



Mount Gibson Iron Limited

ABN 87 008 670 817

Explanatory Memorandum

25 November 2008

The Mount Gibson Independent Directors UNANIMOUSLY RECOMMEND that you VOTE IN FAVOUR of the Resolutions in the absence of a superior proposal.

The Independent Expert has concluded that the TRANSACTION (comprising the OFFTAKE AGREEMENTS, the UNDERWRITING of the RIGHTS ISSUE and the PLACEMENT of 110 million shares at A\$0.60 per New Share) is FAIR AND REASONABLE

If you have any queries in relation to the Resolutions, this Explanatory Memorandum or the Notice of Meeting, please contact the Mount Gibson Investor Information Line on 1300 794 682 (toll free) from within Australia or +61 2 8280 7751 from outside Australia during office hours.

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Key Dates

Date of this Explanatory Memorandum	25 November 2008
Proxy form to be received not later than	9:00am (WDT) Sunday, 28 December 2008
Mount Gibson Shareholder meeting Boundary Room, WACA (Western Australian Cricket Association) Ground, Nelson Crescent, East Perth, Western Australia (entry via Gate 2)	9:00am (WDT) Tuesday, 30 December 2008
Proposed Placement of New Shares to Shougang Concord	Friday, 2 January 2009
Proposed Closing Date of Rights Issue	5.00pm (WDT) Tuesday, 6 January 2009

Important notices

Purpose of this Explanatory Memorandum

This document is important. It contains information for Shareholders relating to the Transaction. This Explanatory Memorandum provides Shareholders with necessary information to assist them in deciding how to vote on the Resolutions to be considered at the Meeting. This Explanatory Memorandum does not take into account the individual investment objectives, financial situation and particular needs of Shareholders or any other person. Accordingly, it should not be relied upon as the sole basis for any decision in relation to the Transaction.

You should read this Explanatory Memorandum in its entirety before making a decision as to how to vote at the Meeting. The Questions and Answers about the Transaction section of this Explanatory Memorandum answers some common questions about the Transaction generally. They are not intended to address all issues relevant to Shareholders. If you have any doubt as to what you should do once you have read this Explanatory Memorandum, you should consult your legal, financial or other professional adviser.

Forward looking statements

Certain statements in this Explanatory Memorandum relate to the future. Those statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of Mount Gibson to be materially different from future results, performance or achievements expressed or implied by those statements. These statements reflect views only as of the date of this Explanatory Memorandum. While Mount Gibson believes that the expectations reflected in the forward looking statements in this document are reasonable, neither Mount Gibson nor any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statements in this Explanatory Memorandum will actually occur and you are cautioned not to place undue reliance on those forward looking statements.

Notice to persons outside Australia

This Explanatory Memorandum has been prepared in accordance with Australian laws, disclosure requirements and accounting standards. These laws, disclosure requirements and accounting standards may be different to those in other countries.

Disclaimer

No person is authorised to give any information or make any representation in connection with the Transaction which is not contained in this Explanatory Memorandum. Any information or representation not contained in this Explanatory Memorandum may not be relied on as having been authorised by Mount Gibson or the Directors in connection with the Transaction.

Privacy

Mount Gibson may collect personal information during the Transaction process (including implementing the

Transaction). Such information may include the names, contact details and shareholding of Shareholders and the names of persons appointed by Shareholders to act as proxy at the Meeting. The primary purpose of the collection of this personal information is to assist Mount Gibson to conduct the Meeting. Without this information, Mount Gibson may be hindered in its ability to achieve these purposes to full effect.

Personal information of the type described above may be disclosed by Mount Gibson to Mount Gibson's Share Registry, print and mail service providers, authorised securities brokers and Mount Gibson's agents for the purposes of implementing the Transaction. Shareholders have certain rights to access their personal information that has been collected and should contact the Company Secretary of Mount Gibson on +61 8 9426 7500 if they wish to access their personal information.

Responsibility for Information

The information contained in this Explanatory Memorandum (except for KPMG Corporate Finance's Independent Expert's Report and the APAC and Shougang Concord information referred to below) including information as to the views and recommendations of the Directors has been prepared by Mount Gibson and is the responsibility of Mount Gibson. None of APAC, Shougang Concord, their associates or their advisers assume any responsibility for the accuracy or completeness of that information. Information concerning the intentions of APAC and Shougang Concord in section 10 of this Explanatory Memorandum and material attributed to APAC and Shougang Concord regarding the relationship between them in section 3.3 has been provided by APAC and Shougang Concord and is the responsibility of APAC and Shougang Concord respectively. None of Mount Gibson, its associates or its advisers assumes any responsibility for the accuracy or completeness of that information.

KPMG Corporate Finance has prepared the Independent Expert's Report in relation to Resolutions 1 to 3 (inclusive) and takes responsibility for that report and has consented to the inclusion of that report in this Explanatory Memorandum. KPMG Corporate Finance is not responsible for any other information contained within this Explanatory Memorandum. Shareholders are urged to read the Independent Expert's Report carefully to understand the scope of the report, the methodology of the assessment, the sources of information and the assumptions made.

ASX involvement

A copy of this Explanatory Memorandum has been lodged with ASX pursuant to the Listing Rules. Neither ASX nor any of its officers takes any responsibility for the contents of this Explanatory Memorandum.

Definitions

Capitalised terms used in this Explanatory Memorandum are defined in the glossary in section 14 of this Explanatory Memorandum.

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Summary of the Offtake Agreements

Annexure A

Independent Expert's Report

Annexure B

Notice of Meeting

Chairman's letter



Mount Gibson Iron Limited

ABN 87 008 670 817



First Floor, 7 Havelock Street
West Perth 6005, Western Australia

PO Box 55, West Perth WA 6872

Telephone: 61-8-9426-7500

Facsimile: 61-8-9485 2305

E-mail: admin@mtgibsoniron.com.au

Dear Shareholder,

I am pleased to enclose an Explanatory Memorandum containing information regarding:

- proposed Offtake Agreements between Mount Gibson and APAC and Mount Gibson and Shougang Concord;
- a Rights Issue to raise approximately A\$96.5 million (before expenses), fully underwritten by way of separate underwritings by APAC and Shougang Concord; and
- a proposed Placement to Shougang Concord to raise A\$66 million,

(the **Transaction**).

The Transaction will provide Mount Gibson with secure offtake arrangements with counterparties which, notwithstanding the current economic climate and concerns over China's future economic growth profile, have stable demand for iron ore. In addition, the Rights Issue and Placement involved in the Transaction will place Mount Gibson in a secure financial position at a time when access to capital is restricted. As a result of the Transaction, Mount Gibson will be well placed to proceed with planned development activities at Koolan Island and Extension Hill in due course.

A transaction of this importance requires your approval at a general meeting of Shareholders which will be held on 30 December 2008 at the Boundary Room, WACA Ground, Nelson Crescent, East Perth, Western Australia (entry via Gate 2).

The Offtake Agreements, the Underwriting of the Rights Issue by each of APAC and Shougang Concord and the Placement are each subject to the approval of Shareholders, with those approvals being interconditional. However, the Rights Issue is not subject to the approval of Shareholders and will proceed regardless of whether or not Shareholders approve the Offtake Agreements, the Underwriting or the Placement.

The Mount Gibson Independent Directors unanimously recommend that you vote to approve the Transaction and will vote their personal holdings in favour of the Transaction, subject to there being no superior proposal.

The Independent Expert, KPMG Corporate Finance, has concluded that the TRANSACTION (comprising the OFFTAKE AGREEMENTS, the UNDERWRITING of the RIGHTS ISSUE and the PLACEMENT) is FAIR AND REASONABLE to Shareholders.

This Explanatory Memorandum sets out in detail the rationale for the Transaction and the implications for you as a Shareholder. It also includes the report from the Independent Expert setting out the reasons for their "fair and reasonable" conclusion.

It is important that you understand the implications for Mount Gibson if these resolutions are not passed. As announced on 3 November 2008, three of Mount Gibson's existing offtake customers have defaulted on their legally binding offtake agreements. Acceptable accommodation has been reached with two others and although a further customer failed to accept a shipment that contract remains on foot. If the proposed Offtake Agreements between Mount Gibson and APAC and between Mount Gibson and Shougang Concord are not approved – and in the absence of alternative offtake arrangements – Mount Gibson will be left selling iron ore through the spot market. Given the state of the iron ore spot market at present, the Mount Gibson Board expects that Mount Gibson would suffer material financial distress under these circumstances and consequently would most likely be in default of its debt facility agreement and may not be able to continue as a going concern.

I encourage you to read the details of the Transaction as outlined in this Explanatory Memorandum and to vote on the Transaction either in person at the Meeting or by returning the attached proxy form by 9.00am (Perth, WDT) on Sunday 28 December 2008. If you require any assistance in completing or lodging your proxy form, please feel free to call the Mount Gibson Shareholder Information Line on 1300 794 682 (toll free) from within Australia or +61 2 8280 7751 from outside of Australia during office hours.

Yours faithfully

Neil Hamilton

Chairman

Questions and Answers about the Transaction

Background

Why did I receive this document?

This document contains information relating to:

1. proposed offtake agreements between Mount Gibson and APAC and between Mount Gibson and Shougang Concord (**Offtake Agreements**);
2. a renounceable 1 for 5 rights issue to be undertaken by Mount Gibson (**Rights Issue**) that it is proposed will be underwritten by way of separate underwritings by APAC and Shougang Concord (**Underwriting**); and
3. a proposed placement to Shougang Concord to be undertaken by Mount Gibson (**Placement**).

The Offtake Agreements, the Underwriting and the Placement are together referred to as the **Transaction** throughout this document.

The Rights Issue itself will not need to be approved by Shareholders. Eligible Shareholders will receive a prospectus in relation to the Rights issue separately. However, implementation of the Offtake Agreements, the Underwriting and the Placement is subject to (amongst other conditions) Shareholder approval of the Resolutions at a general meeting of Mount Gibson on 30 December 2008 (**Meeting**).

The information set out in this document will assist you, as a Shareholder, to decide how you wish to vote on the resolutions to approve the Transaction.

What is the Transaction?

The Transaction is comprised of 3 discrete components:

1. the Offtake Agreements;
2. the Underwriting of the Rights Issue; and
3. the Placement.

Under the Offtake Agreements, Mount Gibson will agree to sell certain iron ore it produces to each of Shougang Concord and APAC.

Under the Rights Issue, Mount Gibson will conduct a renounceable pro rata rights issue of 1 New Share for every 5 Existing Shares held, at an issue price of A\$0.60 per New Share. The Rights Issue will be fully underwritten by way of separate underwritings by APAC and Shougang Concord (subject to various conditions, including necessary FIRB approvals) and will raise approximately A\$96.5 million (before expenses).

Under the Placement, Mount Gibson will issue 110,000,000 New Shares to Shougang Concord at an issue price of A\$0.60 per New Share, to raise A\$66 million (subject to various conditions, including necessary FIRB approval).

Further information on the Transaction is set out in section 1 of this Explanatory Memorandum.

Who is APAC and what does it do?

APAC is a Hong Kong Stock Exchange listed company (HKEx: 1104). APAC invests in resources assets, either through corporate investments or direct project interests.

APAC's business model in respect of the resources industry is to act as an investment or trading intermediary between iron ore producers and steel mills in China, which aim to trade with and invest in overseas resources. APAC is currently Mount Gibson's largest shareholder, holding 20.41% of the issued capital.

Further information on APAC is set out in section 3.1 of this Explanatory Memorandum.

Who is Shougang Concord and what does it do?

Shougang Concord is a Hong Kong Stock Exchange listed company (HKEx: 0697). Shougang Concord's areas of operations are:

1. steel manufacturing;
2. trading of steel products; and
3. shipping operations.

Further information on Shougang Concord is set out in section 3.2 of this Explanatory Memorandum.

What is the relationship between APAC and Shougang Concord?

Shougang Holding (Hong Kong) Limited (**SHHKL**) is one of APAC's substantial shareholders, owning approximately 18.95% of the shares in APAC. SHHKL also owns approximately 41.75% of Shougang Concord. SHHKL is a wholly owned subsidiary of the state owned Shougang Corporation, based in the People's Republic of China.

Due to these common shareholdings, and the fact that there is one common director between APAC and Shougang Concord (Mr Cao Zhong who is chairman of APAC, managing director of Shougang Concord and vice chairman and general manager of SHHKL), and the Takeovers Panel Decision, Mount Gibson considers that APAC and Shougang Concord may be associates for the purposes of the Corporations Act (although Mount Gibson is aware that APAC and Shougang Concord do not consider that such an association exists). If APAC and Shougang Concord were considered associates for the purposes of the Corporations Act, APAC and Shougang Concord are each taken to have voting power in Mount Gibson that includes shares held by them, and held by the other entity.

Accordingly, the acquisition of shares by APAC under the Underwriting and by Shougang Concord under the Underwriting and Placement may require the approval of Shareholders who are not associated with either party. Given the importance of the Transaction and the possibility that APAC and Shougang Concord are associated, Mount Gibson is of the view that it is prudent to obtain Shareholder approval on this basis.

For further details regarding the relationship between APAC and Shougang Concord please refer to section 3.3 of this Explanatory Memorandum.

Approvals sought and meeting information

What am I being asked to vote on?

Shareholders are being asked to vote on three separate resolutions, in relation to the Transaction:

1. The approval, for the purposes of Listing Rule 10.1 and all other purposes, of Offtake Agreements between Mount Gibson and APAC and between Mount Gibson and Shougang Concord;
2. The approval, for the purposes of Item 7 Section 611 of the Corporations Act and for all other purposes, for the Underwriting of the Rights Issue by each of APAC and Shougang Concord; and
3. The approval, for the purposes of Item 7 Section 611 of the Corporations Act and for all other purposes, for the proposed issue of the New Shares to Shougang Concord pursuant to the Placement.

The Resolutions are interconditional. Therefore, if one of the Resolutions is not passed then the transactions contemplated by the other Resolutions will not proceed. Further information on Resolutions 1 to 3 (inclusive) is set out in section 0 of this Explanatory Memorandum.

Why is my approval required?

You are a Shareholder, and given the nature and size of the Offtake Agreements, and the fact the Underwriting and the Placement will increase the voting power of APAC and Shougang Concord, approval of Shareholders is required (or it is considered prudent to obtain approval) under the Corporations Act and the Listing Rules.

When and where will the Meeting be held?

The Meeting will take place on 30 December 2008 at 9:00am (Perth, WDT) at the Boundary Room, WACA (Western Australian Cricket Association) Ground, Nelson Crescent, East Perth, Western Australia (entry via Gate 2).

Who can vote?

In accordance with the *Corporations Regulations 2001* (Cth), the Board has determined that the Shareholders entitled to attend and vote at the Meeting shall be those persons who are recorded in Mount Gibson's register of members at 9:00am (Perth, WDT) on 28 December 2008.

In accordance with the Listing Rules and the Corporations Act, each of the Resolutions to be put to the Meeting in relation to the Transaction has a voting exclusion statement. These voting exclusion statements are set out in the Notice of Meeting and require Mount Gibson to exclude the votes of certain persons.

In summary, the relevant voting exclusions mean that neither APAC nor Shougang Concord nor their associates can vote on the Resolutions. See the Notice of Meeting in Annexure B.

What are the voting approval thresholds?

Each of the Resolutions being put to Shareholders is an ordinary resolution, requiring approval by a simple majority (approval of Shareholders holding at least 50% of the Shares and who are eligible to vote on the resolutions and who actually vote).

Is voting compulsory?

Voting is not compulsory, although your vote is important. If you cannot attend the Meeting to be held on 30 December 2008, you are strongly encouraged to complete and return the proxy form that is enclosed with this document.

If you are an overseas shareholder and hold your Shares through a broker or nominee holder, you should contact them as soon as possible to instruct them to vote on your behalf.

If you require any assistance in completing or lodging your proxy, please feel free to call the Mount Gibson Shareholder Information Line on 1300 794 682 (toll free) from within Australia or +61 2 8280 7751 from outside of Australia during office hours, or contact your financial or other professional adviser.

Rationale for and implications of the Transaction

Why should I vote to approve the Transaction?

If implemented, the Transaction has the following benefits for Shareholders:

- Mount Gibson will have offtake arrangements in place for all Available Production from January 2009 onwards. These offtake arrangements replace those binding offtake agreements on which certain existing customers have defaulted and Mount Gibson has terminated as a result or no ore is being shipped as a result;
- Secure offtake will allow Mount Gibson to retain its existing loans, bonds and FX Facilities that would otherwise require refinancing;
- Mount Gibson will have sufficient cash to continue development at Koolan Island and Extension Hill and will be better placed to deal with further volatility in the iron ore and financial markets; and
- Mount Gibson will avoid drawing down existing debt facilities further, which will minimise its leverage.

Please see section 2.2 for details on the rationale for the Transaction.

How does the Mount Gibson Board recommend that I vote?

The Mount Gibson Independent Directors unanimously recommend that Shareholders vote to approve the Resolutions subject to there being no superior proposal received or publicly announced.

Each Mount Gibson Independent Director will vote in favour of the Resolutions in respect of the Shares they hold or control, subject to there being no superior proposal received or publicly announced.

What is the opinion of the Independent Expert?

The terms and conditions of the Transaction have been reviewed by the Independent Expert, KPMG Corporate Finance.

KPMG Corporate Finance has concluded that the Transaction (comprising the Offtake Agreements, Underwriting and Placement) is fair and reasonable to Shareholders.

KPMG Corporate Finance's report is set out in Annexure A of this Explanatory Memorandum. Shareholders are encouraged to carefully read the Independent Expert's Report in its entirety.

Why are the Mount Gibson Independent Directors recommending I approve the Transaction when earlier this year they prevented Shougang Concord acquiring approximately 19.72% of Mount Gibson by taking proceedings in the Takeovers Panel?

There are a number of differences between the Transaction and the proposed purchase of 19.72% of Mount Gibson which was opposed by Mount Gibson and which ultimately did not proceed as a result of the Takeovers Panel's Decision.

The major point of difference is that, unlike the Share Purchase, the key components of the Transaction are conditional on Shareholder approval being obtained. Shareholders will therefore collectively determine, on an informed basis, whether the Transaction proceeds.

In addition, given falling Chinese steel production which has reduced demand for iron ore, and Mount Gibson's customers defaulting on their binding offtake agreements as described in section 2.1, the Mount Gibson Independent Directors consider that the Transaction is in the best interests of all Shareholders (in the absence of any superior proposal). Should the Transaction proceed, the Company would secure medium and long term offtake agreements and receive a significant injection of capital. This would enable the Company to avoid the likely requirement to refinance debt, bonds and FX Facilities and also allow it to be well placed to continue development at Koolan Island and Extension Hill.

In the present market, the Mount Gibson Independent Directors consider it unlikely that if the Transaction did not proceed and in the absence of an alternative proposal, Mount Gibson would be able to secure alternative funding on acceptable terms and, as a result, Mount Gibson may be unable to continue as a going concern.

What alternatives to the Transaction have been considered?

Mount Gibson and its advisers expended a significant amount of time and resources in investigating alternatives to the Transaction, such as potential offtake agreements with parties other than APAC and Shougang Concord and alternative sources of funds to the Underwriting by each of APAC and Shougang Concord and the Placement to Shougang Concord. However, these efforts have not resulted in any superior alternatives emerging and, accordingly Mount Gibson is putting the Transaction to Shareholders for their approval. Shareholders should note that despite the fact the Underwriting and the Rights Issue may increase APAC's and Shougang Concord's control position as described in section 7, Mount Gibson has elected to structure one component of the equity raising as a rights issue to give Shareholders an opportunity to participate on the same terms as APAC and Shougang Concord.

A further option that was considered was the potential for Mount Gibson to cease expending its cash and simply suspend its operations until such time as the iron ore market stabilised. However, this is not a feasible option because doing so would crystallise Mount Gibson's obligations to repay its finance facilities (including the FX Facilities). In this case Mount Gibson would be unable to continue to operate as a going concern if it could not refinance these facilities on acceptable terms.

If the Offtake Agreements, the Underwriting and the Placement are approved what will happen?

If the majority of Shareholders approve Resolutions 1 to 3 (inclusive) and all other conditions to the Transaction are either satisfied or waived:

- Mount Gibson will supply offtake separately to APAC and Shougang Concord pursuant to the terms of the Offtake Agreements;

- APAC and Shougang Concord will, by way of separate underwritings, fully underwrite the Rights Issue pursuant to the terms of the Underwriting Agreements; and
- Mount Gibson will place 110,000,000 New Shares, or approximately 10.23% of Mount Gibson (post the Rights Issue and the Placement), to Shougang Concord to raise gross proceeds of A\$66 million pursuant to the terms of the Subscription Agreement.

Please see sections 5, 6 and 7 for further details on what will happen if the Offtake Agreements, Underwriting and the Placement are approved.

How will the structure of Mount Gibson's ownership change?

APAC has committed to take up all of its Rights under the Rights Issue in relation to Shares it owns as at the date of the APAC Heads of Agreement. This will maintain the APAC Group's shareholding in Mount Gibson at approximately 20.41% (assuming that all Shareholders take up all of their Rights).

If all Shareholders do not take up their Rights under the Rights Issue, there will be a Shortfall. Under the APAC Underwriting Agreement, APAC has agreed to subscribe for the first 82,900,000 Shortfall Shares, subject to various conditions including FIRB approval. If no Shareholders (other than APAC) take up their Rights under the Rights Issue and no third parties purchase any Rights, this will increase APAC Group's shareholding in Mount Gibson to approximately 26.03% (post the Rights Issue and the Placement).

Under the Shougang Concord Underwriting Agreement, if there are more than 82,900,000 Shortfall Shares, Shougang Concord has agreed to subscribe for the balance of the Shortfall Shares, subject to a maximum of 50,000,000 Shares and various conditions including FIRB approval.

Under the Subscription Agreement, Shougang Concord has agreed to subscribe for, and Mount Gibson has agreed to issue, 110,000,000 New Shares, or approximately 10.23% of Mount Gibson (post the Rights Issue and the Placement), subject to FIRB approval. If no other Shareholder takes up their Rights and no third parties purchase any Rights, the aggregate effect of Shougang Concord subscribing for its full Underwriting Commitment and the New Shares is that Shougang Concord will have a shareholding in Mount Gibson of approximately 14.43% (post the Rights Issue and the Placement).

As described above and in section 3.3, due to the common shareholding of SHHKL in APAC and Shougang Concord, and the fact there is one common director between APAC and Shougang Concord (Mr Cao Zhong who is chairman of APAC, managing director of Shougang Concord and vice chairman and general manager of SHHKL) and the Takeovers Panel Decision, Mount Gibson considers that APAC and Shougang Concord may be associates for the purposes of the Corporations Act (although APAC and Shougang Concord do not consider that such an association exists). If APAC and Shougang Concord were considered to be associates for the purposes of the Corporations Act, APAC and Shougang Concord would each be taken to have voting power in Mount Gibson that includes shares held by them, and held by the other entity and, upon:

- APAC taking up all of its Rights under the Rights Issue;
 - APAC and Shougang Concord each subscribing for their full Underwriting Commitments (which assumes no other Mount Gibson
-

Shareholders take up their Rights and no third party buys those Rights); and

- Shougang Concord being issued 110,000,000 New Shares pursuant to the Placement,

each of APAC and Shougang Concord will have voting power in Mount Gibson of 40.46% (the sum of their separate holdings of 26.03% and 14.43% respectively). Should the Rights Issue be fully subscribed by existing Shareholders, if APAC and Shougang Concord are considered associates, then each of APAC and Shougang Concord will have voting power in Mount Gibson of 28.55% (the sum of their separate holdings of 18.32% and 10.23% respectively).

Please see section 7 for further details of the capital structure of Mount Gibson upon the Rights Issue, the Underwriting and the Placement being implemented.

What does this dilution mean to me?

Excluding the effect of the Placement, if all Shareholders take up all of their Rights under the Rights Issue, Shareholders' percentage interests in Mount Gibson will not change and there will be no effect on the control of Mount Gibson.

If you do not take up all of your Rights under the Rights Issue, there will be more Shares on issue held by other Shareholders and your percentage interest in Mount Gibson will be diluted.

In addition, if the Placement proceeds there will be more Shares on issue and therefore your overall percentage holding in Mount Gibson will be reduced by 10.23%, assuming that you take up all of your Rights under the Rights Issue.

However, while your percentage interest may be diluted as a result of the Transaction, Mount Gibson will be in a stronger financial position as a result of the Transaction. Mount Gibson will be a party to Offtake Agreements, will have funding to continue development of Koolan Island and Extension Hill in due course, will avoid the requirement to refinance its debt, bond and FX Facilities and will have sufficient funding to cash settle its excess FX Facilities if the financiers do not agree to roll them forward.

The value of your Shares following implementation of the Transactions will be determined by the price that Mount Gibson Shares trade at on the ASX.

The Independent Expert has given a valuation range for the Shares upon completion of the Transaction of \$1.23 per Share to \$1.32 per Share.

Will anything happen to my Shares? Will I still be able to sell them on the ASX after the Transaction?

You will continue to own the same number of Shares regardless of whether or not the Transaction proceeds. However, to the extent you choose to take up your Rights in the Rights Issue the number of Shares you hold will increase.

Mount Gibson will remain listed on the ASX and you can continue to trade your Shares as you normally would.

When will the Underwriting and Placement be implemented?

The Offtake Agreements, the Underwriting and Placement are subject to a number of conditions. These include approval by Shareholders at the Meeting, approval by APAC Shareholders in respect of the aggregate subscription of Shares pursuant to the APAC Underwriting Agreement and as a result of taking up all of its Rights, and FIRB approval.

Given the nature of the conditions, it is not possible to give an assurance that each of the Offtake Agreements, the Underwriting and the Placement will complete and, if so, the dates of completion.

However, subject to the above the Directors anticipate that:

- the Placement will complete on Friday, 2 January 2009.
- Mount Gibson will have access to the subscription monies in respect of the Rights Issue on or about 12 January 2009.

Please refer to Schedule 3 of this Explanatory Memorandum for further details of the conditions of the Offtake Agreements, Schedule 2 of this Explanatory Memorandum for further details of the Subscription Agreement for the Placement and Schedule 1 for details of the Underwriting Agreement.

Who will sit on the Mount Gibson Board post completion of the Transaction?

Mr Alan Jones, a director of APAC, currently sits on the Mount Gibson Board. In addition, Mr Cao Zhong will be nominated by APAC as part of the Transaction and will be appointed to the Mount Gibson Board shortly.

