Commitment on the basis of the existing FIRB approval, but if APAC Resources Investments Limited (or its related body corporate) cannot take up the Underwriting Commitment because it is unable to rely on existing FIRB approval, APAC Resources Investments Limited must use its best endeavours to arrange for a non-associated person that is not subject to any regulatory approval restrictions to subscribe for such quantity of shares in Mount Gibson for which APAC Resources Investments Limited is unable to subscribe due to FIRB restrictions.

NOTICE OF THE SGM

As at the date of this notice, the Directors are as follows:

Executive Directors:

Mr. Cao Zhong (*Chairman*)

Mr. Liu Yongshun (*Chief Executive Officer*)

Mr. Zhou Luyong (*Deputy Chief Executive Officer*)

Ms. Chong Sok Un

Mr. Chen Zhaoqiang

Mr. Yue Jialin

Independent Non-Executive Directors:

Mr. Wong Wing Kuen, Albert

Mr. Chang Chu Fai, Johnson Francis

Mr. Alan Stephen Jones

Mr. Robert Moyse Willcocks