Further, Mount Gibson and Shougang Concord have agreed that following completion of the Transaction, Mount Gibson must procure that its Directors appoint a nominee of Shougang Concord to the Mount Gibson Board.

The other Directors on the Mount Gibson Board are not associated with either APAC or Shougang Concord. See section 8 for more information on the Directors.

Who will manage Mount Gibson post the Transaction?

If the Transaction proceeds, the composition of the current management team of Mount Gibson will not change.

Luke Tonkin will continue as the Managing Director and Alan Rule as the Chief Financial Officer (and Alternate Director) in the immediate future.

What will Mount Gibson's asset portfolio look like if the Transaction proceeds?

If the Transaction proceeds, Mount Gibson's asset profile will not change. However, Mount Gibson will have access to sufficient capital with which to continue development of Koolan Island and Extension Hill without drawing down existing debt facilities. In addition, Mount Gibson's enhanced capital structure and cash flows may allow it to explore other development opportunities.

See section 4 for more details on the assets of Mount Gibson.

What will happen if Shareholders do not approve the resolutions relating to the Transaction?

Each of the Offtake Agreements, Underwriting Agreements and Subscription Agreement are conditional on Shareholder approval. Further, Resolutions 1, 2 and 3 are interconditional. Accordingly, if each or any of Resolutions 1, 2 and 3 are not approved:

- the Offtake Agreements will not become binding on Mount Gibson, APAC and Shougang Concord;
- APAC and Shougang Concord will not subscribe for any of the Shortfall Shares; and
- the Placement will not proceed.

In this case:

- 1 Mount Gibson will have to explore further potential offtake arrangements and Shareholders will not receive any of the benefits of the Offtake Agreements. Should Mount Gibson not be able to enter into alternative offtake agreements, it will be forced to sell iron ore on the spot market which may lead to sales falling below production levels. This would most likely necessitate an immediate refinancing of all debt, bonds and FX Facilities which will be extremely difficult in the current financial environment. There is a material risk that Mount Gibson would not be able to achieve a refinancing of the debt, bond and FX Facilities and consequently may be unable to continue as a going concern.
- 2 Mount Gibson will explore alternate funding arrangements and Shareholders will not receive any of the benefits of the funding provided through the Underwriting and the Placement. In the event of the Underwriting and the Placement not proceeding and similar or more favourable alternative funding not being accessed by Mount Gibson, Mount Gibson may be unable to continue as a going concern.

Accordingly, Shareholders are encouraged to vote in favour of all Resolutions at the Meeting.

Regardless of whether or not the Offtake Agreements, the Underwriting and the Placement are approved, the Rights Issue will proceed irrespective of the level of subscription for the Shares pursuant to the Rights Issue.

Further information on what will happen if Shareholders do not approve the resolutions relating to the Transaction is set out in section 5.2 of this Explanatory Memorandum.

Further Questions

If you have any questions regarding the Transaction after having read the Explanatory Memorandum and the Independent Expert's Report, please contact the Mount Gibson Shareholder Information Line on 1300 794 682 (toll free) from within Australia or +61 2 8280 7751 from outside of Australia during office hours, or contact your financial or other professional adviser.

1 Overview of the Transaction

1.1 Context of the Transaction

Chinese steel production has materially decreased in September and October 2008, leading to an over supply of iron ore.

As announced by Mount Gibson on 3 November 2008, three of Mount Gibson's customers have defaulted on their legally binding offtake agreements with Mount Gibson. A further customer has defaulted on its binding obligations by failing to collect one shipment.

Only two of nine planned shipments of iron ore produced by Mount Gibson were made during October 2008. Other iron ore producers are also cutting production in response to reduced demand.

Without new offtake agreements, material sales revenue shortfalls will continue for some time and Mount Gibson will face financial distress.

Due to lower realised prices and sales volumes, particularly in the short and medium term, Mount Gibson requires additional funding to continue development at Koolan Island and Extension Hill.

1.2 The Transaction

In summary, the Transaction involves:

- the entry by Mount Gibson into the Offtake Agreements with each of APAC and Shougang Concord;
- the Underwriting, by each of APAC and Shougang Concord separately, of the Rights Issue to raise approximately A\$96.5 million (before expenses); and
- the Placement to Shougang Concord to raise A\$66 million (before expenses).

(a) Offtake

- Short term offtake – During November and December 2008 APAC and Shougang Concord will purchase, in equal shares, all Available Production that Mount Gibson is permitted to sell to APAC and Shougang Concord without the approval of Shareholders at US\$40 per wet metric tonne, pursuant to the APAC Short Term Offtake Agreement and Shougang Concord Short Term Offtake Agreement, respectively.
- Medium term offtake – Between 3 January 2009 and 30 June 2009, Shougang Concord will purchase all of Mount Gibson's Available Production for that period at US\$56 per wet metric tonne (as adjusted for variations in iron (Fe) and moisture content), pursuant to a medium term offtake agreement.
- Long term offtake – APAC will purchase 20% of, and Shougang Concord will purchase 80% of, Mount Gibson's Available Production from July 2009 for life of mine for each mine providing the Available Production (acknowledging that different mines may have different life of mines) at Hamersley Benchmark Prices less a discount of 10%, subject to penalty specifications, pursuant to long term offtake agreements.
- Shareholders need to recognise that Available Production (the defined term) is not all of Mount Gibson's iron ore production. Existing customers at the Reference Date (being the dates of the Heads of Agreements) that have not defaulted or in respect of which there is no dispute will continue to be supplied

in accordance with and at the prices specified in their existing offtake agreements.

- Shareholders should note that as described above detailed Offtake Agreements have been executed in respect of production from Koolan Island and Tallering Peak with each of APAC and Shougang Concord. In addition, binding agreements have been entered into under which Mount Gibson has agreed to enter into a detailed offtake agreement to sell to APAC and, separately, Shougang Concord, all Available Production from Extension Hill on substantially the same terms to the sale of offtake from Tallering Peak (including as to price), with applicable physical specifications and price adjustments to be negotiated in good faith following completion of further drilling and metallurgical testing by Mount Gibson at Extension Hill. The Shareholder approval sought in respect of the Offtake Agreements applies to these Offtake Agreements in respect of Extension Hill.

(b) **Rights Issue and Underwriting**

- Mount Gibson is seeking to raise approximately A\$96.5m (before expenses) from a renounceable pro rata rights offer of 1 New Share for every 5 Existing Shares at an Issue Price of A\$0.60 per New Share (**Rights Issue**). Eligible Shareholders will receive a prospectus for the Rights Issue shortly.
- APAC has committed to take up all of its Rights under the Rights Issue in relation to Shares the APAC Group owns as at the date of the APAC Heads of Agreement. Subject to various conditions, including FIRB approval, APAC has also agreed to underwrite up to the first 82,900,000 New Shares that are not allocated to Shareholders submitting valid applications pursuant to their Rights, under the APAC Underwriting Agreement (**APAC Underwriting**). Subject to various conditions, including FIRB approval, Shougang Concord has agreed to underwrite the balance of the Shortfall Shares after APAC has subscribed for the first 82,900,000 Shortfall Shares, subject to a maximum of 50,000,000 Shortfall Shares (**Shougang Concord Underwriting**). The APAC Underwriting and the Shougang Concord Underwriting are together referred to as the **Underwriting**.

(c) **Placement**

- Subject to various conditions, including FIRB approval, Mount Gibson will raise an additional A\$66 million in gross proceeds from the issue of 110 million New Shares to Shougang Concord at A\$0.60 per New Share (**Placement**).

(d) **Other changes**

- Mount Gibson has agreed to appoint an additional APAC nominee to its Board and that will occur shortly. One of APAC's directors (Mr Alan Jones) already sits on the Mount Gibson Board.
- Upon completion of the Transaction, Shougang Concord will be entitled to appoint a nominee to the Mount Gibson Board.
- The other four directors on the Mount Gibson Board are not associated with either APAC or Shougang Concord.

1.3 Your approval is required for...

- The implementation of the medium term and long term Offtake Agreements (not the short term offtake agreements);
- The implementation of the Underwriting of the Rights Issue; and
- The implementation of the Placement.

Note that each of APAC and Shougang Concord and their associates will not be entitled to vote on the Resolutions and that the Rights Issue itself (as opposed to the Underwriting) will not need to be approved by Shareholders.

1.4 Implications of the Transaction

Mount Gibson's entire scheduled production will again be subject to offtake agreements.

Mount Gibson will seek consent from its lenders to roll forward the FX Facilities that are in excess of updated forecast US dollar revenue in the 2009 financial year.

If APAC and Shougang Concord are considered associates, APAC and Shougang Concord will collectively have "voting power" in Mount Gibson for the purposes of the Corporations Act of between 28.55% and 40.46%, depending on the uptake of the Rights Issue by existing Shareholders. The tables below illustrate the respective interests of APAC and Shougang Concord under various scenarios:

Table 1: APAC and Shougang Concord holdings post Transaction

	APAC Holding	Shougang Concord Holding	Combined APAC / Shougang Concord Holding (if they are considered associates)
Outcome			
0% of existing Shareholders take up Rights	26.03%	14.43%	40.46%
10% of existing Shareholders take up Rights	26.03%	13.24%	39.27%
30% of existing Shareholders take up Rights	26.03%	10.86%	36.89%
70% of existing Shareholders take up Rights	21.89%	10.23%	32.12%
100% of existing Shareholders take up Rights	18.32%	10.23%	28.55%

Table 2: APAC and Shougang Concord holdings post Transaction – Underwriting and Placement not approved by Shareholders and no additional underwriters

	APAC Holding	Shougang Concord Holding	Combined APAC / Shougang Concord Holding (if they are considered associates)
Outcome			
0% of existing Shareholders take up Rights	23.53%	0.00%	23.53%
10% of existing Shareholders take up Rights	23.17%	0.00%	23.17%
30% of existing Shareholders take up Rights	22.50%	0.00%	22.50%
70% of existing Shareholders take up Rights	21.25%	0.00%	21.25%
100% of existing Shareholders take up Rights	20.41%	0.00%	20.41%

1.5 Recommendation

The Mount Gibson Independent Directors recommend that Shareholders vote in favour of all three resolutions and intend to do so in relation to their own shareholdings, subject to no superior proposals being received or publicly proposed.

2 Context to offtake defaults and rationale for the Transaction

2.1 Context to Offtake Defaults

(a) The steel market in China

At the time of writing this document, and since July 2008, Chinese steel slab prices have decreased by 43.4% and hot roll coil prices have decreased by 48.4%. Most major steel mills, including ArcelorMittal, Baosteel Group, Shougang Group, Angang Steel and Hebei Iron and Steel Group have announced steel production forecast decreases of 20-30% through both ceasing production at existing furnaces and/or deferring commissioning of new furnaces. This has had a material and immediate effect on the market for iron ore. Spot iron ore prices (63% Fe fines) have declined from US\$171.7 per tonne (CIF China) at 1 July 2008 to US\$65.0 per tonne as at 24 November 2008.

Figure 1: Steel pricing since 1 July 2008

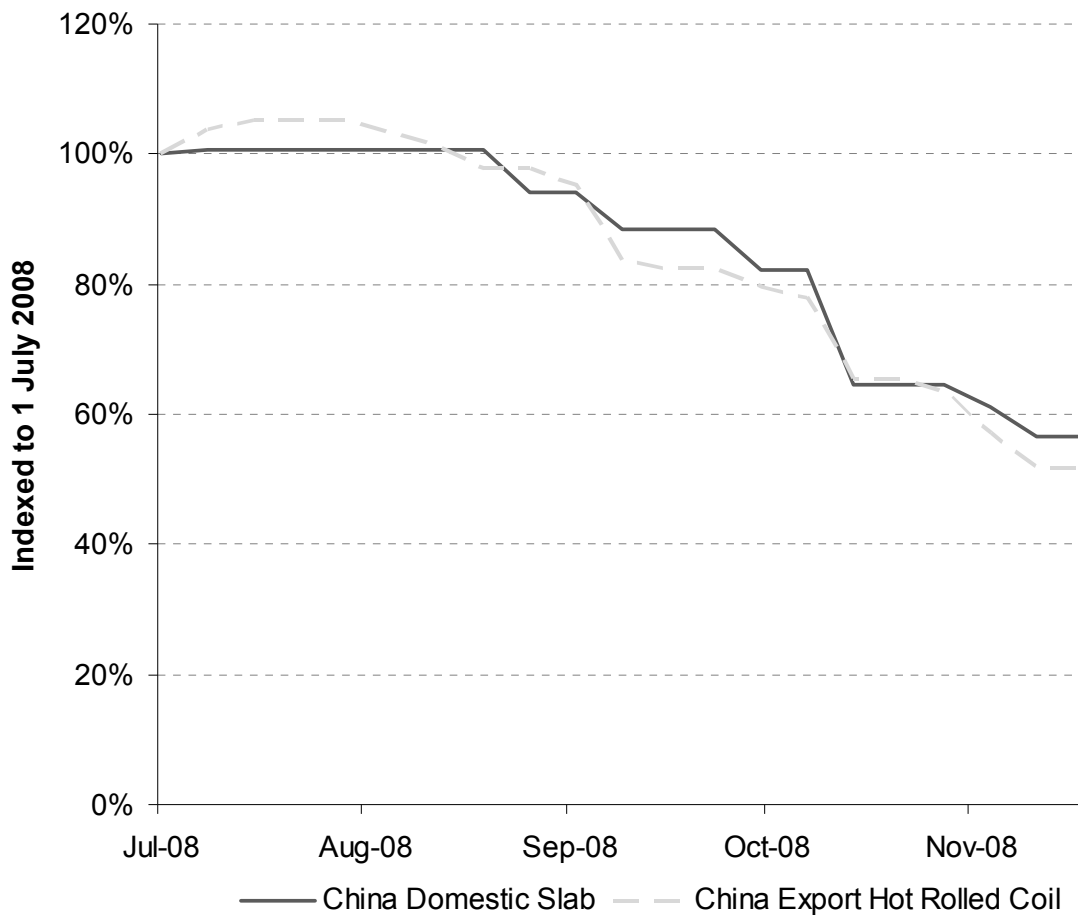
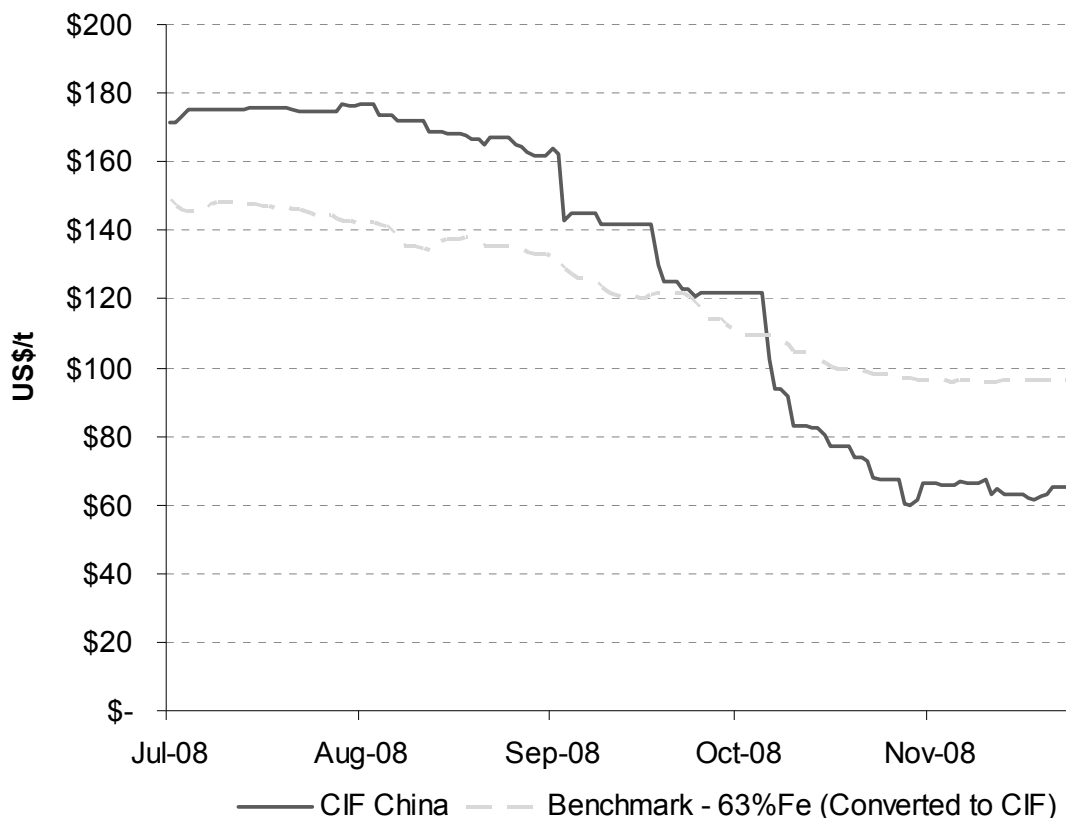


Figure 2: Iron ore fines price since 1 July 2008



Source: Bloomberg

Note:

1. Based on closing prices as at 24 November 2008
2. Benchmark converted to CIF with the addition of implied shipping rates. Implied shipping rates calculated using current freight rate from Metal Bulletin adjusted using the Baltic Dry Shipping Index

The decreases in steel prices, together with ongoing energy and metallurgical coal shortages, lack of credit and general inflation, has led to considerable margin pressure for Chinese steel manufacturers. Further, the drop in spot iron ore prices to well below annual contract benchmark prices has led to considerable margin pressure and/or financial distress amongst iron ore traders.

(b) Purchasers of Mount Gibson's product default on their offtake agreements

Up until early November 2008, Mount Gibson had both traders and steel mills amongst its offtake customers. These customers had signed legally binding life of mine offtake agreements with Mount Gibson at times when the iron ore market was experiencing material supply constraints. The terms of those agreements provided explicit recognition of the product specifications expected from Mount Gibson's operations over time and Mount Gibson has met its obligations in respect of those specifications over the life of the contracts. The contracts were based on Hamersley Benchmark Prices for fines and lump prices and did not provide discounts to the customers to reflect the specification of products (other than iron ore industry standard penalty specifications) relative to benchmark or the additional costs of shipping out of Koolan Island and Geraldton relative to Dampier (where the Hamersley Benchmark material is sourced).

While each customer had complied with offtake schedules up to the end of September 2008, requests for deferrals of shipments arose during September and increased in early October 2008. During October 2008, three customers defaulted on their legally binding offtake agreements and did not take scheduled shipments within the allowed time period. A further customer defaulted on one of its planned shipments. Only two shipments were made during that month compared with nine planned shipments.

Without a rapid resolution to these iron ore offtake issues, Mount Gibson would most likely be required to refinance its existing A\$200 million debt facilities which are presently drawn to A\$105 million and its existing A\$25 million contingent finance (bond) facilities. Mount Gibson would also need to refinance and/or close its FX Facilities which presently represents an A\$230 million mark-to-market liability.¹

(c) Decision to undertake the Transaction

Accordingly, Mount Gibson sought to find alternative offtake purchasers to its defaulting customers and capital raising opportunities to secure the future of the Company. Mount Gibson and its advisers expended time and resources in investigating alternatives to the Transaction, such as offtake agreements with parties other than APAC and Shougang Concord and alternative sources of funds to the Rights Issue and Underwriting by each of APAC and Shougang Concord and the Placement to Shougang Concord. However, these efforts did not result in any alternatives and accordingly Mount Gibson is putting the Transaction to Shareholders for their approval while also pursuing all available remedies against the defaulting customers.

Shareholders should note that despite the fact the Underwriting, the Rights Issue and the Placement may increase APAC's and Shougang Concord's control position as described in section 7, Mount Gibson has elected to structure one component of the equity raising as a rights issue to give Shareholders an opportunity to participate on the same terms as APAC and Shougang Concord.

A further option that was considered was the potential for Mount Gibson to cease expending its cash and simply suspend its operations. However, this is not a feasible option because doing so would crystallise Mount Gibson's obligations to repay its finance facilities (including the FX Facilities) and certain obligations in relation to the Extension Hill project. In this case Mount Gibson would be unable to continue to operate as a going concern if it could not refinance these facilities on acceptable terms.

¹ Mark-to-market liability is calculated as at 20 November 2008 and has been based on a spot Australian Dollar : US Dollar exchange rate of US\$0.6348.

2.2 Rationale for the Transaction

(a) Transaction secures offtake agreements in a volatile market

Should Mount Gibson shareholders vote to approve the Offtake Agreements, Mount Gibson will return to the position of having 100% of its Available Production subject to offtake agreements from January 2009. Under the short term offtake agreements, APAC and Shougang Concord have separately already contracted to purchase during November and December 2008 all Available Production that Mount Gibson can sell to each of APAC and Shougang Concord without the approval of Shareholders.

Having the Offtake Agreements in place will avoid the very likely requirement for near term refinancing of debt, bond and FX Facilities. It will also allow Mount Gibson to continue development of the Koolan Island main pit operation and continue construction of the Extension Hill project, albeit at a slower pace. Without offtake issues being resolved in the near term and given the state of equity and debt markets at present, it is likely that Mount Gibson would have to sell one or more of its material assets (Koolan Island, Talling Peak and/or Extension Hill) in order to achieve the debt refinancing. It is uncertain whether Mount Gibson's lenders would seek to achieve that outcome through a receiver or by working with the existing Board and management.

(b) Access to expertise in the steel industry

The Transaction will allow Mount Gibson to further develop its relationship with APAC, a trader in the iron and steel industry, and to introduce Shougang Concord, a steel producer and major trader in the iron and steel industry, as a substantial shareholder on Mount Gibson's share register.

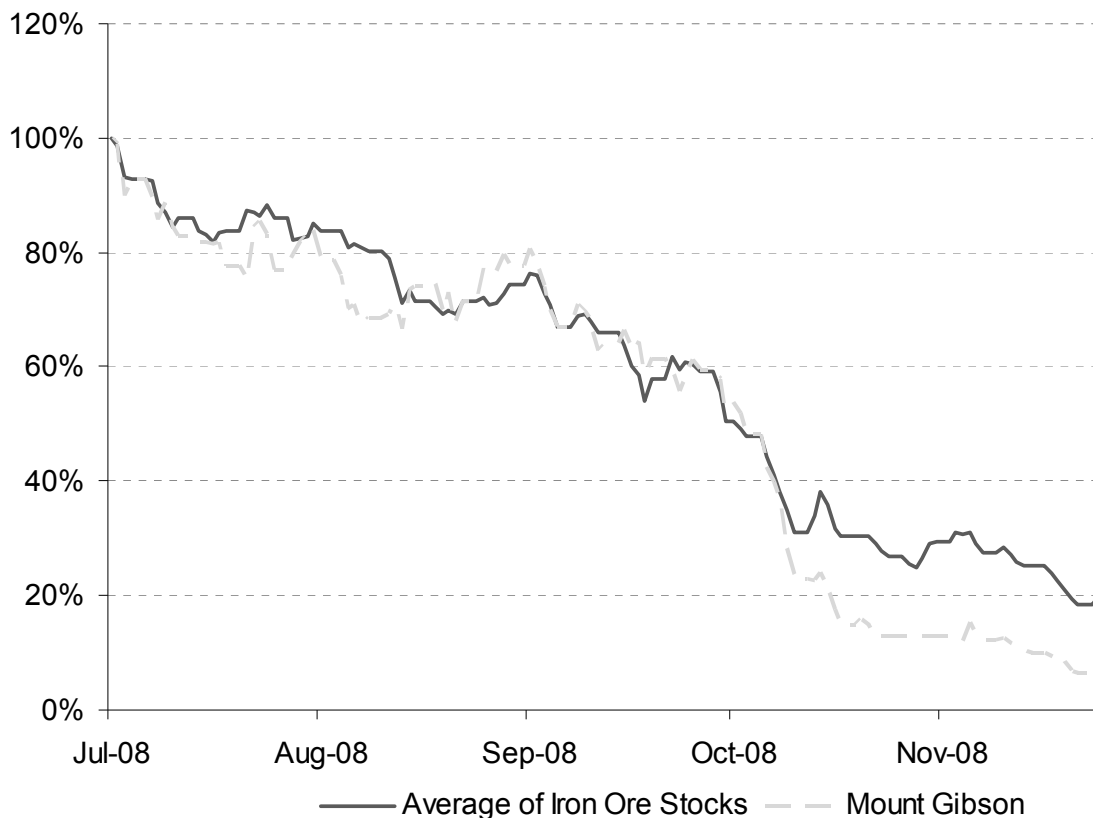
(c) Enhanced financial platform to develop Mount Gibson's assets

In the current financial climate, several companies with large capital requirements have been facing significant difficulty in raising capital or could only do so on very unattractive terms. The Transaction will materially reduce Mount Gibson's reliance on public equity and debt markets.

Recent turmoil in world financial markets has seen iron ore stocks on the ASX trade down by 80% since 1 July 2008 and Mount Gibson has experienced a similar trend to its peers, falling by 92%.

The charts below show the performance of Mount Gibson's Share price against other iron ore companies listed on the ASX for the period from 1 July 2008.

Figure 3: Share price performance of ASX listed iron ore companies



Source: Bloomberg

Note:

1. Based on closing prices as at 24 November 2008
2. Given current market volatility, the share price performance of the ASX listed iron companies included in the chart above may change significantly between the date of the Explanatory Memorandum and the date of the Meeting
3. Iron Ore Stocks include FMG, AGO, GBG, GRR, MMX, TTY, SPH, ARH, CFE, GWR

(d) **Strategic Chinese shareholders**

If the Placement and the Underwriting are approved, Shougang Concord will have a shareholding in Mount Gibson of between 10.23% and 14.43% depending on the uptake of the Rights Issue. Shougang Corporation, China's fourth largest steel producer currently owns (through a wholly owned subsidiary) a 41.75% shareholding in Shougang Concord. Shougang Concord is a well capitalised company with a profit before tax of approximately HK\$1.397 billion during the 6 months ended 30 June 2008. Shougang Concord has a strong vested interest in the success of Mount Gibson for the benefit of all Shareholders. Having a large and well funded shareholder and partner, who is also a leader in its market, is expected to assist Mount Gibson going forward.

In addition to assisting Mount Gibson in accessing capital from traditional markets, Shougang Concord may be able to help Mount Gibson access capital from other sources. Such sources may include Chinese financial institutions who, given the current weakness in Western capital markets, may be able to provide more attractive funding opportunities for Mount Gibson.

(e) **Less reliance on equity capital markets**

While the Transaction dilutes each existing Shareholder's ownership in Mount Gibson to varying degrees depending upon that Shareholder's take up of the Rights Issue, the Transaction has the benefit of reducing the requirement to source external capital to fund the development of Mount Gibson's assets.

This view is based on the fact that prior to agreeing to the Transaction, Mount Gibson undertook a process to assess the availability of funding from external sources. This process did not result in the provision of any financing.

The Mount Gibson Independent Directors believe that in the current environment raising debt or equity would be extremely difficult and there are no guarantees that it could be sourced on more favourable terms, if at all.

Indeed, the Placement and the Underwriting have been agreed based on an issue price of A\$0.60 per New Share or Placement Share which is a 48% premium to the Mount Gibson closing share price prior to announcement of the Transaction of A\$0.405. The issue price represents a 112% premium to the 10 day volume weighted average price for Mount Gibson Shares up to 24 November 2008 – prior to dispatch of this Explanatory Memorandum to Shareholders. However, it does also reflect a 34% discount to the 60 day volume weighted average price for Mount Gibson Shares up to 24 November 2008. This longer term price incorporates 34 days of trading prior to announcement of the offtake issues on 9 October 2008. When compared to the volume weighted average price since that announcement, the issue price of A\$0.60 per New Share or Placement Share reflects a 29% premium.

Table 3: Transaction price premium (discount)

	Transaction price premium (Discount) % to VWAP
10 day VWAP	112%
26 day VWAP (since 9 October)	29%
60 day VWAP	(34%)

3 Overview of APAC and Shougang Concord

3.1 APAC

APAC is an investment holding company which has historically focused on the trading of base metals, fabric products and other merchandise. APAC has a trading portfolio of listed securities and investments in the resources and related industries. APAC is incorporated in Bermuda with limited liability and listed on the Hong Kong Stock Exchange (HKEx: 1104).

APAC has a market capitalisation of HK\$1.0 billion. APAC's share price has been affected by market volatility and revised shareholder growth expectations, decreasing from a peak of HK\$2.06 in October 2007 to current levels of HK\$0.21 as at 24 November 2008.

APAC underwent a restructure during 2007 and introduced a new business trading in iron ore. APAC focuses on the following strategies:

- attracting small to mid-sized Chinese steel mills to become strategic shareholders in APAC and consolidating their demand for raw materials;
- securing long term iron ore offtake for the small to mid-sized Chinese steel mills;
- creating a direct and efficient platform for small to mid-sized Chinese steel mills to trade and invest in overseas resource assets and/or companies; and
- identifying quality investments in the resources related sector and investment in resources assets either through corporate investments or direct project interests.

APAC has wound down trading in fabric products in 2008.

APAC invests in resources related securities to capitalise on expected long term growth in the resources industry and securities markets in Australasia. Existing investments include:

- 164.1 million shares in Mount Gibson, representing approximately 20.41% of the issued share capital of Mount Gibson prior to the Transaction as at the date of this Explanatory Memorandum;
- 862.9 million shares in Hong Kong listed China Primary Resources Holdings Limited (**CPR**) representing approximately 11.54% of the issued share capital of CPR as at 31 December 2007. CPR's principal activities involve the trading of fibre glass reinforced plastic pipes, raw materials and composite materials and production of fibre glass reinforced plastic pipes and polyethylene pipes in China; and
- 208.3 million shares, or 17.64% of the issued capital in ASX listed Metals X Limited (**MLX**) as at 4 June 2008. MLX's principal activity is exploring and developing minerals and metals in Australia. It is Australia's largest tin producer and holds the Wingellina Nickel Project and a portfolio of nickel production royalties.

3.2 Shougang Concord

Shougang Concord is an investment holding company listed on the Hong Kong Stock Exchange (HKEx: 0697) and is primarily involved in the manufacture and sale of steel products. Other business segments include shipping operations, manufacture of steel products, processing and trading of copper and brass products, trading of steel products and mineral exploration. As at 31 December 2007, Shougang Concord had 4,062 employees.

As at November 2008, Shougang Concord has a market capitalisation of approximately HK\$5.0 billion. Shougang Concord's share price has also been affected by market volatility and revised shareholder growth expectations, decreasing from a peak of HK\$4.23 in November 2007 to the current levels of HK\$0.70 as at 24 November 2008.

(a) **Manufacture and sale of steel products**

Shougang Concord's primary business is the manufacture and sale of steel products through its wholly owned subsidiary Qinhuangdao Shougang Plate Mill Co., Ltd and 76% owned Qinhuangdao Shouqin Metal Materials Co., Ltd (**Shouqin**). Steel production in 2007 included 2.1 million tonnes of steel plate and 2.4 million tonnes of steel slab, with commissioning of the Shouqin heavy plate hot rolling facility in April 2007 significantly expanding Shougang Concord's production capabilities. It is an integrated facility encompassing the entire process from iron, steel, slab to plate.

(b) **Shipping and transportation**

Shougang Concord owns two capesize dry bulk vessels under 15-year charter, used mainly for transporting iron ore and coal.

(c) **Manufacture of steel cord, processing and trading of copper and brass products**

Shougang Concord holds a 36.76% equity interest in Shougang Concord Century Holdings Limited, a company listed on the Hong Kong Stock Exchange and engaged in the manufacture of steel cord for radial tyres and processing and trading of copper and brass products.

(d) **Mineral exploration**

As part of a move to secure upstream resources, Shougang Concord acquired an interest in ASX listed Australasian Resources Limited (**ARH**) in June 2007, and holds approximately 6.3% of ARH.

Shougang Concord intends to focus on further developing its heavy plate business going forward and will divest a number of its other businesses.

Figure 4: Shougang Concord organisational structure

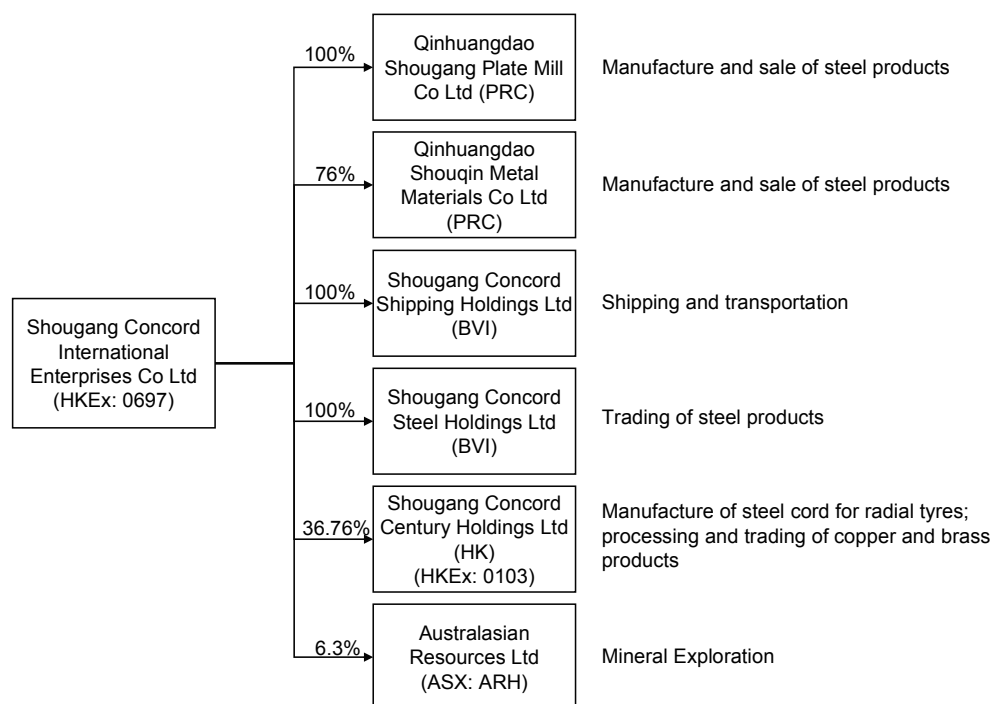
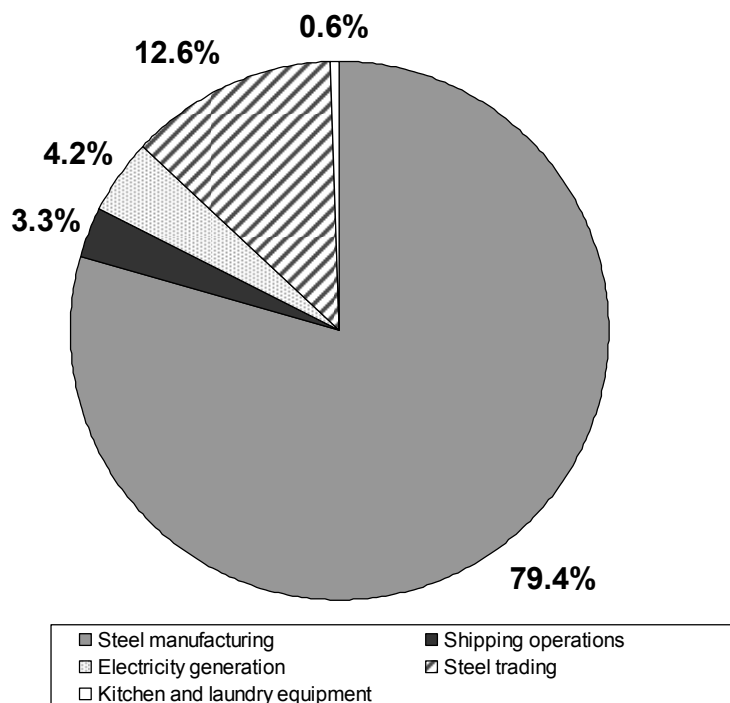
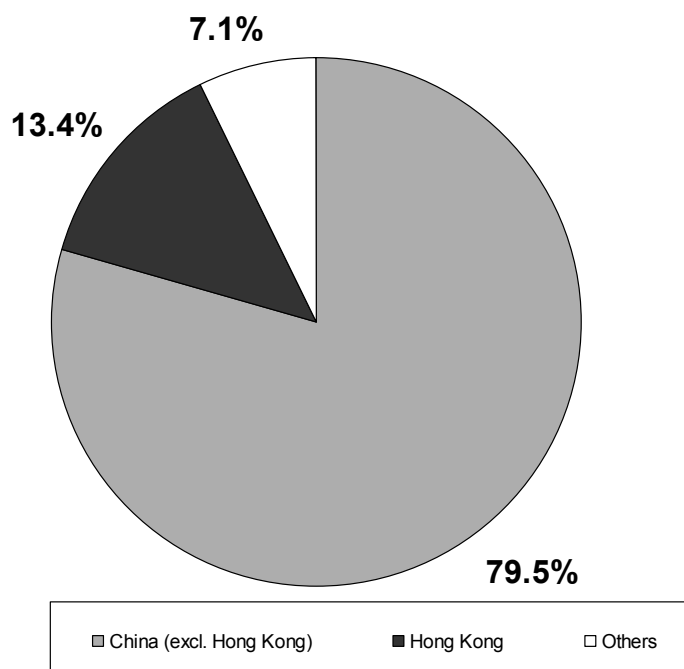


Figure 5: Turnover by principal activity for the year 2007



Source: Shougang Concord's 2007 Annual Report

Figure 6: Turnover by geographic region for the year 2007

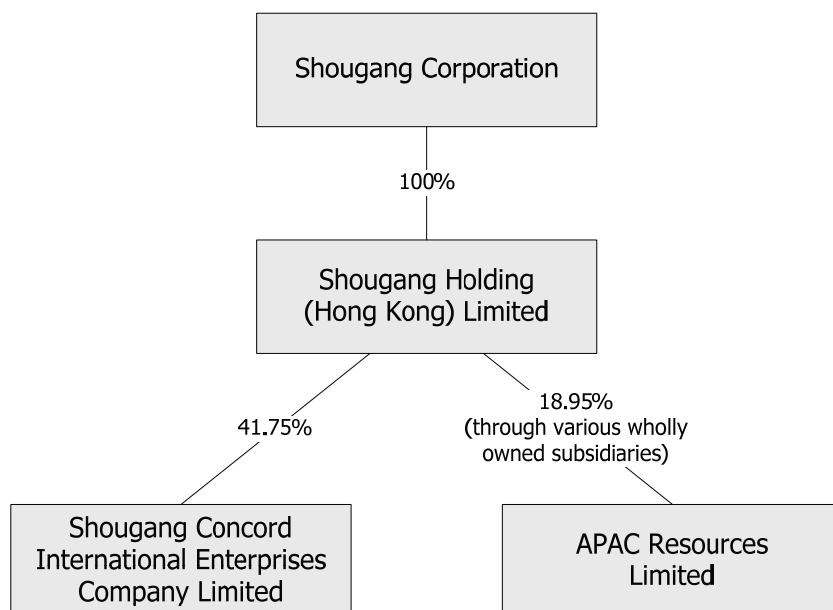


Source: Shougang Concord's 2007 Annual Report

3.3 Relationship between APAC and Shougang Concord

(a) Structural links

APAC and Shougang Concord are both Hong Kong Stock Exchange listed entities. One of APAC's substantial shareholders is Shougang Holding (Hong Kong) Limited (**SHHKL**) which, as at 24 November 2008, owns approximately 18.95% of the shares in APAC. SHHKL also owns approximately 41.75% of Shougang Concord. SHHKL is a wholly owned subsidiary of the state owned Shougang Corporation, based in the People's Republic of China.



In addition, Mr Cao Zhong is a common director of APAC and Shougang Concord. Mr Cao Zhong is chairman of APAC, managing director of Shougang Concord and vice chairman and general manager of SHHKL.

Notwithstanding the above, Mount Gibson is informed by APAC and Shougang Concord that the boards of directors of APAC and Shougang Concord respectively are independent from each other and neither board has any influence over the other in relation to its decision making process.

(b) The Takeovers Panel Decision

In early 2008 Shougang Concord proposed to purchase approximately 19.72% of Mount Gibson from a third party, when APAC then held approximately 20.19% of Mount Gibson (**Share Purchase**).

At that time given, amongst other things, the shareholding of SHHKL in both APAC and Shougang Concord and Mr Cao Zhong's role in both companies, Mount Gibson was concerned that APAC and Shougang Concord were associates for the purposes of the Corporations Act and that, as a result of the Share Purchase, control of Mount Gibson would pass to APAC and Shougang Concord together without Shareholders having the ability to vote on that change of control. Accordingly, Mount Gibson applied to the Takeovers Panel to block the Share Purchase on the basis that it would result in APAC and Shougang Concord increasing their voting power to 39.91% other than through a means permitted under the Corporations Act.

On 31 March 2008 the Takeovers Panel found that APAC and Shougang Concord were associates at that time for the purposes of the Corporations Act and made a declaration of unacceptable circumstances in relation to the Share Purchase. As a result, the Share Purchase did not proceed.

(c) **Requirement for Mount Gibson Shareholder approval for the Transaction**

Notwithstanding that APAC and Shougang Concord do not consider that they are associates, given the shareholding of SHHKL in both APAC and Shougang Concord, the fact APAC and Shougang Concord have a common director, and the Takeovers Panel Decision, Mount Gibson considers that APAC and Shougang Concord may be associates for the purposes of the Corporations Act.

If that were the case, APAC and Shougang Concord will each be taken to have voting power in Mount Gibson that includes shares held by them, and held by the other entity. On this view, upon:

- APAC taking up all of its Rights under the Rights Issue (and assuming no other Mount Gibson shareholders take up their Rights);
- APAC and Shougang Concord each subscribing for their respective Underwriting Commitments; and
- Shougang Concord being issued the New Shares pursuant to the Placement,

each of APAC and Shougang Concord will have voting power in Mount Gibson of up to 40.46% (comprising 26.03% held by APAC and 14.43% held by Shougang Concord).

The Corporations Act requires that acquisitions of relevant interests in shares that increase a person's voting power in a company from below 20% to above 20%, or if already above 20%, increase their voting power by any amount, must be approved by shareholders (or proceed by other permitted means). Accordingly, Mount Gibson considers it prudent to seek Shareholder approval for the Underwriting and the Placement which will result in an increase in each of APAC's and Shougang Concord's voting power.

As APAC and Shougang Concord may be considered to be associates for the purposes of the Corporations Act, neither APAC nor Shougang Concord may vote on any of the Resolutions in relation to the Transaction. The Rights Issue does not require Shareholder approval because it is made on the same terms to all Shareholders.

(d) **Differences between the Share Purchase and the Transaction**

Shareholders should note that there are a number of differences between the Transaction and the Share Purchase (which was opposed by Mount Gibson and which ultimately did not proceed as a result of the Takeovers Panel Decision).

The major point of difference is that, unlike the Share Purchase, the key components of the Transaction are conditional on Shareholder approval being obtained. Shareholders will therefore collectively determine, on an informed basis, whether the Transaction proceeds.

In addition, the Mount Gibson Independent Directors consider that the Transaction is in the best interests of all Shareholders (in the absence of any superior proposal). Should the Transaction proceed, Mount Gibson would secure medium and long term offtake agreements, receive a stable and reliable source of revenue and receive a significant injection of capital. This would enable Mount Gibson to avoid the likely requirement to refinance debt, bonds and the FX Facilities and also allow it to continue development at Koolan Island and Extension Hill.

4 Overview of Mount Gibson

4.1 Overview of Mount Gibson

Mount Gibson is an Australian iron ore company with operating and exploration projects in the Mid-West region of Western Australia and off the Kimberley coast of Western Australia. The Mount Gibson Group was established in 1996 and Mount Gibson, the ultimate parent entity, subsequently listed on the ASX in January 2002.

Mount Gibson is currently involved in three hematite projects in Western Australia:

- Talling Peak (in production);
- Koolan Island (in production); and
- Extension Hill (in construction).

The map below sets out the location of Mount Gibson's operations.

Figure 7: Location of Mount Gibson's operations



4.2 Overview of Talling Peak

Mount Gibson's first iron ore mine was developed at Talling Peak, which is located 170 kilometres by road and rail from the port of Geraldton in the Mid-West region of Western Australia. Mining of overburden commenced in November 2003 and the first shipment of direct shipping grade hematite occurred in February 2004. Production at the mine achieved its target production rate of 3 Mtpa in the first quarter of the 2006 financial year.

At the previously planned production rate of 3 Mtpa, and based on existing Ore Reserves at Talling Peak, production at Talling Peak is expected to continue to 2013 with potential to increase resources as a consequence of exploration drilling to be undertaken over the next two years.

The mined ore is crushed and screened at the mine-site and placed into lump ore and fines ore stockpiles. Talling Peak is expected to have a lump ore/fines ore split of 65:35 over its remaining life of mine. The crushed ore is transported 65 kilometres by road-train to Mullewa where it is stockpiled at Mount Gibson's rail loading facility. At Mullewa, the ore is loaded onto rail wagons and railed 107 kilometres to Geraldton, where it is stockpiled in a purpose built 160,000 tonne capacity storage shed which is owned by Mount Gibson. From there the ore is loaded onto ships by the Geraldton Port Authority (**GPA**), for transport to China.

The road haulage, rail transport, and ship loading is carried out by experienced contractors, while Mount Gibson undertakes its own mining and crushing operations.

Mount Gibson had entered into contracts to sell all of its production for the life of the Talling Peak mine. Prices were fixed to the prevailing published FOB prices for iron ore sold by Hamersley Iron from its Dampier port. These prices are reviewed annually, for adjustment on 1 April of each year.

Talling Peak continued to improve operational performance during the 2007/08 financial year. Ore tonnes mined increased by 31% compared with the prior corresponding period. Overall, Talling 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. GPA commissioned its dedicated iron ore ship loader at Berth 5 in late March 2008 and achieved significant improvements in loading rates in the June 2008 quarter. The commissioning of the Berth 5 shiploader 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 records were achieved for crushing, road haulage and rail haulage for the 2007/08 financial year as a result of rail upgrades, additional rolling stock and ship loading capacity at the Geraldton Port.

Talling Peak is being mined in a number of staged cut backs throughout the life of mine. As these stages progressed during the previous financial year mining bench areas increased resulting in improvements in mine productivity and ultimately record annual mineral movements. Multiple mine stages exposed multiple ore sources allowing optimal feed blend to the crushing circuit for fines and lump ore production. Staged cut backs of the Talling Mine Range ore sources will continue in 2008/09 with supplementary ore supply being produced from the T5 open cut.

As a result of customer offtake defaults, Mount Gibson has deferred the T6B2 cut back at Talling Peak until July 2009. Total material movement and ore production is forecast to reduce in 2008/09, allowing Mount Gibson to draw down marginally on substantial ore stockpiles which have been generated during the previous year. Ore stockpiles at 30 September 2008 totalled 1.7 Mt.

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 previous financial year versus the Ore 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.

4.3 Koolan Island

The Koolan Island hematite project which is located in the Buccaneer Archipelago of Yampi Sound, 130 kilometres northwest of Derby in Western Australia, was opened by BHP Billiton Limited in 1965 and operated until 1993.

In early 2000, Aztec Resources Limited (**Aztec**) acquired the Koolan Island project 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.

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 lower grade satellite pits has produced 40% lump 60% fines product.

The acquisition by Mount Gibson of Aztec in February 2007 enabled the Koolan Island project to be fully funded and major infrastructure works to be substantially completed. The operation achieved its first iron ore shipment to China in June 2007.

Mount Gibson completed its first full year of production in the 2007/08 financial year from Koolan Island in which ore sources were established, mine development and infrastructure enhanced and 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 2007/08 year and will form part of the stage one cut back from 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.

As a result of customer offtake defaults, in November 2008, Mount Gibson announced to ASX that it has temporarily suspended development activities at the main pit of Koolan Island and expects to recommence development in July 2009. This will defer the commencement of ore mining from Main Pit for a minimum of 6 months. However, sufficient ore is available within Mount Gibson's satellite deposits at Koolan Island to continue producing saleable product during this delay.

At the forecast sales rate of 3.5 Mtpa (sales ramps up 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 9 years to 2017 with potential to substantially increase resources as a consequence of the planned exploration drilling to be undertaken over the next 2 to 3 years.

On 13 November 2008, Mount Gibson announced to ASX that it had reached in principle agreement with the Dambimangari native title group for exploration of the western iron ore targets at Koolan Island, subject to entering into a Heritage Protection and Exploration Agreement with the Dambimangari native title group.

4.4 Extension Hill Hematite

Located in the Mount Gibson Ranges, 85 kilometres east of Perenjori and 260 kilometres east south east of Geraldton, the Extension Hill hematite deposit has Probable Reserves of 12.8 million tonnes and Resources of 19.5 million tonnes.

During the 2007/08 financial year the Mount Gibson Board approved the Detailed Feasibility Study (**DFS**) for production and sale of 3 Mtpa of hematite ore from the Extension Hill Direct Shipping Ore project (**DSO Project**). The DFS 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.

Development and construction commenced in October 2007 with the commencement of operations at Extension Hill originally scheduled for the June quarter of 2009.

As a result of customer offtake defaults, in November 2008, Mount Gibson announced that some construction activities at Extension Hill will be deferred, whilst commencement of ore production is rescheduled to the March 2010 quarter. All contracts with key suppliers have been retained and no material delay penalties will be incurred. While no definitive estimate has been made, Mount Gibson management expect that the capital costs for completion of the DSO Project will be A\$5 million to A\$10 million higher than expected prior to the deferment of activities.

The DSO Project will have very similar operational characteristics to Mount Gibson's Talling Peak operation with the added advantage of a lower strip ratio. Ore mined from Extension Hill will be crushed and screened on site, transported by sealed road 85 kilometres to Perenjori and loaded onto rail wagons for a 235 kilometre 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. An upgrade of rail unloading facilities necessary to ensure greater utilisation of the latent capacity at the Geraldton Port remains with the GPA to construct. Construction of the rail unloading facility is expected to commence in the June 2009 quarter.

On 24 October 2007 WA Environment Minister Templeman issued Ministerial Statement 753 thereby finalising State government environmental approval of the Mt Gibson Iron Ore Mine and Infrastructure Project (of which the DSO Project forms part). On 18 December 2007 Commonwealth government approval for the DSO Project was received.

Environmental Management Plans (**EMPs**) for the DSO Project required by Ministerial Statement 753 were submitted to the Department of Environment and Conservation 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 was received on 3 October 2008. Various other regulatory approvals are now progressing as a consequence of receipt of EMP State and Federal 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 (**Transportation Proposal**). The Transportation Proposal was advertised during the June 2008 quarter and two submissions/objections were received from the public with one objection being withdrawn. This matter is has been reviewed by the Appeals Convenor and his recommendation has been submitted to the Minister for Environment for determination.

4.5 Existing offtake agreements

Until November 2008, Mount Gibson had in place a number of long term offtake agreements with a various traders and steel mills covering life of mine production from each of Talling Peak and Koolan Island. Those contracts provided for Mount Gibson to sell ore at prices determined by reference to the Hamersley Benchmark Price. Three of those customers defaulted on their binding obligations by failing to collect shipments or ore they were scheduled to take in October and November 2008. Consequently, Mount Gibson terminated their agreements, at the same time reserving its right to claim damages against those customers for breach of contract. In addition, another customer has defaulted on its binding obligations by failing to collect one shipment. Mount Gibson has sought to keep that contract on foot and will seek compensation for damages it has suffered.

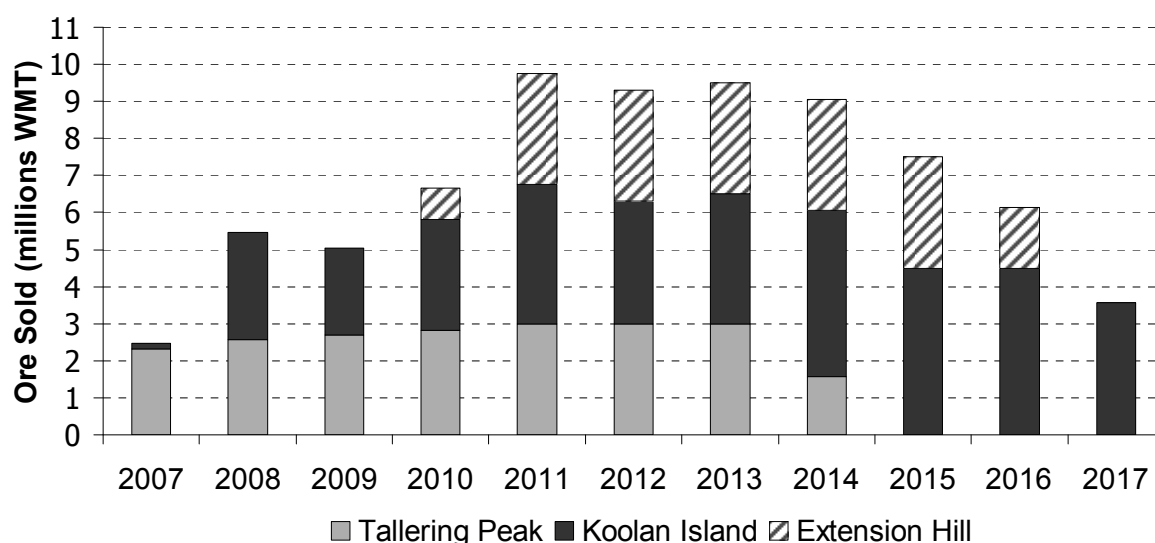
Mount Gibson was able to reach an acceptable accommodation with a further two customers in regards to shipments scheduled for the fourth quarter of 2008. As a result of that accommodation, and in the absence of any further agreement between Mount Gibson and those customers, the terms of those offtake agreements continue to apply (including the obligation on those customers to purchase their agreed proportion of production at benchmark prices).

In addition to the long term agreements, Mount Gibson has entered into the short term offtake agreements with each of APAC and Shougang Concord. Under those agreements, Mount Gibson will sell to each of APAC and Shougang Concord 50% of Available Production during November and December at US\$40 per wet metric tonne.

4.6 Forecast sales profile

As a result of shipping delays and customer defaults announced in October and November 2008, the new offtake arrangements and the need to modify mine plans at both Koolan Island and Talling 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 Mount Gibson's profitability in the current financial year.

Figure 8: Revised estimated production schedule



4.7 Ore Reserves and Mineral Resources

Set out below is Mount Gibson's latest statement of JORC compliant Ore Reserves and Mineral Resources for hematite and DSO as at 30 June 2008:

Table 4: Reserves

	Tonnes (millions)	Fe (%)	SiO₂ (%)	Al₂O₃ (%)	P (%)
KOOLAN ISLAND					
Proved	1.43	63.2	7.40	1.18	0.020
Probable	27.9	63.7	6.22	1.01	0.016
Total	29.4	63.7	6.28	1.02	0.017
TALLERING PEAK					
Proved	12.0	62.3	4.57	2.37	0.025
Probable	2.61	58.4	7.69	3.51	0.029
Total	14.6	61.6	5.13	2.57	0.026
EXTENSION HILL					
Proved	0	0	0	0	0
Probable	12.84	60.3	5.48	1.64	0.062
Total	12.8	60.3	5.48	1.64	0.062
TOTAL	56.8	62.4	5.80	1.56	0.029

Table 5: Resources

	Tonnes (millions)	Fe (%)	SiO₂ (%)	Al₂O₃ (%)	P (%)
KOOLAN ISLAND					
Measured	1.45	63.0	7.56	1.19	0.020
Indicated	49.4	62.9	8.06	0.974	0.017
Inferred	18.3	62.6	8.37	0.926	0.017
Total	69.1	62.8	8.13	0.966	0.017
TALLERING PEAK					
Measured	12.2	63.1	3.98	2.18	0.026
Indicated	3.91	59.3	7.22	3.01	0.053
Inferred	1.08	56.1	12.1	4.67	0.065
Total	17.2	61.8	4.95	2.49	0.033
EXTENSION HILL					
Measured	0	0	0	0	0
Indicated	12.8	60.0	5.36	1.75	0.064
Inferred	6.69	59.6	6.76	1.77	0.056
Total	19.5	59.9	5.84	1.76	0.060
Total	105.8	62.1	7.19	1.36	0.028

Note: Reserves exclude ore and product stocks.

All estimates quoted to three significant figures. Rounding errors may occur.

Attributions

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.

5 Key implications and risks of the Transaction

5.1 Key implications and risks if the Transaction proceeds

(a) Impact on control and governance

(1) Voting rights and Shares

Should both the Placement and Rights Issue proceed, Mount Gibson will issue approximately 270.8 million new Shares. This will increase the Shares on issue from 804.4 million to 1,075.2 million and will change the capital structure of Mount Gibson as described in section 7 of this Explanatory Memorandum. Should both the Placement and Rights Issue proceed, the interests of Shareholders may be diluted by between 10.23% and 25.19%, depending upon their take up of Rights under the Rights Issue.

As discussed in detail in section 3.3 above, notwithstanding that APAC and Shougang Concord do not consider that they are associates, due to, amongst other things, the shareholding of SHHKL in both APAC and Shougang Concord, the fact there is one common director between APAC and Shougang Concord and the Takeovers Panel Decision, Mount Gibson considers that they may be associates for the purposes of the Corporations Act. If that were the case, APAC and Shougang Concord are each taken to have voting power in Mount Gibson that includes shares held by them, and held by the other entity. On this basis, should both the Placement and Rights Issue proceed, APAC's and Shougang Concord's voting power in Mount Gibson would be between 28.55% and 40.46% depending upon the take up of Rights under the Rights Issue, and they will be able to exert a degree of control on Mount Gibson commensurate with their voting power. There is a risk that APAC and Shougang Concord could use their voting power to pursue interests which differ from those of other Shareholders.

For more details regarding APAC and Shougang Concord, please refer to section 3 of this Explanatory Memorandum.

(2) Board structure

One of APAC's directors, Mr Alan Jones, currently sits on the Mount Gibson Board. In addition, Mr Cao Zhong will be nominated by APAC to the Mount Gibson Board as part of the Transaction and will be appointed shortly. Mount Gibson and Shougang Concord have agreed that following completion of the Rights Issue, Underwriting and the Placement, Mount Gibson will appoint a nominee of Shougang Concord to the Mount Gibson Board. The other Directors on the Mount Gibson Board are not associated with APAC or Shougang Concord.

(3) Conclusion

The outcomes described above represent a change in the governance and voting dynamic of Mount Gibson and the new shareholders may pursue interests which differ from those of existing Shareholders.

However, as described in detail in section 9.2, APAC and Shougang Concord have respectively agreed to comply with all applicable laws and the Listing Rules in relation to any dealings between Mount Gibson and Shougang Concord and between Mount Gibson and APAC and procure that their nominees do the same, including:

- obtaining any shareholder approvals for transactions between Mount Gibson and Shougang Concord or APAC (or their associates), where required by any applicable law or the Listing Rules;

- complying with any applicable laws relating to conflicts of interest for directors and of directors' exclusion from voting in relation to matters considered by Mount Gibson's Board;
- ensuring that at all times the composition of the Mount Gibson Board conforms with the ASX's Corporate Governance Principles and Recommendations; and
- in the case of Shougang Concord or APAC nominees, complying with the legal obligations to act in good faith, in the best interests of Mount Gibson, and for proper purposes, and to have regard to the interests of the Shareholders and Mount Gibson as a whole.

Shougang Concord and APAC have each also agreed with Mount Gibson that all transactions in which Shougang Concord or APAC (or their associates) has an interest will either be on arm's length and commercial terms (including the offtake arrangements) or will be approved by independent Shareholders, where required by legislation or the Listing Rules. Such transactions will be approved by the Mount Gibson Independent Directors in accordance with any applicable laws relating to conflicts of interest and exclusion of directors from voting.

(b) **Impact on status of Mount Gibson under the *Foreign Acquisitions and Takeovers Act 1975* (Cth)**

Foreign investment in Australia is regulated principally under Commonwealth legislation including the Foreign Acquisitions and Takeovers Act 1975 (**FATA**) and by the Australian Government's Foreign Investment Policy (**Policy**). The Federal Treasurer is ultimately responsible for all decisions relating to foreign investment and administration of the Policy and FATA. The Treasurer is advised and assisted by the FIRB which administers the FATA in accordance with the Policy.

Given that APAC currently holds more than 15% of Mount Gibson, Mount Gibson is presently considered a "foreign person" for the purposes of FATA. As a result, the Treasurer has power to make orders under FATA in respect to certain transactions Mount Gibson enters if the Treasurer considers the transaction to be contrary to Australia's national interest. As a foreign person, Mount Gibson is already required to give notice under FATA as a pre-condition to undertaking certain transactions. For example, if Mount Gibson wishes to acquire more than 15% of an Australian corporation (with more than A\$100 million of assets), before completing that acquisition it must give the Treasurer notice of the proposal. To avoid the exercise of the Treasurer's powers, a statement of no objection is to be obtained. A statement of no objection issued under FATA or the Policy is often referred to as "FIRB approval".

If the Transaction proceeds, due to interests ultimately held by Shougang Corporation (a Chinese Government entity and the holding company of SHHKL) in APAC and the resulting investments of APAC and Shougang Concord in Mount Gibson, Mount Gibson will be deemed to be a "foreign government agency" for the purposes of the Policy. The Policy requires that direct investments by foreign governments or their agencies irrespective of size are required to be notified to the Australian Government for prior approval. The result is that in addition to the FATA requirements, Mount Gibson will need to have regard to the Policy when making acquisitions. In particular, exemptions available under FATA are not available under the Policy as all investments are required to be notified. Proposals by foreign government agencies to make investments are generally subject to a higher level of scrutiny by FIRB than proposals by foreign persons without foreign government ownership.

(c) **Risk that conditions to implementation of the Offtake Agreements, the Underwriting and the Placement may not be satisfied and Mount Gibson's financial position may be impacted**

Each of the Offtake Agreements, the Underwriting and the Placement will only be implemented if each of the Resolutions is approved and certain other conditions precedent are satisfied or waived. While Mount Gibson is not aware of any matter which would, as at the date of this Explanatory

Memorandum, cause these other conditions precedent to be breached or unfulfilled, there is a risk that due to matters outside its control, those conditions will not be satisfied.

The key conditions to the implementation of the Offtake Agreements, the Underwriting and the Placement are:

- for each of the Offtake Agreements, Underwriting and Placement, obtaining Shareholder approval as contemplated by the Notice of Meeting;
- for the APAC Underwriting Commitment, approval by APAC shareholders under the Hong Kong Listing Rules, if required, and receipt of FIRB approval; and
- for the Shougang Concord Underwriting Commitment and the Placement, FIRB approval for Shougang Concord to subscribe for the Shougang Concord Underwriting Commitment and the New Shares under the Subscription Agreement.

If Shareholder approval of each of the Offtake Agreements, Underwriting and Placement is not obtained, none of these elements of the Transaction will be implemented. However, the Rights Issue is not subject to the approval of Shareholders and will proceed regardless of whether or not Shareholders approve the Offtake Agreements, the Underwriting and the Placement.

If the Transaction is not implemented as a result of the conditions to the Transaction not being satisfied, Mount Gibson will be affected as described in section 5.2 below.

(d) Failure to subscribe for the Shortfall Shares or Placement Shares

The Underwriting Agreements with each of APAC and Shougang Concord have specified termination events that are summarised in Schedule 1. The Subscription Agreement with Shougang Concord also has specified termination events that are summarised in Schedule 2. Amongst other things, these termination events include certain material adverse changes to Mount Gibson and the Underwriting Agreements include a material deterioration in the Australian equity capital markets as a termination event. There is a risk that one or more of these termination events will be triggered allowing APAC and/or Shougang Concord to rescind their commitments under their respective Underwriting Agreements and/or Shougang Concord to terminate the Subscription Agreement.

Mount Gibson has dealt with performance risk under the Underwriting Agreements and the Subscription Agreement – in the absence of a termination event – through the escrow provisions outlined in Schedules 1 and 2. Under the Underwriting Agreements, both APAC and Shougang Concord have agreed, if requested to do so, to place certain portions of the funds required to meet the Underwriting Commitments in an escrow account prior to the Meeting. Under the Subscription Agreement, Shougang Concord has agreed to place the entire subscription amount in an escrow account prior to the Meeting.

(e) Counterparty risk

Substantially all of Mount Gibson's revenues and cash flows are derived from the sale of iron ore. Therefore, the financial performance of Mount Gibson is exposed to any failure by counterparties to offtake agreements that Mount Gibson has entered into (including APAC and Shougang Concord) to comply with the terms of those contracts, and this is beyond the control of Mount Gibson. However, to the extent that APAC and Shougang Concord hold shares in Mount Gibson as a result of the Transaction their interests are aligned with those of existing Shareholders.

(f) Market reaction to concentrated offtake

Mount Gibson's long term offtake with Shougang Concord (80% of Available Production) and APAC (20% of Available Production) is currently expected to represent 70% of combined production from Koolan Island, Talling Peak and Extension Hill. Investors may find this customer concentration, particularly in the light of previous customer defaults, to be a negative for the Company and, therefore, for its valuation. To mitigate this concern, the contracts are binding on Shougang Concord and APAC and both companies have material balance sheets in Hong Kong. In addition, they share a common shareholder in Shougang Corporation (through SHHKL) which is China's

fourth largest steel producer and a Chinese state owned entity. It is also noted that to the extent that APAC and Shougang Concord hold shares in Mount Gibson, directly or indirectly, as a result of the Transaction their interests are aligned with those of existing Shareholders.

(g) Market reaction to concentrated ownership

While Mount Gibson has addressed perceived risks associated with the changes to Board composition through the governance arrangements with APAC and Shougang Concord as described in section 9.2, there is a risk that investors will discount Mount Gibson shares as a result of the perceived change of control of the Company and the decreased likelihood of a third party making a takeover bid for Mount Gibson – referred to as the implied takeover premium.

(h) Foreign exchange facility risk

Following the completion of the Rights Issue, Placement and Shareholder approval for the Offtake Agreements, Mount Gibson plans to approach the FX Facility providers with a proposal to roll forward excess US Dollar forward contracts (above that required to cover expected near term US Dollar revenue). Based on preliminary discussions to date between Mount Gibson and the providers of the FX Facilities, Mount Gibson expects the FX Facility providers are likely to give due consideration to this. However, no assurance can be provided that the providers of the FX Facilities will agree to this. In this event, material cash funds may be required for cash settlement of the excess forward contracts and will decrease cash available for working capital and ongoing development activities at Koolan Island and Extension Hill.

(i) Operating profit risk

Prior to July 2009, Mount Gibson will supply Available Production to Shougang Concord and/or APAC at FOB prices of US\$40 and US\$56 per wet metric tonne for November to December 2008 and for January to June 2009 respectively. Given the FX Facilities, the Australian Dollar revenue is known with reasonable certainty. However, there is a risk that costs may increase to the point where these short and medium term prices are insufficient to cover ongoing operational costs.

(j) Existing offtake agreements

Mount Gibson has terminated offtake agreements with defaulting customers prior to entering into the new Offtake Agreements with Shougang Concord and APAC. There is a risk that customers may claim that the termination is not justified and take proceedings against Mount Gibson.

(k) Foreign exchange rate risk

Mount Gibson is an Australian business that reports in Australian dollars. Mount Gibson's revenue is derived from the sale of iron ore in US dollars. However, costs are mainly in Australian dollars therefore movements in the US\$ / A\$ exchange rate and/or the US dollar iron ore price may adversely or beneficially affect Mount Gibson's results of operations and cash flows.

(l) Regulatory risks

The operations of Mount Gibson are subject to various Federal, State and local laws and plans including those relating to mining, prospecting, development, permit and licence requirements, industrial relations, environment, land use, royalties, water, native title and cultural heritage, mine safety and occupational health.

Approvals, licences and permits required to comply with such rules are subject to the discretion of the applicable government or government officials. No assurance can be given that Mount Gibson will be successful in obtaining any or all of the various approvals, licences and permits or maintaining such authorisations in full force and effect without modification or revocation. To the extent such approvals are required and not retained or obtained in a timely manner or at all, Mount Gibson may be curtailed or prohibited from continuing or proceeding with production and exploration.

(m) **Funding risks**

In the ordinary course of operations and development, Mount Gibson will be required to issue financial assurances, particularly insurances and bond/bank guarantee instruments, to secure statutory and environmental performance undertakings and commercial arrangements. Mount Gibson's ability to provide such assurances is subject to external financial and credit market assessments, and its own financial position.

(n) **Transaction costs**

If the Resolutions are approved, transaction costs such as legal and advisory fees will be payable by Mount Gibson. In the event that the Resolutions are not approved, Mount Gibson will still be liable for certain costs.

5.2 Key implications if the Resolutions are not approved

(a) **None of the Offtake Agreements, Underwriting, and the Placement will proceed**

Resolutions 1 to 3 are interconditional. That means that if Shareholder approval of each of the Resolutions is not obtained, none of the Offtake Agreements, Underwriting or Placement will proceed. In addition, there will be no change to the Mount Gibson Board, other than the retirement and re-election of Directors pursuant to Mount Gibson's Constitution.

(b) **The Rights Issue will still proceed**

However, the Rights Issue is not subject to Shareholder approval and it will proceed regardless of whether or not Shareholders approve the Offtake Agreements, the Underwriting and the Placement, although it will not be underwritten by APAC and Shougang Concord in such circumstances. That means that Shareholders taking up their Rights prior to the Shareholder meeting to approve the Resolutions, as well as persons purchasing Rights, do so in the absence of any certainty as to whether or not Mount Gibson will realise any of the benefits that Mount Gibson believes will result from the Transaction and there is a risk that Mount Gibson may be in a materially worse position if the Transaction is not implemented.

(c) **Mount Gibson may suffer financial distress and may not be able to continue as a going concern**

If the Resolutions are not passed Mount Gibson will continue to operate as it did prior to the Transaction, exploring all available alternatives to optimise and develop its assets and other growth opportunities. However, given the current difficult global financial markets, constrained borrowing conditions and uncertainty of iron ore sales, the Mount Gibson Independent Directors believe the Transaction represents the best available option for Shareholders.

In particular, if the Offtake Agreements are not implemented – and in the absence of alternative offtake arrangements – Mount Gibson will be left selling iron ore through the spot market which is unable to absorb significant volumes and sales may be at lower prices to the prices achieved under long term offtake agreements. Consequently, Mount Gibson would most likely be in default of its corporate debt and bond facility agreement, which would be required to be refinanced, along with its FX Facilities. In doing so, Mount Gibson may come under material financial distress and it may not be able to continue as a going concern. Mount Gibson may need to sell one or more of its material assets (Koolan Island, Talling Peak and/or Extension Hill) other than in the ordinary course of business and at values different to those stated in its financial statements. It is unclear whether Mount Gibson's lenders would seek to achieve that outcome through a receiver or by working with the existing Board and management.

6 Impact on Mount Gibson's Financial Position

This section provides relevant financial information for Mount Gibson Shareholders to consider when assessing the Rights Issue, the Underwriting and the Placement (but not the Offtake Agreements), including details of the financial impact of voting to approve the Transaction.

All information in this section assumes that the Transaction took place on 30 September 2008. To the extent that the actual acquisition date varies, information presented may vary considerably.

The pro forma financial information should be read in conjunction with the limitations explained in the 'Responsibility for Information' statement contained within the Important Notices section of this Explanatory Memorandum.

All financial information is presented in accordance with the measurement and recognition principles under AIFRS unless otherwise noted.

The impact of the Rights Issue, Underwriting and Placement is an increase in cash of approximately A\$158 million.

Shareholders should note that the iron ore prices under the short term and medium term Offtake Agreements are materially below current Hamersley Benchmark Prices and will have a material negative impact on the profitability of Mount Gibson for the year ended 30 June 2009. The prices under the long term Offtake Agreements are however tied to Hamersley Benchmark Prices. See Schedule 3 for more details of the Offtake Agreements.

Set out below is the audited balance sheet for Mount Gibson at 30 June 2008, unaudited balance sheet at 30 September 2008 and pro forma balance sheet as at 30 September 2008.

Table 1: Pro forma balance sheet

	June 2008 (A\$000's)	September 2008 (A\$000's)	Pro forma Adjustment (A\$000's)	Pro forma Balance Sheet (A\$000's)
CURRENT ASSETS				
Cash and Deposits	48,658	126,588	157,824	284,412
Receivables	83,436	45,078		45,078
Inventories	71,448	91,306		91,306
Foreign Exchange Hedging Gain	25,161	385		385
Prepayments	1,570	4,174		4,174
Total Current Assets	230,273	267,531	157,824	425,355
NON-CURRENT ASSETS				
Trade and Other Receivables	1,000	0		0
Available for sale assets	1,113	1,487		1,487
Property, Plant & Equipment	188,497	240,683		240,683
Mine Properties	447,235	433,993		433,993
Deferred Acquisition and Exploration Expenditure	25,919	35,735		35,735
Total Non-Current Assets	663,764	711,898		711,898
Total Assets	894,037	979,429	157,824	1,137,253

CURRENT LIABILITIES

Trade Creditors & Accruals	73,406	72,349	72,349
Provisions	1,880	2,383	2,383
Leases & HP Contracts	12,415	15,566	15,566
Foreign Exchange Hedging Loss	342	62,247	62,247
Total Current Liabilities	88,043	152,545	152,545

NON-CURRENT LIABILITIES

Interest Bearing Loans and borrowings	145,858	164,319	164,319
Provisions	19,112	19,120	19,120
Deferred Tax Liability	44,532	71,120	71,120

Total Non-Current Liabilities	209,502	254,559	254,559	
Total Liabilities	297,545	407,104	407,104	
NET ASSETS	596,492	572,325	157,824	730,149

SHAREHOLDERS EQUITY

Issued Capital	397,197	397,639	157,824	555,463
Accumulated (Profits)	171,205	231,592		231,592
Reserves	28,090	(56,906)		(56,906)

TOTAL SHAREHOLDERS EQUITY	596,492	572,325	157,824	730,149
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Table 2: Pro forma adjustments – cash and deposits

	A\$000's
Proceeds from Rights Issue	96,523
Underwriting fees	(3,379)
Net proceeds from Rights Issue	93,144
Proceeds from Share Placement	66,000
Other transaction costs	(1,320)
Net Increase in Cash	157,824

Table 3: Pro forma adjustments – issued capital

	Shares (000's)	A\$000's
Shares on issue at 30 September 2008	804,356	397,639
Shares to be issued under Rights Issue	160,871	96,523
Underwriting fees		(3,379)
Net proceeds from Rights Issue	965,227	490,783
Proceeds from Share Placement	110,000	66,000
Other transaction costs		(1,320)
Total	1,075,227	555,463

Transaction costs include advisory, legal, independent expert and printing costs as follows:

Table 4: Transaction costs

	A\$000's
Advisory fees	500
Legal fees	500
Independent Expert	170
Printing / EGM	150
Total	1,320

Notes to the Pro Forma Balance Sheet

The balance sheet at 30 June 2008 is as per the audited financial statements and annual report. There have been no changes in accounting policy since 30 June 2008.

Mount Gibson loan facilities

Mount Gibson entered into loan facilities with HSBC Australia Ltd and National Australia Bank Ltd on 28 August 2007 and drew down on these facilities on 6 September 2007. The facilities include a A\$200 million corporate facility which is presently drawn to A\$105 million together with a A\$25 million contingent finance (bond) facility. The lenders also provide Mount Gibson with foreign exchange and interest rate hedging products (forward and option contracts) as discussed further below, which involve provision of additional credit. Mount Gibson will require an additional A\$35 million in contingent finance (bond) facilities to support completion of the Extension Hill project. These are largely required for guarantees to rail contractors as well as environmental bonds required by the WA Government.

Foreign currency hedging arrangements

Mount Gibson is exposed to the risk of adverse movement in the A\$ compared to the US\$ as its iron ore sales receipts are denominated in US\$. Mount Gibson uses derivative financial instruments to manage specifically identified foreign currency exposures by hedging a proportion of these forecast sales transactions in accordance with its risk management policy. The primary objective of using derivative financial instruments is to reduce the volatility of earnings attributable to changes in the US\$/A\$ exchange rate and to protect against undue adverse movements in these rates. The hire purchase liabilities for the mining equipment at Koolan Island are denominated in US\$.

Consistent with both company policies and minimum bank mandated hedging requirements, Mount Gibson has entered into foreign exchange forward contracts to cover approximately 40% of its budgeted US\$ exposure over the combined 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
- 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 the 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\$ 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.

Mount Gibson recognises derivative financial instruments at fair value at the date the derivative contract is entered into. Mount Gibson applies hedge accounting to forward foreign currency contracts that meet the criteria of cash flow hedges. The accounting policy for hedge accounting is set out in note 1(aa) to the Consolidated Financial Report for the year ended 30 June 2008. The pro forma balance sheet above does not take into account any adjustments as a result of rolling forward up to US\$180 million of the foreign exchange hedge position (which Mount Gibson is seeking to agree with its financiers) as described above, as under the accounting standards they may not qualify as 'effective hedges' under hedge accounting. Should this be the case, an accounting mark-to-market loss of approximately \$75 million pre-tax (\$53 million post-tax) will be required. Any such adjustment will be reflected in the 31 December 2008 financial statements.

Interest rate hedging arrangements

Mount Gibson's exposure to market interest rates relates primarily to its long-term debt obligations.

Mount Gibson's policy is to manage its interest costs using a mix of fixed and variable rate debt, and to have 70% of its borrowings at fixed rates of interest. The Company has entered into interest rate swaps, in which the Company 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 corporate debt facility of Mount Gibson as at 21 November 2008 bears an interest rate of 8.75%. In order to protect against rising interest rates, the Company has entered into interest rate swap contracts under which it has a right to pay fixed interest at fixed rates. Swaps in place cover approximately 71 percent of the principal outstanding and will expire on 30 June 2010. The fixed interest rates range between approximately 7.0% and 8.1% and the variable rate is 1.5% above the 90 day bank bill rate.

The interest rate swaps require settlement of net interest payable in 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 effective. They are settled on a net basis.

7 Impact on Mount Gibson's capital structure and level of control

The following table outlines Mount Gibson's current capital structure and voting power of Mount Gibson's substantial shareholders:

Table 6: Capital structure and voting power – pre Rights Issue and Placement (undiluted)

	# of Shares	%
APAC	164,148,144	20.41%
Other Shareholders	640,207,677	79.59%
Total	804,355,821	100.0%

7.1 Impact of the Rights Issue and Underwriting

The effect of the Rights Issue on Mount Gibson's capital structure will be that the issued capital of Mount Gibson will increase from 804,355,821 Shares to approximately 965,226,985 Shares.

If the Rights Issue is fully subscribed for by Shareholders, upon completion of the Rights Issue and before the Placement, APAC's shareholding in Mount Gibson will remain at 20.41%.

If all Shareholders do not take up all of their Rights under the Rights Issue, there will be a Shortfall. APAC has agreed to subscribe for the first 82,900,000 Shortfall Shares. This will increase APAC Group's shareholding in Mount Gibson to approximately 29% (if the Shortfall is equal to or higher than the 82,900,000 Shortfall Shares).

If there are more than 82,900,000 Shortfall Shares, Shougang Concord has agreed to subscribe for the balance, subject to a maximum of 50,000,000 Shortfall Shares. This will give Shougang Concord a shareholding in Mount Gibson of approximately 4.68%, should no other Shareholders subscribe for their Rights.

7.2 Impact of the Placement

Shougang Concord has agreed to subscribe for and Mount Gibson has agreed to issue 110,000,000 New Shares, or approximately 10.23% of Mount Gibson (post the Rights Issue and Placement). The aggregate effect of Shougang Concord taking up its full Underwriting Commitment and the Placement is that Shougang Concord would have a shareholding in Mount Gibson of approximately 14.43%.

The effect of the Placement on Mount Gibson's capital structure will be that the issued capital of Mount Gibson will increase from 965,226,985 Shares by 110,000,000 Shares to approximately 1,075,226,985 Shares.

7.3 Combined impact of the Rights Issue and the Placement

As detailed in section 3.3 of this Explanatory Memorandum, notwithstanding that APAC and Shougang Concord do not consider that they are associates, given the shareholding of SHHKL in both APAC and Shougang Concord, the fact there is one common director between APAC and Shougang Concord and the Takeovers Panel Decision, APAC and Shougang Concord may be considered associates for the purposes of the Corporations Act. If that were the case, APAC and Shougang Concord are each taken to have voting power in Mount Gibson that includes shares held by them, and held by the other entity. On this view, upon:

- APAC taking up all of its Rights under the Rights Issue (and assuming no other Mount Gibson shareholders take up their Rights);
 - APAC and Shougang Concord both subscribing for their full Underwriting Commitments; and
 - Shougang Concord being issued 110,000,000 New Shares pursuant to the Placement,
- each of APAC and Shougang Concord will have voting power in Mount Gibson of 40.46%.

The table below shows the major shareholdings in Mount Gibson following completion of the fully subscribed Rights Issue and the Placement:

Table 7: Major shareholdings post Rights Issue and Placement (undiluted) – fully subscribed

	# of Shares	%
Shougang Concord	110,000,000	10.23%
APAC	196,977,773	18.32%
Other Shareholders	768,249,212	71.45%
Total	1,075,226,985	100.0%

The table below shows the major shareholdings in Mount Gibson following completion of the Rights Issue (assuming no Shareholders take up their Rights, and these are not taken up by third parties) and the Placement:

Table 8: Major shareholdings – post Rights Issue and Placement (undiluted) – no subscriptions

	# of Shares	%
Shougang Concord	155,141,535	14.43%
APAC	279,877,773	26.03%
Other Shareholders	640,207,677	59.54%
Total	1,075,226,985	100.0%

The tables below illustrate the respective interests of APAC and Shougang Concord under various scenarios:

Table 9: APAC and Shougang Concord holdings post Transaction – Underwriting and Placement approved

	APAC Holding	Shougang Concord Holding	Combined APAC / Shougang Concord Holding (if they are considered associates)
Outcome			
0% of Rights taken up	26.03%	14.43%	40.46%
10% of Rights taken up	26.03%	13.24%	39.27%
30% of Rights taken up	26.03%	10.86%	36.89%
70% of Rights taken up	21.89%	10.23%	32.12%
100% of Rights taken up	18.32%	10.23%	28.55%

Table 10: APAC and Shougang Concord holdings post Transaction – Underwriting and Placement voted down

	APAC Holding	Shougang Concord Holding	Combined APAC / Shougang Concord Holding (if they are considered associates)
Outcome			
0% of Rights taken up	23.53%	0.00%	23.53%
10% of Rights taken up	23.17%	0.00%	23.17%
30% of Rights taken up	22.50%	0.00%	22.50%
70% of Rights taken up	21.25%	0.00%	21.25%
100% of Rights taken up	20.41%	0.00%	20.41%

8 Directors and management

8.1 Current Directors

The Mount Gibson Board is currently comprised of the following Directors:

- Mr Neil Hamilton – Chairman;
- Mr Luke Tonkin – Managing Director;
- Mr Alan Jones – Non-executive Director;
- Mr Craig Readhead – Non-executive Director; and
- Mr Ian MacIver – Non-executive Director.

Mr Alan Jones is also a director of APAC.

Mr Alan Rule is an Alternate Director to Mr Tonkin and is also Chief Financial Officer.

8.2 Proposed new Directors

(a) APAC nominee

Mr Cao Zhong will be nominated by APAC as its nominee on the Mount Gibson Board as part of the Transaction, and will be appointed shortly. Mr Cao, aged 49, is Chairman and Executive Director of APAC. He graduated from Zhejiang University, the People's Republic of China, and Graduate School, The Chinese Academy of Social Sciences, with a Bachelor Degree in Engineering and a Masters Degree in Economics. Mr Cao is assistant general manager of Shougang Corporation and the Managing Director of Shougang Concord. He also holds a number of other roles in the Shougang Corporation Group including chairman of China Shougang International Trade and Engineering Corporation, vice chairman and general manager of SHHKL and chairman of each of Shougang Concord Technology Holdings Limited and Shougang Concord Century Holdings Limited and the vice chairman and managing director of Shougang Concord Grand (Group) Limited. Mr Cao has extensive experience in corporate management and operations.

(b) Shougang Concord nominee

Under the Shougang Concord Heads of Agreement, following the execution of the Offtake Agreements, completion of the Rights Issue and the Unberwriting and completion of the Placement, Shougang Concord will be entitled to appoint a nominee to the Mount Gibson Board, to reflect the new shareholder base of Mount Gibson.

Shougang Concord will nominate Mr Chen Zhouping to be appointed to the Mount Gibson Board. Mr Chen Zhouping, aged 42, is a graduate of the School of Economics and Management, Tsinghua, a member of the Chinese Institute of Certified Public Accountants. Mr Chen was appointed a Deputy Managing Director of Shougang Concord in November 2002. He was also appointed a Deputy Managing Director of SHHKL in November 2001. He has extensive experience in the steel industry, engineering design, human resources and management.

(c) Mount Gibson Board composition post the Transaction

Following the appointments described in (a) and (b) above, the Mount Gibson Board will include Mr Alan Jones (who is also an APAC director) and Mr Cao Zhong (a nominee of APAC). It will also include Mr Chen Zhouping (a nominee of Shougang Concord).

The other Directors on the Mount Gibson Board are not associated with APAC or Shougang Concord.

9 Corporate governance

9.1 Director protocols

The Board has adopted a high standard of corporate conduct and governance. In order to ensure that the Directors continued to meet their corporate governance obligations, in November 2007 the Board expanded the role of its Nomination and Remuneration Sub-Committee to include corporate governance issues. The expanded Nomination, Remuneration and Governance Sub-Committee is responsible for, amongst other things, reporting and making recommendations to the Board on Mount Gibson's corporate policies. It is also responsible for ensuring that procedures and policies exist to effectively deal with conflicts of interests at Board level.

To this end, the Board has adopted a Conflicts of Interest policy to address circumstances where a Director's interests or other duties may affect their decision making as a Director, or may be affected by a decision of Mount Gibson.

The policy essentially re-enforces each Director's legal duties and obligations by establishing a protocol under which each Director is required to disclose certain interests and advise the Board in circumstances where a potential conflict of interest arises. The policy also sets out the procedures to be followed where the Chairman of the Board determines that a Director's interest in a matter is sufficiently material or would result in a conflict of interest occurring.

9.2 Corporate governance and Board independence post completion of the Transaction

APAC and Shougang Concord have each agreed to comply with all applicable laws and the Listing Rules in relation to any dealings between Mount Gibson and Shougang Concord and APAC and procure that their nominees do the same, including:

- obtaining any Shareholder approvals for transactions between Mount Gibson and Shougang Concord or APAC (or their associates), where required by any applicable law or the Listing Rules;
- complying with any applicable laws relating to conflicts of interest for directors and of directors' exclusion from voting in relation to matters considered by the Mount Gibson Board;
- ensuring that at all times the composition of the Mount Gibson Board conforms with the ASX's Corporate Governance Principles and Recommendations; and
- in the case of Shougang Concord or APAC nominees, complying with the legal obligations to act in good faith, in the best interests of Mount Gibson, and for the proper purposes, and to have regard to the interests of the Shareholders and Mount Gibson as a whole.

Shougang Concord and APAC have also agreed with Mount Gibson that all transactions in which Shougang Concord or APAC (or their associates) has an interest will either be on arm's length and commercial terms (including the offtake arrangements) or will be approved by independent Shareholders, where required by legislation or the Listing Rules. Such transactions will be approved by the Mount Gibson Independent Directors in accordance with any applicable laws relating to conflicts of interest and exclusion of directors from voting.

In addition, as members of the Board, APAC's and Shougang Concord's nominees will be bound by the Conflict of Interest policy described in section 9.1.

10 Intentions of APAC and Shougang Concord

This section sets out the intentions of APAC and Shougang Concord in relation to Mount Gibson.

The intentions below are based on information concerning Mount Gibson, its business and the business environment which is known to APAC and Shougang Concord at the date of this document.

Final decisions regarding these matters will only be made by APAC and Shougang Concord in light of material information and circumstances at the relevant time. Accordingly, the statements set out in this section are statements of current intention only, which may change as new information becomes available or as circumstances change.

APAC and Shougang Concord have the following intentions in relation to Mount Gibson following implementation of the Transaction.

10.1 Continued operations

It is the current intention of each of APAC and Shougang Concord to support Mount Gibson and its management in relation to the operational plans as described in this Explanatory Memorandum.

10.2 Strategic direction

It is the intention of APAC and Shougang Concord to support Mount Gibson in pursuing its strategic goal of becoming a leading Australian independent iron ore producer.

Each of APAC and Shougang Concord have 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 APAC or Shougang Concord; or
- redeploy any of Mount Gibson's fixed assets.

Mr Alan Jones, a director of APAC, currently sits on the Mount Gibson Board. In addition, Mr Cao Zhong will be nominated by APAC as part of the Transaction and will be appointed to the Mount Gibson Board shortly.

Further, Mount Gibson and Shougang Concord have agreed that following completion of the Transaction, Mount Gibson must procure that its Directors appoint a nominee of Shougang Concord to the Mount Gibson Board. Shougang Concord will nominate Mr Chen Zhouping to be appointed to the Mount Gibson Board.

The other Directors on the Mount Gibson Board are not associated with either APAC or Shougang Concord.

10.3 Other

- 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.

11 Independent Expert's Report

The Independent Expert's Report assesses whether the Transaction (comprising the Offtake Agreements, the Underwriting and the Placement outlined in Resolutions 1, 2 and 3 (inclusive)) is fair and reasonable to the Shareholders who are not associated with APAC and Shougang Concord. The Independent Expert's Report also contains an assessment of the advantages and disadvantages of the Offtake Agreements, the Underwriting and the Placement. This assessment is designed to assist all Shareholders in reaching their voting decision.

KPMG Corporate Finance has provided the Independent Expert's Report and has provided an opinion that it believes that the Transaction (comprising the Offtake Agreements, Underwriting and Placement) is fair and reasonable to Shareholders.

It is recommended that all Shareholders read the Independent Expert's Report in full, as set out in Annexure A.

12 Directors' recommendations

12.1 Recommendations

Based on the information available, including that contained in this Explanatory Memorandum and the Independent Expert's Report and the advantages and disadvantages outlined, the Mount Gibson Independent Directors consider that Resolutions 1 to 3 (inclusive) are in the best interests of Shareholders and Mount Gibson.

Each of the Mount Gibson Independent Directors recommends that Shareholders vote in favour of Resolutions 1 to 3 (inclusive) subject to no superior proposal emerging.

Each of the Mount Gibson Independent Directors voted to put to Shareholders the Resolutions contained in the Notice of General Meeting and this Explanatory Memorandum.

Given that Mr Alan Jones is a director of APAC, he abstained from voting on the proposals to recommend that Shareholders vote in favour of the Resolutions and to put the Resolutions to Shareholders.

12.2 Directors' voting intentions

Each Director who holds Shares in Mount Gibson (or whose associated entities hold Shares) and is entitled to vote will vote those Shares in favour of Resolutions 1 to 3 (inclusive) subject to no superior proposal emerging.

12.3 Interests of Directors

Other than as set out below, the Directors do not have any material personal interest in the outcome of Resolutions 1 to 3 (inclusive) other than their interests arising solely in their capacity as Shareholders of Mount Gibson.

As at the date of this Explanatory Memorandum, the Directors had the following Relevant Interests in Shares:

Director	Class of security	Number	Nature of Relevant Interest
Neil Hamilton	Ordinary	185,000	Direct
Luke Tonkin	N/A	Nil	N/A
Craig Readhead	Ordinary	567,500	Direct and indirect
Ian MacIver	Ordinary	1,000,000	Indirect
Alan Jones	Ordinary	100,000	Direct
Alan Rule ²	Ordinary	50,000	Direct

² Mr. Rule is an alternate director.

As at the date of this Explanatory Memorandum, the Directors had the following Relevant Interests in Options:

Director	Exercise Price (A\$)	Exercise date	Number	Nature of Relevant Interest
Neil Hamilton	N/A	N/A	Nil	
Luke Tonkin	0.90	Between 24/10/08 and 23/10/10	3,000,000	Direct
	1.10	Between 24/10/10 and 23/10/12	2,000,000	Direct
Craig Readhead	N/A	N/A	Nil	
Ian Macliver	N/A	N/A	Nil	
Alan Jones	N/A	N/A	Nil	
Alan Rule ³	0.90	Between 1/7/08 and 30/6/10	2,000,000	Direct

As at the date of this Explanatory Memorandum, the Directors had the following Relevant Interests in performance rights in Mount Gibson, pursuant to the Mount Gibson Iron Limited Performance Rights Plan:

Director	Vesting	Number	Nature of Relevant Interest
Neil Hamilton	N/A	Nil	
Luke Tonkin	May vest from 30 June 2010 or 31 December 2010	227,758	Direct
Craig Readhead	N/A	Nil	
Ian Macliver	N/A	Nil	
Alan Jones	N/A	Nil	
Alan Rule ³	May vest from 30 June 2010 or 31 December 2010	168,324	Direct

³ Mr. Rule is an alternate director.

13 Additional information relating to Resolutions 1 to 3 (inclusive)

13.1 Resolutions interconditional

Resolutions 1 to 3 (inclusive) are interconditional. That means each of the Resolutions needs to be passed for the approvals sought to be effective.

13.2 Offtake Agreements, Underwriting Agreements and Subscription Agreement

Summaries of the Offtake Agreements, the Underwriting Agreements and the Subscription Agreement are set out in the Schedules to this Explanatory Memorandum.

13.3 Resolution 1 – Approval of Offtake Agreements

(a) Background to resolution 1

In November 2008 Mount Gibson entered into each of the Shougang Concord Offtake Agreements and the APAC Offtake Agreements. Summaries of the Offtake Agreements executed by Mount Gibson and APAC and Mount Gibson and Shougang Concord are set out in Schedule 3 of this Explanatory Memorandum.

(b) Listing Rule 10.1 – Acquisition and disposal of substantial assets

Listing Rule 10.1 provides that approval of holders of an entity's ordinary securities is required where an entity proposes to dispose of a substantial asset to a second entity that is a substantial shareholder, or an associate of that second entity.

For these purposes:

- a person is a substantial holder if the person and the person's "associates" (as that term is defined in section 12 of the Corporations Act) have a relevant interest, or had a relevant interest at any time in the 6 months before the transaction, in at least 10% of the total votes attached to the voting securities; and
- an asset is a substantial asset if its value, or the value of the consideration for it, is 5% or more of the equity interests of the entity as set out in the latest accounts of the entity given to ASX under the Listing Rules.

(c) Approval of the APAC Offtake Agreements and Shougang Concord Offtake Agreements is required

APAC is currently a substantial holder for the purposes of Listing Rule 10.1.

If the Placement proceeds, Shougang Concord will become a substantial holder for the purposes of Listing Rule 10.1. In addition, notwithstanding that APAC and Shougang Concord do not consider that they are associates, given the shareholding of SHHKL in both APAC and Shougang Concord, the fact APAC and Shougang Concord have a common director and the Takeovers Panel Decision, Mount Gibson considers that APAC and Shougang Concord may be associates for the purposes of the Corporations Act and accordingly a disposal to Shougang Concord may also require Shareholder approval.

The aggregate value of the offtake being sold under each of the Offtake Agreements exceeds 5% of the equity interests of Mount Gibson set out in Mount Gibson's accounts for the half year ended 30 June 2008.

Accordingly, Shareholder approval is required for the Offtake Agreements under Listing Rule 10.1.

Under Listing Rule 10.10, the notice of meeting is required to contain a report on the transaction from an independent expert stating whether the transaction is fair and reasonable to holders of Mount Gibson's ordinary securities whose votes are not to be disregarded. The report from the Independent Expert is set out in Annexure A of this Explanatory Memorandum. The Independent Expert has concluded that the Transaction (of which the Offtake Agreements form part) is fair and reasonable to Shareholders who are not associated with APAC or Shougang Concord.

Shareholders are advised to consider the Independent Expert's Report carefully before deciding how to vote on Resolution 1.

If Shareholders approve the disposals contemplated under the Offtake Agreements, no further approvals will be required in relation to the ongoing operation of those agreements. However, any material amendments to the Offtake Agreements or other agreements entered into by Mount Gibson or a subsidiary of Mount Gibson with an entity mentioned in Listing Rule 10.1 will require separate prior approval by Shareholders.

(d) Resolution 1 - Voting exclusion statement

In accordance with Listing Rules 10.10 and 14.11, Mount Gibson will disregard any votes cast on Resolution 1 by APAC, Shougang Concord and any of their associates.

However, Mount Gibson need not disregard a vote if it is cast by APAC or Shougang Concord as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form or if it is cast by a representative of APAC or Shougang Concord chairing the meeting as proxy for a person who is entitled to vote in accordance with a direction on the proxy form to vote as the proxy decides.

13.4 Resolutions 2 and 3 - Approval of the Underwriting and the Placement

(a) Regulatory requirements

The Corporations Act sets out a number of regulatory requirements that must be satisfied in relation to the issue of New Shares under those aspects of the Transaction the subject of Resolutions 2 and 3.

Pursuant to section 606 of the Corporations Act, a person must not acquire a Relevant Interest in issued voting shares of a listed company if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction, that person's or someone else's voting power in the listed company increases:

- from 20% or below to more than 20%; or
- from a starting point that is above 20% and below 90%.

The voting power of a person in a company is determined in accordance with section 610 of the Corporations Act. The calculation of a person's voting power in a company involves determining the voting shares in the company in which the person and the person's associates have a Relevant Interest.

A person (**second person**) will be an associate of the other person (**first person**) if:

- the first person is a body corporate and the second person is:
 - (1) a body corporate the first person controls;
 - (2) a body corporate that controls the first person; or
 - (3) a body corporate that is controlled by an entity that controls the first person;
- the second person has entered or proposes to enter into a relevant agreement with the first person for the purpose of controlling or influencing the composition of Mount Gibson's board or the conduct of Mount Gibson's affairs; or

- the second person is a person with whom the first person is acting or proposes to act, in concert in relation to Mount Gibson's affairs.

A person has a Relevant Interest in securities if they:

- are the holder of the securities;
- have the power to exercise, or control the exercise of, a right to vote attached to the securities; or
- have power to dispose of, or control the exercise of a power to dispose of, the securities.

It does not matter how remote the Relevant Interest is or how it arises. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

Section 611 of the Corporations Act provides that certain acquisitions of Relevant Interests in a company's voting shares are exempt from the takeover provisions prohibition in section 606(1), including acquisitions approved previously by a resolution passed at a general meeting of the company in which the acquisition is made (item 7 of section 611 of the Corporations Act).

Shareholder approval under item 7 of section 611 of the Corporations Act is required for Resolutions 2 and 3.

(b) Application of Listing Rule 7.1

Listing Rule 7.1 provides that a company must not, subject to certain exceptions, issue during any 12 month period any equity securities or other securities with rights of conversion to equity (such as an option) if the number of those securities exceeds 15% of the total ordinary securities on issue at the commencement of that 12 month period.

One circumstance where an issue is not taken into account in the calculation of this 15% threshold is where the issue has the prior approval of shareholders in a general meeting pursuant to item 7 of section 611 of the Corporations Act (see Listing Rule 7.2 exception 16). The proposed issues of New Shares under the Transaction are being approved under this section and accordingly the exception applies in relation to those issues.

(c) Specific information required by item 7 section 611 of the Corporations Act, ASIC Regulatory Guide 74, ASIC Policy Statement 159 and Takeovers Panel Guidance Note 17

As described in (b) above, section 611 of the Corporations Act provides that certain acquisitions of Relevant Interests in a company's voting shares are exempt from the prohibition in section 606(1), including acquisitions approved previously by a resolution passed at a general meeting of the company in which the acquisition is made (item 7 of section 611).

The information set out below in paragraphs 1 to 10 (inclusive) is required to be provided to Shareholders under the Corporations Act and ASIC Regulatory Guide 74 in respect of obtaining approval for the issue of New Shares under item 7 of section 611 of the Corporations Act. ASIC Policy Statement 159 also provides that the information set out below in paragraphs 11 to 27 (inclusive) may need to be disclosed to Shareholders so that they have all information that is material to the decision how to vote on the resolution under item 7 of section 611 of the Corporations Act. Shareholders are also referred to the Independent Expert's Report prepared by KPMG Corporate Finance annexed to this Explanatory Memorandum as Annexure A.

(1) The relationship between APAC and Shougang Concord

APAC and Shougang Concord are both Hong Kong Stock Exchange listed entities. As at 24 November 2008 one of APAC's substantial shareholders, SHHKL, owns approximately 18.95% of the shares in APAC. SHHKL also owns approximately 41.75% of Shougang Concord. SHHKL is a wholly owned subsidiary of the state owned Shougang Corporation, based in the People's Republic of China.

Notwithstanding that APAC and Shougang Concord do not consider that they are associates, given the shareholding of SHHKL in both APAC and Shougang Concord, the fact APAC and Shougang Concord share a common director and the Takeovers Panel Decision, Mount Gibson considers that APAC and Shougang Concord may be associates for the purposes of the Corporations Act.

Refer to section 3.3 of this Explanatory Memorandum for further details.

- (2) Identity of persons who will hold a Relevant Interest in the Shares to be allotted in accordance with Resolutions 2 and 3

On completion of the Placement and the Underwriting, the persons set out in section 7 will hold a Relevant Interest in the New Shares.

Details of the Relevant Interest, as at the date of this Explanatory Memorandum, of each of APAC and Shougang Concord is set out in section 7 of this Explanatory Memorandum.

Details of the following are set out in section 7:

- the maximum extent of the increase in APAC's and Shougang Concord's voting power that would result from the Placement and Underwriting; and
- the voting power that each of APAC and Shougang Concord would have as a result of the Placement and Underwriting.

The maximum increase in the voting power of each associate of each of APAC and Shougang Concord, and the maximum voting power that it will have on completion of the Transaction is the same as that of APAC and Shougang Concord (assuming the capital structure is as set out in section 7 of this Explanatory Memorandum and no options in Mount Gibson are exercised).

The above paragraphs assume that all of the New Shares have been issued and no additional Shares are issued.

- (3) Intentions of each of APAC and Shougang Concord in relation to Mount Gibson

The intentions of APAC and Shougang Concord in relation to Mount Gibson are set out in section 10 of this Explanatory Memorandum.

- (4) Capital structure

The proposed capital structure of Mount Gibson following completion of the Transaction is set out in section 7 of this Explanatory Memorandum.

- (5) Board of Directors

The proposed composition of the Board of Mount Gibson following completion of the Transaction is set out in section 8 of the Explanatory Memorandum.

- (6) Terms of New Shares to be issued

The New Shares rank *pari passu* with the existing Shares.

- (7) Rationale for the Transaction

An explanation of the rationale for the Transaction is set out in section 2 of this Explanatory Memorandum.

- (8) Timing

If Shareholders approve Resolutions 1 to 3 (inclusive):

- assuming all other relevant conditions are satisfied or waived, the issue of the New Shares under the APAC Underwriting Agreement will take place on 12 January 2009;

- assuming all other relevant conditions are satisfied or waived, the issue of the New Shares under the Shougang Underwriting Agreement will take place on 12 January 2009; and
- assuming FIRB approval is obtained and the other conditions are satisfied, the issue of the New Shares under the Subscription Agreement will take place as soon as practicable following the Meeting, which is expected to be 2 January 2009.

These dates are indicative only and may be varied by Mount Gibson.

(9) Interests and recommendations of Directors

The Directors' interests and recommendations are set out in section 12 of this Explanatory Memorandum.

(10) Proposed contracts conditional upon, or directly or indirectly dependent on, Shareholders' agreement to the allotment of New Shares

Details of the existing offtake arrangements are set out in section 4.5 of this Explanatory Memorandum and the details of proposed offtake arrangements between Shougang Concord and Mount Gibson and APAC and Mount Gibson that will be relevant should the Transaction proceed are set out in the summary of the Offtake Agreements in Schedule 3.

(11) The pricing of the Rights Issue and Placement

The subscription price under the Rights Issue and Placement is A\$0.60 per New Share. The premium and/or discount this represents relative to recent trading in Mount Gibson Shares is explained in section 2.2(e).

(12) The ratio of the Rights Issue

Shareholders will have the right to subscribe for 1 New Share for each 5 Existing Shares they hold on the Rights Issue Record Date. The number of Rights will be rounded up to the nearest whole number.

(13) The financial situation of the company

The financial situation of Mount Gibson is described in section 1 and the impact of the Transactions on Mount Gibson's financial position is set out in section 6 of this Explanatory Memorandum. The implications of not proceeding with the Transaction are set out in section 5.2.

(14) The purpose of the Rights Issue and the Placement

The purpose of the Rights Issue and the Placement is to provide additional funds for continued development of the projects at Koolan Island and Extension Hill without drawing further on existing or new debt facilities and for ongoing working capital. As a result of the production shortfall versus original plans and as a result of a lower than expected realised iron ore average sales price, ongoing cash flows from operations will not be adequate to fund these and other Mount Gibson activities and ensure a prudent buffer is maintained. In the event the FX Facilities are not rolled forward, some of the proceeds from the Rights Issue and Placement may also be used for cash settlement of excess US dollar forward contracts.

(15) Whether the Underwriters have entered into the Underwriting in the ordinary course of their business of underwriting

The Underwriters are not involved in the business of underwriting as part of their normal operations. They have entered into the separate Underwriting Agreements and, in respect of Shougang Concord, the Placement and, in respect of both Underwriters, the

Offtake Agreements, at the request of Mount Gibson to ensure that Mount Gibson is adequately funded.

- (16) In the case of an underwriting by a controller, Mount Gibson has conducted discussions with potential underwriters that are not the controller, a substantial holder or their associate

In seeking funding for its continued operations (at the same time as seeking alternative offtake agreements), Mount Gibson undertook a process to identify potential underwriters on commercial terms. However, Mount Gibson was unable to identify any willing underwriters and ultimately APAC and Shougang Concord proposed to underwrite the Rights Issue.

- (17) Whether the company has explored other options for raising capital

Mount Gibson has explored a variety of other financing options, including sale of assets, investments by other strategic investors and raising additional equity and debt funds through the capital markets and/or from commercial lenders. As at the date of this Explanatory Memorandum, no superior proposal had emerged as a result of those discussions.

- (18) The terms of the Underwriting and Placement

The terms of the Underwriting Agreements are summarised in Schedule 1 of this document. The terms of the Subscription Agreement are summarised in Schedule 2 of this document.

- (19) The shareholding structure of the company

The impact on the shareholding structure of Mount Gibson is summarised in section 7 of this document.

- (20) The response of substantial holders to the Rights Issue and Placement

Mount Gibson's substantial Shareholders have not expressed any reaction to the Rights Issue and Placement to Mount Gibson.

- (21) Recent variations to capital

There have been no recent variations to Mount Gibson's capital structure.

- (22) Whether the company has disclosed to holders the identities of sub-underwriters

There are no sub-underwriters involved in the Rights Issue.

- (23) Dealings by either of the Underwriters and/or Placement subscriber in securities of the company before or during the Rights Issue

As described in section 3.3, in January 2008, Shougang Concord entered into an agreement to purchase a substantial holding in Mount Gibson (156.8 million Shares representing 19.73% of the issued capital at the time) from a third party. As a result of an application by Mount Gibson to the Takeovers Panel, the sale was eventually cancelled and the third party sold their stake in April 2008 through an institutional book build process. As a result, Shougang Concord did not acquire any Shares and at the date of this Explanatory Memorandum, did not own any Mount Gibson Shares.

Prior to the Rights Issue APAC had a 20.41% stake in Mount Gibson. The most recent acquisition of Shares by APAC occurred on 17 October 2008.

- (24) Dealings by the Underwriter or sub-underwriter (or an associate) in renounceable rights

Mount Gibson has not conducted a renounceable rights issue recently. However, following the despatch of this document Mount Gibson will conduct the Rights Issue. APAC and Shougang Concord may deal in the Rights subject to the Corporations Act.

- (25) Any associations between APAC or Shougang Concord and a controller or one or more substantial holders or a group of substantial holders in Mount Gibson

The relationship between Shougang Concord and Mount Gibson's substantial Shareholder, APAC, is explained in detail in section 3.3 and elsewhere in this document. There is no other known relationship between an Underwriter and any other substantial Shareholders in Mount Gibson. There are no sub-underwriters to the Rights Issue.

- (26) Whether APAC or Shougang Concord is associated with the Directors

The Mount Gibson Board currently includes Mr Alan Jones who is a director of APAC.

In addition, pursuant to the Transaction, Mr Cao Zhong (an APAC nominee) will be appointed to the Mount Gibson Board shortly. Following completion of the Transaction Shougang Concord will also be entitled to nominate a director to sit on the Mount Gibson Board, and has indicated it will nominate Mr Chen Zhouping.

Given that Mr Alan Jones is a director of APAC as well as Mount Gibson, and Mr Cao Zhong will be an APAC nominee, APAC is associated with each of Mr Jones and Mr Cao. Given that Mr Chen Zhouping will be a Shougang Concord nominee, Shougang Concord is associated with Mr Chen. Further, if APAC and Shougang Concord are considered to be associates for the purposes of the Corporations Act, Shougang Concord may be associated with Mr Jones and Mr Cao and APAC may be associated with Mr Chen.

- (27) Any role of APAC or Shougang Concord in the making of the offer and its influence on the affairs of Mount Gibson

Each of APAC and Shougang Concord have been involved in the formulation of the plans for the Rights Issue, the Placement and the Offtake Agreements to the extent concerning them. APAC has limited influence over Mount Gibson given its position, prior to the Transaction, as the largest Shareholder in Mount Gibson.

(d) **Resolutions 2 and 3 - Voting exclusion statement**

In accordance with item 7 of section 611 of the Corporations Act Mount Gibson will disregard any votes cast on Resolutions 2 or 3 by APAC and Shougang Concord and any of their associates.

14 Glossary

The following terms and abbreviations used in the Notice of General Meeting and this Explanatory Memorandum have the following meanings:

A\$	means Australian dollars.
APAC	• means APAC Resources Limited; • in the context of the Underwriting means its subsidiary, APAC Resources Investments Limited (whose obligations in respect of the Underwriting are guaranteed by APAC); • in the context of the APAC Offtake Agreements and the APAC Short Term Offtake Agreement means Sino Chance Trading Limited (whose obligations in respect of the APAC Offtake Agreements are guaranteed by APAC); and • in the context of the commitment of APAC to take up all of their rights under the Rights Issue, means members of the APAC Group (or their nominee holders) who are Shareholders.
APAC Group	means APAC and all of its Related Bodies Corporate.
APAC Heads of Agreement	means the heads of agreement in relation to the APAC Offtake Agreements and Underwriting by APAC dated 2 November 2008 between Mount Gibson and APAC Resources Limited.
APAC Offtake Agreements	means the long term offtake agreements between APAC and the relevant Mount Gibson subsidiary in respect of the Koolan Island, Tallering Peak and Extension Hill mines as described in Schedule 3 of this Explanatory Memorandum.
APAC Short Term Offtake Agreement	means the Short Term Offtake Agreement dated 19 November 2008 between Mount Gibson and Sino Chance Trading Limited (whose obligations are guaranteed by APAC).
APAC Underwriting Agreement	means the underwriting agreement dated 20 November 2008 between Mount Gibson, APAC and APAC Resources Investments Limited.
APAC Underwriting Commitment	means the first 82,900,000 Shortfall Shares which APAC has committed to subscribing for under the APAC Underwriting Agreement.

ASIC	means the Australian Securities and Investments Commission.
associate	means an 'associate' as defined in section 9 of the Corporations Act, except that a reference to 'associate' in relation to a Listing Rule has the meaning given to it in Listing Rule 14.11.
ASX	means ASX Limited (ACN 008 624 691).
Available Production	means the amount of lump and fines iron ore product: • from mines owned by Mount Gibson and/or its subsidiaries at the Reference Date defined below (being Koolan Island, Talling Peak and Extension Hill (in the case of Extension Hill, when it enters production)); • that at any point in time is not the subject of any binding offtake agreement with offtake customers entered into before the Reference Date and, for the avoidance of doubt, includes lump and fines ore product the subject of binding offtake agreements that have been validly terminated in accordance with their terms, or under which a customer is in default such that no ore is being shipped under that agreement at the relevant date; and • that is able to be shipped by Mount Gibson having regard to shipping schedules, mine production, transport logistics and port capacity.
Board or Mount Gibson Board	means the Board of Directors from time to time.
Company	means Mount Gibson Iron Limited (ABN 87 008 670 817).
Constitution	means the constitution of Mount Gibson from time to time.
Corporations Act	means the <i>Corporations Act 2001</i> (Cth).
Director	means a Director of Mount Gibson from time to time.
Eligible Shareholders	means Shareholders that are eligible to participate in the Rights Issue in accordance with the terms of the offer.
Existing Shares	means Shares on issue on the Rights Issue Record Date.
Explanatory Memorandum	means this explanatory memorandum.

FIRB	means Australia's Foreign Investment Review Board.
FOB	has the same meaning as in the Incoterms 2000 published by the International Chamber of Commerce.
FX Facilities	means a variety of forward and option contracts for the US dollar purchase of Australian dollars entered into with Mount Gibson's lenders.
Hamersley Benchmark Price	means the price (in US dollars) per dry metric tonne unit for lump ore and fines Hamersley iron ore deliveries sold under long term contracts, as announced from time to time by Rio Tinto Limited or its Related Bodies Corporate.
Heads of Agreements	means the APAC Heads of Agreement and the Shougang Concord Heads of Agreement.
HK\$	means Hong Kong dollars.
Independent Expert	means KPMG Corporate Finance.
Independent Expert's Report	means the report by the Independent Expert included as Annexure A to this Explanatory Memorandum.
Indicated Mineral Resource	means that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence, according to JORC.
Inferred Mineral Resource	means that part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence, according to JORC.
JORC	means the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.
KPMG Corporate Finance	means KPMG Corporate Finance (Aust) Pty Ltd (ABN 43 007 363 215).
Listing Rules	means the listing rules of the ASX and any other rules of ASX which are applicable while Mount Gibson is admitted to the official list, each as amended from time to time, except to the extent of any express written waiver by ASX.

Measured Mineral Resource	means that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence, according to JORC.
Meeting	means the general meeting of Shareholders convened by the Notice of General Meeting.
Mineral Resource	means a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such a form and quantity that there are reasonable prospects for eventual economic extraction, according to JORC.
Mount Gibson	• means Mount Gibson Iron Limited (ABN 87 008 670 817); • in the context of the APAC Offtake Agreements and the Shougang Concord Offtake Agreements in respect of the Koolan Island mine, means Mount Gibson Iron Limited and its subsidiary Koolan Iron Ore Pty Ltd (ABN 87 089 455 277); and • in the context of the APAC Offtake Agreements and the Shougang Concord Offtake Agreements in respect of the Tallering Peak mine or the Extension Hill mine, means Mount Gibson Iron Limited (ABN 87 008 670 817) and Mount Gibson Mining Ltd (ABN 32 074 575 885).
Mount Gibson Independent Directors	means the Directors other than: • Mr Alan Jones (who is also a director of APAC); and • for the avoidance of doubt, Mr Cao Zhong (who is a nominee of APAC) and Mr Chen Zhouping (who is a nominee of Shougang Concord) (following their appointments).
Mt	means million tonnes.
Mtpa	means million tonnes per annum.
New Shares	means fully paid ordinary shares in Mount Gibson issued pursuant to the Prospectus or the Subscription Agreement (as the case may be).
Notice of General Meeting	means the notice of general meeting set out in Annexure B.
Offtake Agreements	means the Shougang Concord Offtake Agreements and the APAC Offtake Agreements.
Option	means an option to be issued a Share on exercise of the option.

Ore Reserve	means the calculated tonnage and grade of mineralisation which can be extracted profitably; classified as possible, probable and proven according to the level of confidence that can be placed on the data and is the economically mineable part of a Measured or Indicated Mineral Resource, according to JORC.
Placement	means the placement of 110,000,000 New Shares to Shougang Concord at an issue price of A\$0.60 per New Share pursuant to the Subscription Agreement to raise gross proceeds of A\$66 million.
Probable Reserve	means the economically mineable part of an Indicated, and in some circumstances, a Measured Mineral Resource, according to JORC.
Prospectus	means the prospectus to be issued by Mount Gibson in relation to the Rights Issue under Chapter 6D of the Corporations Act.
Proved Reserve	means the economically mineable part of a Measured Mineral Resource, according to JORC.
Reference Date	means: • in the case of the APAC Offtake Agreements, 2 November 2008; and • in the case of the Shougang Concord Offtake Agreements, 31 October 2008.
Related Body Corporate	has the meaning given in section 9 of the Corporations Act.
Relevant Interest	has the meaning given in section 9 of the Corporations Act.
Resolutions	means the shareholder resolutions set out in the Notice of General Meeting.
Rights	means the entitlement of an eligible Shareholder to subscribe for 1 New Share for every 5 Existing Shares held at the Rights Issue Record Date pursuant to the Rights Issue.
Rights Issue	means the renounceable pro rata rights offer of 1 New Share for every 5 Existing Shares to raise approximately A\$96.5 million underwritten by APAC and Shougang Concord as described further in section 1.2 of this Explanatory Memorandum.

Rights Issue Record Date	means the date for determining entitlements under the Rights Issue, as defined in the Prospectus.
Shares	means ordinary shares in Mount Gibson.
Shareholder	means a holder of a Share.
Share Purchase	has the meaning given in section 3.3(b).
Share Registry	means Computershare Investor Services Pty Limited.
Shortfall	means those New Shares not applied for by Shareholders pursuant to their Rights, which will be taken up by APAC or Shougang Concord under the Underwriting Agreements.
Shortfall Shares	means those New Shares comprising the Shortfall.
Shougang Concord	means Shougang Concord International Enterprises Company Limited and in the context of the Shougang Concord Offtake Agreements means Shougang Concord Steel International Trading Co. Ltd, with Shougang Concord International Enterprises Company Limited as its guarantor.
Shougang Concord Heads of Agreement	means the heads of agreement in relation to the Shougang Concord Offtake Agreements, Underwriting by Shougang Concord Underwriting Agreement and Placement dated 31 October 2008 between Mount Gibson and Shougang Concord.
Shougang Concord Underwriting Agreement	means the underwriting agreement dated 22 November 2008 between Mount Gibson and Shougang Concord.
Shougang Concord Underwriting Commitment	means the balance of the Shortfall Shares after APAC has subscribed for the first 82,900,000 Shortfall Shares, subject to a maximum of 50,000,000 Shortfall Shares.
Shougang Corporation	means Shougang Corporation and each of its Related Bodies Corporate.
Shougang Concord Group	means Shougang Concord and each of its Related Bodies Corporate.
Shougang Concord Offtake Agreements	means the medium and long term offtake agreements between Shougang Concord and the relevant Mount Gibson subsidiaries in respect of the Koolan Island, Talling Peak and Extension Hill mines as described in Schedule 3 of this Explanatory Memorandum.

Subscription Agreement	means the Subscription Agreement dated 22 November 2008 between Mount Gibson and Shougang Concord.
Takeovers Panel Decision	means the decision of the Australian Takeovers Panel in <i>In the Matter of Mount Gibson Iron Limited</i> [2008] ATP 4 made on 31 March 2008 with reasons published on 7 May 2008, as described in section 3.3(b) of this Explanatory Memorandum.
Transaction	means: • the entry by Mount Gibson into the Offtake Agreements with each of APAC and Shougang Concord; • the Underwriting, by way of separate underwritings by APAC and Shougang Concord, of the Rights Issue; and • the Placement to Shougang Concord to raise gross proceeds of A\$66 million, as described in section 1 of this Explanatory Memorandum.
Underwriters	means each of APAC and Shougang Concord.
Underwriting	has the meaning given in section 1.2(b).
Underwriting Agreements	means the APAC Underwriting Agreement and the Shougang Concord Underwriting Agreement.
Underwriting Commitment	means the APAC Underwriting Commitment and/or the Shougang Concord Underwriting Commitment, as the context requires.
US\$ or US dollar	means United States dollars.
WDT	means Western Daylight Time.

Schedule 1

Summary of the Underwriting Agreements

APAC and Shougang Concord have been appointed to act as Underwriters to the Rights Issue. Set out below is a summary of the key terms of the Underwriting Agreements.

- Under the APAC Underwriting Agreement, APAC has agreed to underwrite up to a maximum of 82.9 million of the Shortfall Shares (in respect of which it has a priority right to underwrite). Under the Shougang Concord Underwriting Agreement, Shougang Concord has agreed to subscribe for the balance of any Shortfall Shares, up to a maximum of 50 million Shortfall Shares.
- Details of the potential effect of the Underwriting on the voting power in and control of Mount Gibson are contained in section 7 of this Explanatory Memorandum.
- Aside from the number of Shortfall Shares subscribed for under the respective Underwriting Commitments, the order of priority of the Underwriting Commitments and the differences in the conditions precedent, FIRB approved obligations and termination events identified below, there are no material differences in the terms of the Underwriting Agreements.
- Mount Gibson has agreed to pay both APAC and Shougang Concord an underwriting fee of 3.5% of the maximum potential underwritten amounts under the respective Underwriting Commitments (**Underwriting Fee**). This will equate to payment of fees of approximately A\$1.74 million to APAC and A\$1.05 million to Shougang Concord.
- Mount Gibson has agreed to reimburse each Underwriter's costs and expenses in connection with the Rights Issue. Mount Gibson will also reimburse each Underwriter's costs if the relevant Underwriting Agreement is terminated.

Conditions precedent

The obligations of each Underwriter are conditional on each of the following conditions precedent to the completion of the Underwriting Agreement and each Underwriter may terminate its respective Underwriting Agreement with 1 business day's notice if any of the following conditions precedent are not satisfied by the agreed deadlines:

- (a) the Prospectus and ASX announcements referring to the Rights Issue (**Rights Issue Documentation**) are in a form acceptable to the Underwriter (acting reasonably);
- (b) none of the termination events outlined below having occurred before the Shortfall Settlement Date (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 relevant Underwriting Agreement (currently 9 January 2009) or such other day agreed by the parties in writing);
- (c) between the date of the relevant Underwriting Agreement and the completion of that Underwriting Agreement (**Issue Period**) 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:
 - (1) 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 an

- Underwriter or its Related Body Corporate in respect of Mount Gibson and the Shares to be acquired under the Rights Issue; or
- (2) requires the divestiture by the Underwriter or any Related Body Corporate of any Shares, or the divestiture of any assets of the Mount Gibson group or the Underwriter;
- (d) ASX officially approving the quotation of the Shares offered pursuant to the Rights Issue and any additional Shares arising out of the conversion of options and management performance rights, or the issue of Shares as part of an access arrangement with traditional owners of the land the subject of mining tenements held by Mount Gibson (**Rights Shares**) and the Rights on or before:
- (1) 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
 - (2) an agreed date by which Mount Gibson must have received from ASX official quotation approval (currently 3 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;
- (e) in respect of the APAC Underwriting Agreement only, APAC obtaining the approval of its shareholders at a special general meeting for the subscription for the aggregate of its Rights Shares that it and its subsidiaries are entitled to subscribe for under the Rights Issue and the APAC Underwriting Commitment and the Underwriter taking all steps required under the Hong Kong Listing Rules and any other relevant legislation, including FIRB approval, before 9 January 2009;
 - (f) in respect of the Shougang Concord Underwriting Agreement only, Shougang Concord receiving FIRB approval;
 - (g) Mount Gibson obtaining the approval of Shareholders at the Meeting and taking all other steps required under the Listing Rules and any other relevant legislation for entry into:
 - (1) in respect of each Underwriting Commitment, the Underwriting Agreements and the Long Term Offtake Agreement; and
 - (2) in respect of the Shougang Concord Underwriting Commitment only, the Placement and the Medium Term Offtake Agreement;
 - (h) the Underwriter receiving by 9.00am 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 each Underwriter (acting reasonably);
 - (i) the due diligence investigations conducted by Mount Gibson in connection with the Prospectus being completed to the satisfaction of the Underwriter (acting reasonably) by 9.00am on the date of lodgement of the Prospectus; and
 - (j) each Offtake Agreement that the Underwriter is a party to having been executed by all relevant parties on or before the agreed date.

FIRB approval

Under the Shougang Concord Underwriting Agreement, the Underwriter agrees to apply to FIRB for FIRB approval to allow it to subscribe for Shortfall Shares under the agreement.

Under the APAC Concord Underwriting Agreement, the Underwriter agrees to procure application to FIRB for new FIRB approval, subsequent to its existing FIRB approval (granted by FIRB on 8 January 2008 allowing it to increase its shareholding in Mount Gibson to 29%, and which will expire on 8 January 2009) (**New FIRB Approval**) to allow it to subscribe for Shortfall Shares under the agreement. If the New FIRB Approval is not received prior to all conditions precedent (other than the condition precedent described in (e) above) being satisfied, the Underwriter must subscribe for the Shortfall Shares on the basis of its existing FIRB approval and, to the extent it cannot complete its obligations to subscribe for the Shortfall Shares, it must use best endeavours to arrange for a non-associated person that is not subject to any regulatory approval restrictions to subscribe for the remaining Shortfall Shares.

Termination events

Each Underwriter may terminate its respective Underwriting Agreement if any of the following termination events occurs at any time before completion of that Underwriting Agreement, or the deadline otherwise specified in the relevant Underwriting Agreement (**Termination Events**):

- (a) the Rights Issue does not comply in all respects with the relevant conditions specified in section 611 of the Corporations Act;
- (b) the Underwriter becomes aware of:
 - (1) 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
 - (2) 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;
- (c) 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;
- (d) any material default by Mount Gibson or any of its subsidiaries in the performance of its obligations under the relevant Underwriting Agreement or by any party in the performance of its obligations under any agreement referred to in the Rights Issue Documentation;
- (e) 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 Listing Rules;
- (f) 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:
 - (1) any matter disclosed by Mount Gibson on ASX following the last accounts (on 30 June 2008) or otherwise disclosed in the Prospectus;
 - (2) 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

- (3) 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);

- (g) 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;
- (h) Mount Gibson or any of its subsidiaries is ordered to pay in excess of A\$1,000,000 and the order has not been discharged within 7 business days;
- (i) 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 Shares under the Rights Issue;
- (j) at any time during the Issue Period, any member of the Mount Gibson group becomes insolvent (as defined under the Underwriting Agreement);
- (k) Mount Gibson fails to lodge the Prospectus with ASX by 1 December 2008 or some other agreed date;
- (l) 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;
- (m) 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;
- (n) other than in relation to the Rights Shares and the Placement, 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;
- (o) 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 CHESS, 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;
- (p) approval is refused or not granted, or approval is granted subject to conditions, to the quotation of the Rights or for the Rights to be traded through CHESS, on or before the last business day before the agreed date, or if granted, the approval is subsequently withdrawn, qualified or withheld;
- (q) 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;

- (r) 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;
- (s) Mount Gibson is prevented from allotting the Rights Shares within the time required by the Underwriting Agreement, the Corporations Act, the Listing Rules, any statute or court order or a regulatory authority;
- (t) 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, 20% or more below its level as at the close of business on the business day prior to the date of lodgement of the Prospectus with ASIC and ASX for a period of 3 consecutive trading days;
- (u) Mount Gibson does not provide a certificate to the Underwriter as and when required certifying that:
 - (1) Mount Gibson has complied with all of its obligations under the relevant Underwriting Agreement and in respect of the Rights Issue, the Listing Rules, statute or otherwise;
 - (2) Mount Gibson is not in default under the provisions of the relevant Underwriting Agreement;
 - (3) 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 relevant Underwriting Agreement; and
 - (4) the representations and warranties given by Mount Gibson under the relevant Underwriting Agreement are true and correct (**Closing Certificate**);
- (v) a statement in a Closing Certificate is untrue or incorrect in a material respect;
- (w) 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;
- (x) Mount Gibson withdraws the Rights Issue;
- (y) any representation, warranty or undertaking given by Mount Gibson in the relevant Underwriting Agreement is or becomes untrue or incorrect; or
- (z) 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:
 - (1) has materially adversely affected, or is reasonably likely to materially adversely affect, the business or the financial or trading position of (in the case of the APAC Underwriting Agreement) the Underwriter's group of companies as a whole and (in the case of the Shougang Concord Underwriting Agreement) the Underwriter;
 - (2) is (or in the absence of any contractual obligation, would be) 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;
 - (3) has given or could give rise to a material liability for the Underwriter; or

- (4) has given or could give rise to a contravention by the Underwriter of, or the Underwriter being involved in a contravention of, the Corporations Act or any other applicable law.

Escrow arrangements

Shougang Concord and APAC have each agreed to, if required by Mount Gibson's banking syndicate, place an amount equal to 40% of the underwritten amounts (**Escrow Amount**) into an escrow account or provide a letter of credit or bank guarantee in respect of such amount, pending the finalisation of the Underwriting.

Under the terms of each Underwriting Agreement, Mount Gibson has agreed to indemnify each of Shougang Concord and APAC for any interest withholding tax that may be payable on interest earned on the relevant Escrow Amount while it is in the escrow account.

Schedule 2

Summary of the Subscription Agreement

Under the Subscription Agreement, Mount Gibson will place 110,000,000 New Shares (**Subscription Shares**), or approximately 10.23% of Mount Gibson (post the Rights Issue and the Placement), to Shougang Concord to raise A\$66 million (before expenses).

Set out below is a summary of the key terms of the Subscription Agreement.

Details of the potential impact of the Placement on Mount Gibson are contained in section 7.2 of this Explanatory Memorandum.

Conditions precedent

The obligations of Mount Gibson and Shougang Concord under the Subscription Agreement are conditional on:

- (a) Mount Gibson Shareholder approval (by the appropriate majority) at the Meeting for:
 - (1) the issue of the New Shares under the Subscription Agreement to Shougang Concord or its nominee for all purposes (including for the purposes of s 611 item 7 of the Corporations Act and Listing Rule 7.1);
 - (2) the entry into the Shougang Concord Offtake Agreements for all purposes (including for the purposes of Listing Rule 10.1);
 - (3) the Underwriting and the issue of Shares to Shougang Concord under the terms of the Underwriting of the Rights Issue, for all purposes (including for the purposes of approval under item 7 of section 611 of the Corporations Act); and
- (b) FIRB approval of the transactions contemplated by the Subscription Agreement.

Mount Gibson must use reasonable endeavours to ensure that Mount Gibson Shareholder approvals referred to above are obtained as expeditiously as possible and in any event on or before 15 March 2009 (**Cut Off Date**). Shougang Concord must use reasonable endeavours to ensure that FIRB approval for the transaction is obtained as expeditiously as possible and in any event on or before the Cut Off Date.

Either party may with not less than 2 business days' notice to the other party terminate the Subscription Agreement if:

- (a) The conditions described in (a) above are not satisfied at the Meeting;
- (b) The remaining conditions described in (b) above are not satisfied or waived in accordance with the Subscription Agreement by the Cut Off Date; or
- (c) Both parties agree that the conditions precedent described above cannot be satisfied.

Undertakings

Mount Gibson agrees:

- (a) that, prior to Completion (defined below), it will not, without Shougang Concord's prior written consent:
 - (1) (**special voting rights**) grant any special voting or other rights that attach to the ordinary issued shares in its capital; or

- (2) **(new business)** carry on any business except business of a type that is currently being carried on or currently proposed to be carried on by Mount Gibson; or
 - (3) **(issue capital)** enter into any agreement or legally binding commitment to give any person any right to invest in or acquire Shares or any security convertible into or exercisable for Shares and will not issue any Shares or options or redeem or buy-back any Shares subject to certain exceptions.
- (b) to apply to ASX for, and use its best endeavours to obtain, official quotation of the Shares the subject of the Placement as soon as practicable, and in any event within 2 business days after settlement of the issue of the Subscription Shares under the Subscription Agreement (**Completion**);
 - (c) to let Shougang Concord know if any party to any of its material contracts (other than any of its existing offtake contracts) alleges or claims that Mount Gibson is in material breach; and
 - (d) to let Shougang Concord know about any threatened or potential material litigation of which it becomes aware.

Shougang Concord agrees to provide in good faith, and in a timely fashion, all information to Mount Gibson that is reasonably required by Mount Gibson for inclusion in the Notice of General Meeting.

Termination events

Shougang Concord may terminate the Subscription Agreement at any time before Completion by notice in writing to Mount Gibson if:

- (a) an order is made or an effective resolution is passed for the winding up or dissolution without winding up of Mount Gibson;
- (b) a receiver, receiver and manager, judicial manager, liquidator, administrator or like official is appointed over the whole or a substantial part of the undertaking or property of Mount Gibson;
- (c) a holder of an encumbrance takes possession of the whole or any substantial part of the undertaking and property of Mount Gibson;
- (d) Mount Gibson is in default of any of the terms and conditions of the Subscription Agreement or breaches any representation or warranty given or made by it under the Subscription Agreement; or
- (e) there is a material adverse change, or there is a development that may lead to a material adverse change, in the financial position, results, operations or prospects of Mount Gibson, excluding any effect resulting from any matter:
 - (1) disclosed by Mount Gibson on ASX since 30 June 2008;
 - (2) arising from the revised pricing arrangements embodied in Shougang Concord Offtake Agreements;
 - (3) arising from any default by a Mount Gibson customer under an offtake agreement, or where a Mount Gibson customer is currently in default under an offtake agreement, any further default by that customer;
 - (4) arising from any legal action taken by Mount Gibson or a Mount Gibson customer in relation to a default by a Mount Gibson customer under an offtake agreement; or

- (5) that has been disclosed to Shougang Concord by or on behalf of Mount Gibson on or prior to the date of the Subscription Agreement;
- (f) Mount Gibson has breached a material contract to which it is a party, other than a material breach of an existing offtake agreement where the customer is currently in default; or
- (g) at any time prior to Completion any of the Directors withdraw their recommendation that the Shareholders approve the Placement, Mount Gibson's entry into the Shougang Concord Offtake Agreements and the Underwriting of the Rights Issue by Shougang Concord.

Warranties

Both parties provide a standard set of general warranties in relation to their solvency and capacity to enter into the Subscription Agreement.

Mount Gibson additionally warrants that:

- (a) it has been admitted to and is listed on the Official List of the ASX and no removal from the Official List has been threatened by the ASX;
- (b) the Shares are quoted on the ASX and are not suspended from quotation and no suspension has been threatened by the ASX;
- (c) it is in compliance with its periodic and continuous disclosure obligations under the Listing Rules and the Corporations Act and has disclosed to the ASX all material information concerning the assets and liabilities, financial position and performance and profits and losses of Mount Gibson and its business operations of which Mount Gibson is aware, or ought reasonably to be aware;
- (d) other than as set out in its ASX public announcement dated 3 November 2008, Mount Gibson is not engaged in or threatened with any material legal action or other proceedings and there are no facts or matters known to the Directors which are likely to give rise to any material litigation;
- (e) all material contracts entered into by Mount Gibson are valid and enforceable in accordance with their terms and Mount Gibson has not breached any of those contracts and entry into the Subscription Agreement will not result in Mount Gibson breaching any material contract to which it is a party; and
- (f) as at the date of the Subscription Agreement and as at Completion, Mount Gibson has satisfied all conditions necessary to enable it to lodge with ASX a notice under section 708A(5) of the Corporations Act.

Escrow arrangements

Shougang Concord will place the amount to be paid for the New Shares to be issued under the Placement (**Subscription Sum**) on escrow in an Australian bank account, pursuant to the terms of the Subscription Agreement and an Escrow Agreement (**Escrow Agreement**).

The Subscription Sum will be released to Mount Gibson following the fulfilment of the conditions precedent to the transaction set out above and in certain other circumstances. If the Placement does not go ahead, the Subscription Sum will be returned to Shougang Concord.

Under the terms of the Escrow Agreement, Mount Gibson has agreed to indemnify Shougang Concord for any interest withholding tax that may be payable on interest earned on the Subscription Sum while it is in the escrow account.

Schedule 3

Summary of the Offtake Agreements

Set out below is a summary of the key terms of the Offtake Agreements. Unless otherwise defined below, capitalised terms are defined in the glossary in section 14 of this Explanatory Memorandum.

For the purposes of all of the Offtake Agreements, Hematite Ore is defined as including both lump ore and fines.

Medium Term Offtake Agreement

On 22 November 2008, Mount Gibson and its subsidiaries, Mount Gibson Mining Limited and Koolan Iron Ore Pty Ltd entered into a Medium Term Hematite Ore Sale Agreement with Shougang Concord Steel International Trading Co. Ltd., a subsidiary of Shougang Concord, whose obligations under the agreement are guaranteed by Shougang Concord (**Medium Term Offtake Agreement**). The key terms of the Medium Term Hematite Ore Sale Agreement are set out below.

For convenience, in this summary the Seller is referred to as Mount Gibson, and the Buyer is referred to as Shougang Concord.

Conditions precedent

The agreement is conditional on the following occurring on or before 31 January 2009:

- Mount Gibson shareholder approval for Mount Gibson's entry into the Medium Term Offtake Agreement for all purposes, including for the purpose of Listing Rule 10.1;
- Mount Gibson shareholder approval for Shougang Concord's subscription for Shares under the Subscription Agreement and the Shougang Concord Underwriting Agreement; and
- FIRB approval for Shougang Concord's subscription for Shares under the Subscription Agreement and the Shougang Concord Underwriting Agreement.

Key obligations

Mount Gibson agrees to sell and Shougang Concord agrees to purchase, all of Mount Gibson's Available Production from the Koolan Island and Talling Peak mines from 1 January 2009 until 30 June 2009.

Price

The agreed FOB price is US\$56.00 per wet metric tonne (including GST). The price may increase or decrease based on iron (Fe) content and may also be adjusted for moisture content above specification.

Shipping

Shougang Concord must use best endeavours to arrange (at its cost) for the number of vessels per month that are required to enable Shougang Concord to meet its purchasing commitments.

Standard iron ore industry FOB terms apply, such as for demurrage and dead freight.

Termination

The agreement can be terminated:

- by Mount Gibson, by giving written notice, if Shougang Concord does not comply with its payment obligations;
- by Shougang Concord, if the appointment of the Director nominated by Shougang Concord does not take place in accordance with the Shougang Concord Heads of Agreement;
- by either party, for a material breach of the agreement by the other party that is not remedied within 10 business days after receipt of a written notice requiring the breach to be remedied; and
- by either party, by giving 20 business days' notice, if the other party is prevented from carrying out its obligations under the agreement as a result of force majeure for a period of 12 months.

Long Term Offtake Agreements

The following long term offtake agreements have been entered into in respect of Available Production at each of the Talling Peak and Koolan Island mines (**Talling and Koolan Long Term Offtake Agreements**):

- the Talling Peak Long Term Hematite Ore Sale Agreement between Mount Gibson, Mount Gibson Mining Limited (a subsidiary of Mount Gibson), Sino Chance Trading Limited (a subsidiary of APAC), and APAC (as guarantor);
- the Koolan Island Long Term Ore Sale Agreement between Mount Gibson, Koolan Iron Ore Pty Ltd (a subsidiary of Mount Gibson), Sino Chance Trading Limited and APAC (as guarantor);

(together, the **APAC Talling and Koolan Long Term Agreements**)

- the Talling Peak Long Term Hematite Ore Sale Agreement between Mount Gibson, Mount Gibson Mining Limited (a subsidiary of Mount Gibson), Shougang Concord Steel Trading Co Limited (a subsidiary of Shougang Concord) and Shougang Concord (as guarantor); and
- the Koolan Island Long Term Ore Sale Agreement between Mount Gibson, Koolan Iron Ore Pty Ltd, Shougang Concord Steel Trading Co Limited and Shougang Concord (as guarantor),

(together, the **Shougang Concord Talling and Koolan Long Term Agreements**).

The Talling and Koolan Long Term Offtake Agreements have been entered into on substantially similar terms, as set out below. In the following summary, the "**Seller**" is referred to as Mount Gibson and the "**Buyer**" refers to Sino Chance Trading Limited or Shougang Concord Steel Trading Co Limited as applicable.

Conditions precedent

Each of the APAC Talling and Koolan Long Term Agreements is conditional on Mount Gibson shareholder approval (in a general meeting held on or before 31 January 2009) for Mount Gibson's entry into those agreements and the APAC Underwriting Agreement, for all purposes, including for the purposes of Listing Rule 10.1.

Each of the Shougang Concord Talling and Koolan Long Term Agreements is conditional on:

- Mount Gibson shareholder approval (in general meeting to be held on or before 31 January 2009) for Mount Gibson's entry into those agreements for all purposes, including for the purposes of Listing Rule 10.1;
- Mount Gibson shareholder approval (in general meeting to be held on or before 31 January 2009) for Shougang Concord's subscription for shares under the Shougang Concord Underwriting Agreement and the Subscription Agreement; and
- FIRB approval of Shougang Concord's subscription for Shares under the Shougang Concord Underwriting Agreement and Subscription Agreement.

Key obligations

Under each of the APAC Talling and Koolan Long Term Agreements, Mount Gibson agrees to sell, and the Buyer agrees to purchase, 20% of Mount Gibson's total Available Production from the relevant mine during each calendar year for the life of each mine from 1 July 2009.

Under each of the Shougang Concord Talling and Koolan Long Term Agreements, Mount Gibson agrees to sell, and the Buyer agrees to purchase, 80% of Mount Gibson's total Available Production from the relevant mine during each calendar year for the life of each mine.

Price

The FOB price payable by the Buyer is calculated as the percentage iron content of the ore sold in each shipment, multiplied by the Hamersley Benchmark Price, less 10%.

Each of the Talling and Koolan Long Term Offtake Agreements specifies the acceptable iron (Fe), combined silica (SiO₂) and alumina (Al₂O₃), phosphorus (P), and sulphur (S) levels and moisture content, as well as physical specifications relating to size of the lump ore and fines (as applicable) (**Penalty Specifications**). If Mount Gibson fails to deliver Hematite Ore which contains at least 57% iron (Fe) content, then the Buyer has the right to refuse to accept the Hematite Ore. If Mount Gibson delivers Hematite Ore which has at least 57% iron, but otherwise does not comply with the Penalty Specifications, the Buyer must purchase the Hematite Ore, but the purchase price will be adjusted as set out in the agreement (**Price Adjustments**).

Penalty Specifications and Price Adjustments will be renegotiated periodically in good faith.

Shipping

The Buyer must use best endeavours to arrange (at its cost) for the number of vessels per month that are required to enable the Buyer to meet its purchasing commitments.

Standard iron ore industry FOB terms apply, such as for demurrage and dead freight.

Termination

Each of the Talling and Koolan Long Term Offtake Agreements can be terminated:

- by Mount Gibson, by giving written notice, if the Buyer does not comply with its payment obligations;
- by either party, for a material breach of the agreement that is not remedied within 10 business days after receipt of a written notice requiring the breach to be remedied; and
- by either party, by giving 20 business days notice, if the other party is prevented from carrying out its obligations under the agreement as a result of force majeure for a period of 12 months.

Under the Shougang Concord Talling and Koolan Long Term Agreements, the agreement may also be terminated by the Buyer, if the appointment of a Director nominated by Shougang Concord does not take place in accordance with the relevant Heads of Agreement.

Exclusivity

Under each of the Talling and Koolan Long Term Offtake Agreements, Mount Gibson has agreed that it will not enter into any further offtake agreements for the sale of Available Production from the mine subject to the relevant agreement without first obtaining the written consent of the relevant Buyer.

Additionally, the following rights of first refusal apply if a Talling or Koolan Long Term Offtake Agreement is terminated:

- if an APAC Talling and Koolan Long Term Agreement is lawfully terminated, Shougang Concord will have the right to be offered to take up any Hematite Ore previously subject to that agreement on identical terms and conditions to those offered to Mount Gibson by a third party; and
- if a Shougang Concord Talling and Koolan Long Term Agreement is lawfully terminated, APAC will have the right to be offered to take up any Hematite Ore previously subject to that agreement on identical terms and conditions to those offered to Mount Gibson by a third party.

Extension Hill

In addition, in relation to Extension Hill (which is under construction) Mount Gibson and each of APAC and Shougang Concord have entered a binding agreement under which Mount Gibson agrees to enter into a detailed long term offtake agreement to sell to APAC and, separately, Shougang Concord, all Available Production from Extension Hill on substantially the same terms as the long term Offtake Agreements for the sale of offtake from Talling Peak as described above, with physical specifications and price adjustments to be negotiated in good faith following completion of further drilling and metallurgical testing by Mount Gibson at Extension Hill which, in the case of the APAC agreement, must be completed by 31 August 2009 or such later date agreed by the parties. If the parties are unable to reach agreement on the physical specifications and price adjustments, either party may refer the matter to an expert for a binding determination. The Shareholder approval sought in respect of the Offtake Agreements applies to this Offtake Agreement in respect of Extension Hill.

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Annexure A

Independent Expert's Report



KPMG Corporate Finance (Aust) Pty Ltd
Australian Financial Services Licence No. 246901
Central Park
152-158 St George's Terrace
Perth WA 6000

GPO Box A29
Perth WA 6837
Australia

ABN: 43 007 363 215
Telephone: +61 8 9263 7171
Facsimile: +61 8 9263 7151
www.kpmg.com.au

The Independent Directors
Mount Gibson Iron Limited
1st Floor, 7 Havelock Street
West Perth WA 6005

21 November 2008

Dear Sirs

Independent expert report & Financial services guide

1 Introduction

Mount Gibson Iron Limited (Mount Gibson or the Company) is an Australian public company listed on the Official List of ASX Limited (ASX). Mount Gibson is a hematite iron ore producer. Mount Gibson owns and operates two hematite iron ore mines in Western Australia:

- Talling Peak mine which is east of Geraldton in the Mid West region
- Koolan Island mine which is off the Kimberley coast in the remote north-west of the State.

A third project, the Extension Hill DSO (Direct Shipping Ore) Hematite Iron Ore Project in the Mt Gibson Range east of Geraldton, is also owned by the Company. Construction at this project is currently on hold and is planned to recommence in July 2009 with first ore scheduled for March 2010.

As at 20 November 2008, Mount Gibson had a market capitalisation of approximately \$168.9 million¹, based on a closing share price of \$0.21 per share.

On 9 October 2008, Mount Gibson advised ASX that it was in discussion with a number of its customers in relation to requested delays to iron ore shipments scheduled for the quarter commencing October 2008. On 3 November 2008, Mount Gibson advised ASX that three of those customers had now defaulted on their binding offtake agreements, that an acceptable accommodation has been reached with a further two customers in regards to shipments scheduled for the fourth quarter of 2008 and discussions were still ongoing with a further existing customer (and were still continuing at the date of this report). In response to these events, Mount Gibson advised it had carefully reviewed all of its available options and had taken steps which mitigate the risk of further defaults and deferments while preserving its rights against the defaulting customers.

¹ All amounts denominated in Australian dollars (\$) unless specifically noted otherwise.

On 3 November 2008, Mount Gibson also announced that it had signed a separate Heads of Agreement with its major shareholder, APAC Resources Limited (APAC) and Shougang Concord International Enterprises Company Limited (Shougang Concord) that provide for:

- APAC and Shougang Concord to purchase Available Production² from Mount Gibson's operations:
 - during November and December 2008 (Short Term Offtake)
 - between January and June 2009 (Medium Term Offtake)
 - from 1 July 2009 (Long Term Offtake).
- APAC and Shougang Concord to underwrite a 1 for 5 renounceable rights issue at an issue price of \$0.60 per share, to raise gross proceeds of \$96.5 million (before expenses) (Rights Issue & Underwriting)
- Shougang Concord to subscribe for a placement of 110 million fully paid ordinary shares at an issue price of \$0.60 per share, to raise an additional \$66 million (before expenses) (Placement).

The Medium Term and Long Term Offtake, together with the Underwriting and the Placement are all conditional on each other. Accordingly, they have been treated as a single transaction for the purpose of our report and we have referred to them together throughout this report as "the Proposed Transaction".

Under the Short Term Offtake agreements, APAC and Shougang Concord have already contracted to purchase during November and December 2008 all Available Production that Mount Gibson can sell to APAC and Shougang Concord. This arrangement does not in itself require the approval of Mount Gibson Shareholders.

The Proposed Transaction is conditional upon a number of approvals, including:

- Mount Gibson shareholder approval
- approval by the Foreign Investment Review Board (FIRB) for the Placement and the Underwriting.

If the Proposed Transaction is successful, 100 percent of future scheduled production from existing operations will be sold under long term contract. Mount Gibson advised that based on current discussions with customers, 58 percent, 58 percent and 61 percent of production will be covered by the Short Term, Medium Term and Long Term Offtake agreements respectively, with the balance of the Available Production being sold to customers who have not defaulted under existing offtake agreements.

² The definition of Available Production is contained in section 14 of the Explanatory Memorandum and described at section 3.1 of this report.

We have been advised by Mount Gibson that the impact on the Company's near term cash flows of some of its customers defaulting is such that if the Offtake agreements in accordance with the Proposed Transaction are not implemented, and in the absence of alternative offtake arrangements, the Company will likely be required to seek sales of its production through the spot market, which may lead to sales falling below production levels. In these circumstances, without long term offtake agreements the Mount Gibson board expects, given the current state of the spot market, that the Company would suffer material financial distress and consequently would most likely default on its debt facility agreement and therefore may not be able to continue as a going concern. In the event of spot sales falling below production levels its also likely an immediate refinancing of all debt, bonds and foreign exchange (FX) facilities would be required, which may be problematic in the current financial environment. We concur that in these circumstances, there is a material risk that Mount Gibson would not be able to achieve a refinancing and consequently may be unable to continue as a going concern.

APAC is listed on the Hong Kong Stock Exchange (HKSE). APAC's principal activities comprise trading in iron ore, base metals, fabric products and other merchandises, trading and investment of listed securities. As at 20 November 2008, APAC had a market capitalisation of approximately Hong Kong dollars (HKD) 969.4 million (\$204.7 million³).

Shougang Concord is also listed on the HKSE. Shougang Concord's principal activities comprise manufacture and sale of steel products, shipping and transportation, processing and trading of copper and brass products and mineral exploration. As at 20 November 2008, Shougang Concord had a market capitalisation of approximately HKD 4,664.0 million (\$985.0 million).

One of APAC's substantial shareholders is Shougang Holding (Hong Kong) Limited (SHHKL) which owns approximately 18.9 percent of the shares in APAC. SHHKL also owns approximately 41.7 percent of Shougang Concord. SHHKL is a wholly owned subsidiary of the state owned Shougang Corporation, based in the People's Republic of China. Should Mount Gibson shareholders approve the Placement, Underwriting and Offtake agreements, APAC and Shougang Concord will collectively own between approximately 28.5 percent and 40.4 percent of Mount Gibson depending on the level of uptake of the Rights Issue by existing shareholders.

The Medium Term and Long Term Offtake, together with the Underwriting and the Placement, are subject to approval by Mount Gibson shareholders at an extraordinary general meeting to be held at the end of December 2008.

The terms of the Proposed Transaction are discussed in more detail in section 3 below.

Mount Gibson's Independent Directors have requested KPMG Corporate Finance (Aust) Pty Ltd (KPMG) to complete an independent expert report considering whether the Proposed Transaction is fair and reasonable to Mount Gibson shareholders who are not associated with APAC and Shougang Concord (the non-associated shareholders).

³ A spot Australian dollar to Hong Kong Dollar exchange (AUD:HKD) rate as at 20 November 2008 of AUD1: HKD 4.7352

Mount Gibson is now seeking approvals for the Medium Term and Long Term Offtake, the Underwriting and the Placement. The specific terms of the resolutions to be approved by non-associated shareholders are set out in the Notice of Meeting and explained in the Explanatory Memorandum to which this report is attached.

2 Summary and conclusion

In our opinion, the Proposed Transaction is fair to Mount Gibson shareholders and therefore, pursuant to guidance set out in ASIC's RG111, also deemed to be reasonable

We have concluded that, in the absence of a superior alternative offer, the Proposed Transaction is fair having regard to the interests of the non-associated shareholders of Mount Gibson.

In forming this opinion, the primary factor that we have had regard to is that, notwithstanding that the Placement and Rights Issue price of \$0.60 cents represents a discount to the value of a share in Mount Gibson after the Proposed Transaction (which we have assessed as lying in the range of \$1.23 to \$1.32), the \$0.60 cents represents a healthy premium over the current share price of Mount Gibson, a small premium over net asset backing per share (after adjustment to reflect the current mark-to-market position of the Company's hedge book) and positions the Company strongly to continue as a going concern and thereby avoid the potential for the Company to cease trading which could, in the worst case, result in no value attaching to the existing shares in Mount Gibson. At the very least, we note, in the event of a distressed sale, it would be reasonable to expect further erosion in the asset values from those recorded in the Company's books, which has been prepared on the assumption of the Company continuing as a going concern, and the ability to realise the benefit of tax losses arising from a close out of the current hedge book is at best doubtful.

2.1 Other key advantages

Mount Gibson will have offtake arrangements in place for all available production from January 2009 onwards

The Proposed Transaction will return Mount Gibson to a position of having 100 percent of its Available Production subject to offtake agreements from January 2009.

In such a volatile and adverse market environment and against a background of a deepening global economic crisis, it is especially important for Mount Gibson to have the security of offtake agreements with large customers, particularly where these customers are also heavily invested in Mount Gibson as shareholders.

Mount Gibson has advised that if the Proposed Transaction is not implemented the Company would suffer material financial distress and consequently may not be able to continue as a going concern, with which we concur.

The offtake arrangements contemplated under the Proposed Transaction provides a badly needed solution to Mount Gibson's current vulnerable position and its immediate need to secure offtake arrangements in order to address the imminent going concern risk.

Approval of the Proposed Transaction will improve Mount Gibson's net assets position and cash reserves

The Proposed Transaction would bolster substantially the financial stability of the Company through, inter alia the injection of a further \$157.8 million in equity, derived from the Placement and Rights Issue less underwriting fees and transaction costs, which will assist Mount Gibson to be better placed to deal with further volatility in the iron ore and financial markets. The improved cash position will also allow Mount Gibson to avoid drawing down on existing debt facilities further.

This improved financial stability will enhance the prospects of the Company realising the maximum value of its development at Koolan Island and Extension Hill. Mount Gibson has advised that if the Proposed Transaction proceeds it will be better placed to proceed with the planned development activities at Koolan Island and Extension Hill in due course.

Further, the Proposed Transaction will materially reduce the Company's reliance on public equity and debt markets, which is an advantage given the current financial climate and current difficulty of raising capital and raising capital on attractive terms. Mount Gibson has advised that prior to agreeing to the Proposed Transaction, the Company undertook a process to assess the availability of funding from external sources. Mount Gibson advised this process did not result in any superior or equivalent proposals.

With a significant equity position APAC and Shougang Concord will be incentivised to work towards the future success of Mount Gibson

APAC, with an increased shareholding, and Shougang Concord as a major shareholder will be incentivised to work towards the future success of the Company. APAC is a trader in the iron and steel industry and Shougang Concord is a steel producer and trader in the iron and steel industry.

If the Proposed Transaction proceeds, APAC and Shougang Concord will collectively own between 28.5 percent and 40.4 percent of Mount Gibson depending on the level of uptake of the Rights Issue by existing shareholders. As significant shareholders, APAC and Shougang Concord will be incentivised to ensure the alliance with the Company succeeds, whilst continuing non-associated shareholders will participate in any benefits that may be realised from the alliance with APAC and Shougang.

2.2 Disadvantages

The completion of the Proposed Transaction will result in a dilution of non-associated shareholders interests in the Company

Successful completion of the Proposed Transaction would result in a dilution of non-associated shareholders interests from 79.6 percent to between 59.6 percent and 71.5 percent.

We note that as the Rights Issue is a renounceable issue, all Mount Gibson shareholders have the opportunity, at their election, to participate in the pro-rata equity issue based on the number of shares they presently hold and thereby limit the extent of their dilution to the lower end of the range stated above.

2.3 Other considerations

We have also considered a number of other factors in reaching our conclusion, which are summarised below and discussed more fully in section 11 of our report.

- APAC and Shougang Concord could potentially still acquire the shares proposed to be issued under the Proposed Transaction in the absence of the Proposed Transaction. Section 606 of the Corporations Act 2001 as amended (the Act), provides a general prohibition to any person with a relevant interest of 20 percent or more of the voting capital of a company from increasing their interest in the absence of a takeover offer. There are, however, various exemptions to this rule set out in Section 611 of the Act, which include
 - the acquisition of shares pursuant to an equal access rights issue, including in a person's capacity as underwriter
 - the acquisition of up to 3 percent of a Company's issued share capital within any six month period (the creep acquisition provisions).

Accordingly, in the absence of the Proposed Transaction, APAC would be entitled to participate in any rights issue by the Company both as a shareholder and underwriter without the need for shareholder approval.

Further, it is conceivable that Shougang Concord could enter the market in the future to acquire the same number of shares currently proposed to be issued under the Placement under the creep acquisition provisions. We note however that in these circumstances the Company would not receive the benefit of any cash injection rather the funds would remain outside of the group and only benefit limited shareholders. We also note that the Placement price is the same as that being offered to non-associated shareholders under the Rights Issue.

- The Rights Issue price and Placement price is at a premium to Mount Gibson's current market price but a discount to recent historical market prices. The Rights Issue is being offered to all Mount Gibson shareholders on an equal basis, however the Rights Issue Price is at a significant premium to

the current trading price for the Company's shares on ASX and this is potentially a significant disincentive to existing shareholders to participate in the Rights Issue rather than acquiring additional shares on market from other existing shareholders in the Company. Non-associated shareholders however participate in the premium over existing share price being paid by APAC and Shougang Concord by virtue of the cash injected to Mount Gibson accompanying their investment.

- The Proposed Transaction may potentially reduce the likelihood of a takeover offer being received. If the Proposed Transaction proceeds, APAC and Shougang Concord will collectively own between 28.5 percent and 40.4 percent of Mount Gibson depending on the level of uptake of the Rights Issue by existing shareholders. As a result there is potentially reduced likelihood of a third party making a takeover bid for Mount Gibson.

However, given the size of APAC's pre-existing shareholding in the Company and representation on the Board, we do not consider completion of the Proposed Transaction, materially adversely impacts the prospects of the Company receiving a takeover offer in the future as compared to current prospects, as any takeover offer for all of the Company's issued capital would already require the approval of APAC.

- Mount Gibson have advised that, prior to agreeing to the Proposed Transaction, the Company sought to find alternative offtake purchasers to its defaulting customers and after conducting a wide ranging search the best alternative option was the Proposed Transaction.

The Directors have advised that in seeking funding for its continued operations (at the same time as seeking alternative offtake agreements), Mount Gibson undertook a process to identify potential investors and underwriters on commercial terms. However, Mount Gibson was unable to identify any willing underwriters and ultimately APAC and Shougang proposed to underwrite the Rights Issue.

- In January 2008, Shougang Concord entered into an agreement to purchase a substantial holding in Mount Gibson (156.8 million shares, representing 19.73 percent of the issued capital at the time) from a third party. As a result of an application by Mount Gibson to the Takeovers Panel, the sale was eventually cancelled and the third party sold its stake in April 2008 through an institutional book build process.

In contrast to the acquisition under the Proposed Transaction, the funds that would have been paid by Shougang Concord to acquire the 156.8 million shares from the third party would have remained outside of the Company and would have been to the benefit only of the third party vendor rather than being shared pro rata to Mount Gibson shareholders as a whole.

As disclosed by Mount Gibson in the Explanatory Memorandum, there are a number of differences between the Proposed Transaction and the earlier proposed purchase of the 19.72 percent. The major difference being, the key components of the Proposed Transaction are conditional on shareholder approval being obtained. Shareholders will therefore collectively determine, on an informed basis, whether the Proposed Transaction proceeds.

In addition, the directors consider that, in the absence of any superior proposal, the Proposed Transaction is in the best interests of all shareholders.

- We have been advised that at the date of this report, the independent directors of Mount Gibson have unanimously recommended that shareholders vote to approve the resolutions relating to the Proposed Transaction, subject to there being no superior proposal received or publicly announced.
- The outcome of various other matters is presently uncertain. Three of Mount Gibson's customers defaulted on their binding offtake obligations by failing to collect shipments of ore they were scheduled to take in October and November 2008. Consequently, Mount Gibson terminated their agreements, at the same time reserving its right to claim damages against those customers for breach of contract.

In its 3 November 2008 announcement, Mount Gibson advised it intends to pursue those customers that 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. Conversely, as disclosed by Mount Gibson in the Explanatory Memorandum, there is a risk that existing customers may claim that the termination is not justified and take proceedings against Mount Gibson.

Given the early stages of this dispute, no recovery actions commenced or claims lodged at this time, we have not attributed value or significant weight to these potential assets and potential liabilities due to the high level of uncertainty attaching to the outcome of each.

- **We note that a number of the agreements formalising the Proposed Transaction are yet to be executed. In the event that the final terms of these documents differ from those detailed in this report and relied on by us, this may have a material impact on our opinion. In the event there is a material change we will notify shareholders and consider the implications, if any, for our report.**

2.4 General advice

In forming our opinion, we have considered the interests of Mount Gibson shareholders as a whole. This advice therefore does not consider the financial situation, objectives or needs of individual Mount Gibson shareholders. It is not practical or possible to assess the implications of the Proposed Transaction on individual shareholders as their financial circumstances are not known.

KPMG's opinion should not be construed to represent a recommendation as to whether or not Mount Gibson shareholders should approve the Proposed Transaction.

The decision of Mount Gibson shareholders as to whether or not to approve the Proposed Transaction is a matter for individuals based on, amongst other things, their risk profile, liquidity preference, investment strategy and tax position. Individual Mount Gibson shareholders should therefore consider the

appropriateness of our opinion to their specific circumstances before acting on it. As an individual's decision as to whether or not to approve the Proposed Transaction may be influenced by his or her particular circumstances, we recommend that individual Mount Gibson shareholders seek their own independent professional advice.

Our report has been prepared solely for the purpose of assisting Mount Gibson shareholders in considering the Proposed Transaction. We do not assume any responsibility or liability to any other party as a result of reliance on this report for any other purpose, including but not limited to investment or lending decisions in relation to Mount Gibson, APAC or Shougang Concord.

2.5 Other

This letter is a summary of KPMG's opinion as to the merits or otherwise of the Proposed Transaction. This opinion should be read in conjunction with, and not independently of, KPMG's detailed report and appendices as attached.

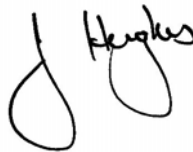
Our report has been prepared in accordance with the relevant provisions of the Act and other applicable Australian regulatory requirements. We recommend residents of foreign jurisdictions who are entitled to receive this report to seek their own independent professional advice.

Neither the whole nor any part of our report or its attachments or any reference thereto may be included in or attached to any document, other than the Notice of Meeting and Explanatory Memorandum to be issued to Mount Gibson shareholders in relation to the Proposed Transaction, without the prior written consent of KPMG as to the form and context in which it appears. KPMG consents to the inclusion of our report in the form and context in which it appears in the Notice of Meeting and Explanatory Memorandum.

Yours faithfully



Duncan Calder
Executive Director



Jason Hughes
Executive Director

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Financial services guide

Dated 21 November 2008

KPMG Corporate Finance (Aust) Pty Ltd ABN 43 007 363 215 (KPMG or we or us or our as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

Financial Services Guide

In the above circumstances we are required to issue to you, as a retail client, a Financial services guide (FSG). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licensees.

This FSG includes information about:

- Who we are and how we can be contacted
- The services we are authorised to provide under our **Australian Financial Services Licence, Licence No: 246901**
- Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice
- Any relevant associations or relationships we have
- Our complaints handling procedures and how you may access them.

Financial services we are licensed to provide

We hold an Australian Financial Services Licence, which authorises us to provide financial product advice in relation to:

- Interests in managed investments schemes (excluding investor directed portfolio services)
- Securities (such as shares and debentures).

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

General Financial Product Advice

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

Benefits that we may receive

We charge fees for providing reports. These fees will be agreed with, and paid by, the person who engages us to provide the report. Fees will be agreed on either a fixed fee or time cost basis.

Except for the fees referred to above, neither KPMG, nor any of its executive directors, directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

Remuneration or other benefits received by our employees

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report.

Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Associations and relationships

Through a variety of corporate and trust structures KPMG is controlled by and operates as part of KPMG's Australian professional advisory and accounting practice (the KPMG Partnership). Our executive directors may be partners in the KPMG Partnership.

From time to time KPMG, the KPMG Partnership and/or KPMG entities related to the KPMG Partnership may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of its business.

Complaints resolution

Internal complaints resolution process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Proposal

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly at: Financial Ombudsman Service Limited, GPO Box 3, Melbourne Victoria 3001 or Toll free: 1300 78 08 08 or by Facsimile: (03) 9613 6399

Contact Details

You may contact us using the contact details set out at the top of the letterhead on page 1 of this report.

3 Outline of the Proposed Transaction

The principal elements of the Proposed Transaction comprise:

- APAC and Shougang Concord to purchase Available Production from Mount Gibson's operations:
 - Between January and June 2009 (Medium Term Offtake)
 - From 1 July 2009 for life of mine (Long Term Offtake).
- APAC and Shougang Concord to underwrite a 1 for 5 renounceable rights issue at \$0.60 per share to raise gross proceeds of \$96.5 million (before expenses) (Rights Issue & Underwriting)
- Shougang Concord to subscribe for a placement of 110 million ordinary shares at \$0.60 per share to raise additional gross proceeds of \$66 million (before expenses) (Placement).

Each limb of the Proposed Transaction are conditional on each other, that is, if one of these elements is not approved by non-associated shareholders, none of the individual elements of the Proposed Transaction will take place.

3.1 Elements of the Proposed Transaction relating to APAC

APAC Long Term Offtake Agreement

Under the Long Term Offtake agreement, Mount Gibson will agree to sell 20 percent of Mount Gibson's "Available Production" to APAC or its nominee for the period commencing 1 July 2009 for the life of mine (acknowledging that different mines may have a different life of mine).

"Available Production" for the purpose of all of the Offtake agreements referred to in this report means lump and fines iron ore product:

- from the mines owned by Mount Gibson being Tallering Peak, Koolan Island and Extension Hill (in the case of Extension Hill, when it enters production)
- that any point in time is not the subject of any existing binding offtake agreement with offtake customers
- that is able to be shipped by Mount Gibson having regard to shipping schedules, mine production, transport logistics and port capacity.

Therefore if Mount Gibson terminates any of its existing offtake agreements as contemplated in section 2.3, its Available Production will increase over time and if APAC has agreed to purchase Mount Gibson's Available Production, Mount Gibson must sell and APAC must buy a larger amount of offtake.

The pricing under the agreement will be set at a 10 percent discount to the Hamersley Benchmark iron ore prices for lump and fines ore subject to penalty specifications.

Mount Gibson will indemnify APAC against any actions taken against it by existing offtake customers of Mount Gibson which may result from the termination of any existing offtake contracts by Mount Gibson.

APAC's obligations in respect of the Rights Issue are not conditional on there being any certain minimum Available Production.

Conditions precedent

The APAC Long Term Offtake agreement is subject to several conditions precedent, including:

- the agreement is on standard market long term iron ore Contract terms
- non-associated shareholders approving in meeting by resolution in accordance with the requirements of the Act and ASX Listing Rule 10.1
- all applicable steps required under the HKSE Listing Rules having been taken by APAC.

The Rights Issue & Underwriting

Under the proposed Rights Issue, Mount Gibson will conduct a 1 for 5 renounceable rights issue to existing shareholders at an issue price of \$0.60 per share to raise approximately \$97 million. APAC has committed to take up its full entitlement under the Rights Issue.

The Rights Issue will be underwritten by APAC in priority and up to 82.9 million shares (Shortfall Shares) (which does not include any entitlement of APAC to subscribe for shares in the Rights Issue that it is entitled to). The underwriting fee payable to APAC will be 3.5 percent of the value of the APAC underwriting commitment.

Conditions precedent

The Underwriting arrangements in respect of APAC are subject to several conditions precedent, including:

- approval by APAC shareholders under the HKSE Listing Rules, if required
- APAC taking all steps to ensure that the Rights Issue and the underwriting arrangements meet all applicable steps required under the HKSE Listing Rules and any other relevant legislation
- Mount Gibson non-associated shareholders approval. It is intended that the Rights Issue remain open for the period including the Mount Gibson shareholder meeting at which the relevant shareholder approval will be sought
- relevant FIRB approvals. Details of the required FIRB approvals are set out more fully in the Explanatory Memorandum.

3.2 Elements of the Proposed Transaction relating to Shougang Concord

Shougang Concord Medium Term Offtake Agreement

Under the Medium Term Offtake agreement, Mount Gibson will agree to sell 100 percent of Mount Gibson's Available Production to Shougang Concord (or a related body corporate of Shougang Concord as the case may be) for the period 1 January 2009 to 30 June 2009.

The pricing under this medium term agreement will be US\$56 per wet metric tonne (wmt) free on board (FOB) (as adjusted for variations in iron (Fe) content).

Conditions precedent

The Shougang Concord Medium Term Offtake agreement is subject to several conditions precedent, including:

- the agreement is on standard iron ore industry contract terms
- non-associated shareholders approving in meeting by resolution in accordance with the requirements of ASX Listing Rule 10.1.

Shougang Long Term Offtake Agreement

Under the Long Term Offtake agreement, Mount Gibson will agree to sell 80 percent of Mount Gibson's Available Production to Shougang Concord (or a related body corporate of Shougang Concord as the case may be) for the period commencing 1 July 2009 for the life of mine (acknowledging that different mines may have a different life of mine).

The pricing under the agreement will be the same for the APAC Long Term Offtake agreements described above.

Conditions precedent

The Shougang Long Term Offtake agreement is subject to several conditions precedent, including:

- the agreement is on standard market long term iron ore contract terms, with penalty specifications to be negotiated in good faith
- non-associated shareholders approving in meeting by resolution in accordance with the requirements of ASX Listing Rule 10.1.

The Rights Issue & Underwriting

Shougang Concord will underwrite the balance of the shares offered under the Rights Issue not taken up by APAC in its capacity as underwriter but subject to a maximum numbers of 50 million shares offered under the Rights Issue. The underwriting fee payable to Shougang Concord will be 3.5 percent of the value of the aggregate value (based on the \$0.60 offer price) of up to 50 million shares that are underwritten by Shougang Concord.

The Company has advised, regardless of whether or not the Proposed Transaction is approved, the Rights Issue will proceed irrespective of the level of subscription for the shares pursuant to the Rights Issue.

Conditions precedent

The Underwriting arrangements in respect of APAC is subject to several conditions precedent, including:

- Mount Gibson non-associated shareholders approval.
- FIRB approval. Details of the required FIRB approvals are set out more fully in the Explanatory Memorandum

Placement to Shougang

Mount Gibson to issue 110 million new fully paid shares in Mount Gibson, at \$0.60 per share to Shougang Concord (or its nominee) by way of a placement to raise gross proceeds of approximately \$66 million.

Conditions precedent

The Placement is subject to several conditions precedent, including:

- Mount Gibson non-associated shareholders approving in meeting by resolution in accordance with the requirements section 611, item 7 of the Act
- approval by FIRB.

3.3 Board of Directors

Mount Gibson has advised that APAC already has one representative on the Board of the Company. Upon execution of the Short Term Offtake agreement with APAC, Mount Gibson will appoint an additional APAC nominee as a non-executive director. Following the execution of the Proposed Transaction, Mount Gibson will also appoint a Shougang Concord nominee as a non-executive director. Therefore, out of a total of seven directors on the Mount Gibson board, APAC will have two nominees and Shougang Concord will have one nominee.

3.4 Escrow arrangements

The Underwriting and Placement arrangements contain escrow provisions. Under those provisions both APAC and Shougang Concord have agreed to place certain portions of the funds required to meet the underwriting commitments, and in the case of the Placement, the entire subscription amount, in an escrow account prior to the shareholders meeting to approve the Proposed Transaction. Further details on the escrow provision are outlined in the relevant Schedules attached to the Explanatory Memorandum.

3.5 Termination clauses

Each of the agreements under the Proposed Transaction are subject to various termination events, a summary of which is set out in the relevant Schedules in the Explanatory Memorandum.

4 Scope of report

4.1 Purpose

This report has been prepared by KPMG for inclusion in Mount Gibson's Explanatory Memorandum to convene a meeting of the non-associated shareholders at the end of December 2008. The purpose of the meeting will be to seek approval for the Proposed Transaction.

4.2 Technical requirements

Corporations Act

Section 606 of the Act provides a general prohibition to any person increasing their relevant interest in the issued voting shares of a listed company from 20 percent or below to more than 20 percent. There are, however, various exceptions to this prohibition, including those set out in section 611 of the Act. Under item 7 of section 611 an acquisition of the relevant interests in a company's voting shares is allowed if, at general meeting, a majority of the non-associated shareholders pass an ordinary resolution approving the transaction.

APAC currently owns a 20.4 percent interest in the issued capital of Mount Gibson. Whilst Shougang Concord does not currently hold a relevant interest in the issued capital of Mount Gibson we have been advised that as a result of the substantial shareholding of SHHKL in both Shougang Concord and APAC, their common director and the decision of the Takeovers Panel earlier this year, Shougang Concord and APAC may be considered to be associated for the purpose of the Act (APAC and Shougang are referred to jointly as the associated parties).

Approval of the Proposed Transaction will result in APAC and Shougang Concord holding between a combined approximately 28.5 percent (assuming 100 percent uptake of the Rights Issue by existing shareholders) and 40.4 percent of the issued capital of Mount Gibson (assuming full underwriting commitment required).

In accordance with item 10 of section 611 of the Act, the acquisition of relevant interests in a company's voting shares by way of a rights issue is permitted where the issue is made to all holders of shares in the same percentage to the shares held prior to the issue and where terms of the offer are the same for all shareholders. Furthermore, acquisitions made as underwriter to the Rights Issue are also exempt from the prohibition imposed by section 606.

We note however, that whilst the Act does not require approval for the Rights Issue and Underwriting, given the current relationship between APAC and Shougang Concord, the Placement does require the approval of non-associated shareholders in accordance with the provisions of item 7 of section 611 of the Act.

In addition, given APAC's shareholding in Mount Gibson and the current relationship between APAC and Shougang Concord, Mount Gibson is seeking separate approval for the Underwriting. We are advised that the Rights Issue will be undertaken whether or not the Proposed Transaction is approved.

Regulatory Guide 74 "Acquisitions agreed to by shareholders" (RG 74), issued by the Australian Securities and Investments Commission (ASIC), requires that in these circumstances non-associated shareholders be provided with a report assessing whether the Proposed Transaction is fair and reasonable in the context of the interests of the non-associated shareholders.

Regulatory Guide 111 “Content of expert reports” (RG 111) provides that in considering whether a transaction is fair and reasonable for the purpose of section 611 (item 7), the expert should analyse the transaction as though it was a takeover bid under Chapter 6 of the Act.

RG 111 provides that an assessment of whether a transaction is fair and reasonable requires analysis of each criteria individually, and should not be regarded as a compound phrase.

Under this convention, RG 111 outlines the following definitions of “fair” and “reasonable”:

- an offer is ‘fair’ if the value of the consideration being offered is equal to or greater than the value of the securities that are the subject of the offer (this comparison is required to be undertaken assuming 100 percent ownership of the target)
- an offer is ‘reasonable’ if it is ‘fair’, or where it is ‘not fair’, it may still be ‘reasonable’ after considering other significant factors that support the acceptance of the offer in the absence of any higher bid before the close of the offer.

RG 111 sets out certain matters that an expert might also consider for the purpose of section 611 of Act when forming an opinion as to whether a proposed transaction is reasonable, these include:

- the offeror’s pre-existing entitlement to shares in the target company
- the liquidity of the market in the target company’s shares or the probability that an alternative offer might be made
- the need of the issuing company for an injection of capital
- the provision of new capital to exploit business opportunities
- taxation losses, cash flow or other benefits through achieving 100 percent ownership of the target company
- any special value of the company to the offeror
- the value to an alternative offeror.

ASX Listing Rules

Chapter 10 of ASX Listing Rules states that where a publicly listed company proposes to dispose of a “substantial asset” to, amongst others, a related party, a “substantial holder” or any associates of these parties, the company must obtain the prior approval of its non-associated shareholders in general meeting, the notice of which must be accompanied by a report by an independent expert setting out whether the transaction is fair and reasonable to the non-associated shareholders.

ASX Listing Rule 10.1 describes:

- a “substantial asset” as an asset, or the consideration to be received in respect of the asset, that has a value, in ASX’s opinion, of 5.0 percent or more of the shareholders’ funds in the entity as set out in the latest accounts of the company
- a “substantial holder” to include a party that has a relevant interest, or had a relevant interest at anytime in the six months before the transaction, in at least 10 percent of the total votes attached to voting securities of the company.

We understand that the aggregate value of the offtake to be sold under the offtake agreements when taken together is expected to exceed the substantial asset threshold. Further, having regard to APAC’s existing shareholding in Mount Gibson, the relationship between APAC and Shougang Concord and that Shougang Concord will become a substantial shareholder in Mount Gibson in the event the Placement is completed, both APAC and Shougang Concord are deemed to be substantial holders. As such, the proposed implementation of the Medium Term and Long Term offtake agreements requires non-associated shareholder approval for the purpose of Chapter 10 of ASX Listing Rules.

There is no definition of the term “fair and reasonable” in ASX Listing Rules, as such we have had principal regard to the guidance provided in ASIC Regulatory Guide 74 “Acquisitions agreed to by shareholders” as discussed above in determining whether the terms of the proposed offtake agreements are fair and reasonable to the non-associated shareholders.

In considering this it importance to note however that each limb of the Proposed Transaction i.e. each of the Underwriting, the Placement and the offtake agreements are conditional upon each other. As such, in considering whether non-associated shareholders should vote in favour of the resolutions to be put to them, we have considered the overall fairness and reasonableness of each of the limbs when taken as a whole.

Furthermore, in forming our opinion, we have considered the interests of the non-associated shareholders as a whole, including those in foreign jurisdictions who may have different financial circumstances. We have not considered how the Proposed Transaction may affect individual shareholders who may have different financial circumstances. It is not practical or possible to assess the implications of the Proposed Transaction on individual shareholders, as their specific financial circumstances are not known to us.

4.3 Sources of information

In preparing this report and arriving at our opinion, we have considered the information detailed in Appendix 2 of this report. Nothing in this report should be taken to imply that KPMG has verified any information supplied to us, or has in any way carried out an audit of the books of account or other records of Mount Gibson for the purposes of this report. The information contained in this report in relation to APAC and Shougang Concord has been prepared solely on the basis of publicly available information. We have not had access to either APAC’s and Shougang Concord’s internal records or management. Accordingly, we make no representation as to the accuracy of the information relied upon.

Further, we note that an important part of the information base used in forming our opinion is comprised of the opinions and judgements of management. In addition, we have also had discussions with Mount Gibson’s management in relation to the nature of the Company’s business operations, its specific risks and opportunities,

its historical results and its prospects for the foreseeable future. This type of information has been evaluated through analysis, enquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

We have no reason to believe that any material facts have been withheld from us but do not warrant that our inquiries have revealed all of the matters which an audit or extensive examination might disclose. The statements and opinions included in this report are given in good faith, and in the belief that such statements and opinions are not false or misleading.

The information provided to KPMG and Al Maynard & Associates Pty Ltd (AMA) (the role of AMA is outlined at section 10.1 of this report) included budgeted/prospective financial information prepared by the management of Mount Gibson and amended by the technical specialist where considered appropriate. Budgeted/prospective results are by their nature uncertain and are dependent on a number of future events that cannot be guaranteed. Accordingly, achievement of budgeted/prospective results is not warranted or guaranteed by KPMG or AMA. Actual results may vary significantly from the budgeted/prospective results relied on by KPMG. Any variations from budgeted/prospective results may affect our valuation and opinion.

We note that the projected results prepared by Mount Gibson do not include estimates as to the potential impact, if any, of any future emissions trading scheme (ETS) in Australia. As the structure and mechanism of any such ETS is unable to be reliably determined at this time, we have adopted the company's estimate as to the impact of such a scheme upon the operations and financial results of the Company in forming our opinion. We cannot, however, comment as to the reliability of the Company's estimates.

The opinion of KPMG is based on prevailing market, economic and other conditions at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon our opinion. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion.

5 Industry sector outlook

Mount Gibson's business operations comprise iron ore mining, production and exploration. Accordingly, the financial performance of Mount Gibson is significantly impacted by developments in the Australian and global iron ore industry.

To provide a context for assessing the position of Mount Gibson in the iron ore sector we have set out at Appendix 3 an overview of recent trends in the market for iron ore.

6 Profile of Mount Gibson

6.1 Corporate background

Mount Gibson was established in Perth in 1996 and listed on the Official List of ASX in January 2002 as a specialist iron ore exploration company. The Company's evolution into an iron ore producer commenced in the following year when Mount Gibson acquired mining tenements out of the receivership of Kingstream Steel Ltd (Kingstream Steel) and the subsequent bringing into production of that acquisition's Talling Peak hematite project in early 2004.

Since 2004, Mount Gibson has focussed on sustainable hematite production growth to take advantage of strong prices. To this end, production at Talling Peak has increased from an initial rate of 1.6 million tonnes per annum (Mtpa) to a rate of approximately 3.8 Mtpa in the year ended 30 June 2008.

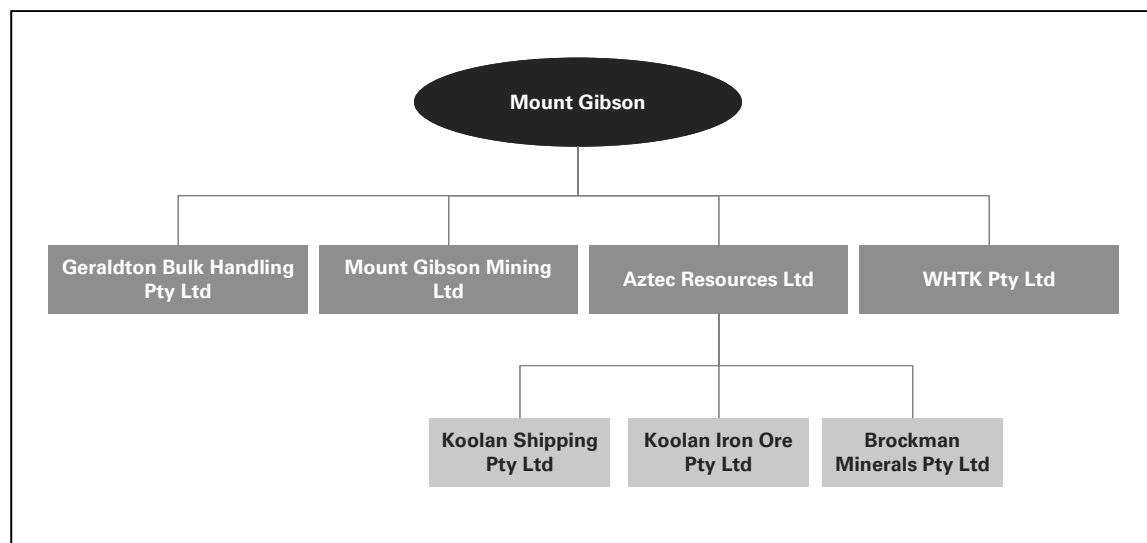
In July 2006, Mount Gibson launched a takeover of Aztec Resources Ltd (Aztec). The acquisition was successfully completed in February 2007. The addition and development of Aztec's Koolan Island project resulted in Mount Gibson's total production increasing, with the Company's mine production in the year ended 30 June 2008 being approximately 6.9 Mtpa. However, as a result of constraints at the Port of Geraldton, iron ore sales for the 2008 financial year were limited to 5.5 Mt.

Between 2004 and 2006, Mount Gibson held an interest in a magnetite project at Extension Hill. This interest was sold in 2006 to Sinom Investments Limited (Sinom). Funds raised from the sale earmarked for the development of the Extension Hill direct shipping ore (DSO) hematite project and further exploration. Mount Gibson's planned commencement of hematite operations at Extension Hill is expected by Mount Gibson to result in the Company's total production reaching approximately 9.4 Mtpa during the year ended 30 June 2010.

6.2 Corporate structure

The corporate structure of Mount Gibson is set out below. Each of the Company's subsidiaries is held 100 percent by Mount Gibson.

Figure 1: Mount Gibson's corporate structure



Source: Mount Gibson

6.3 Operations and exploration

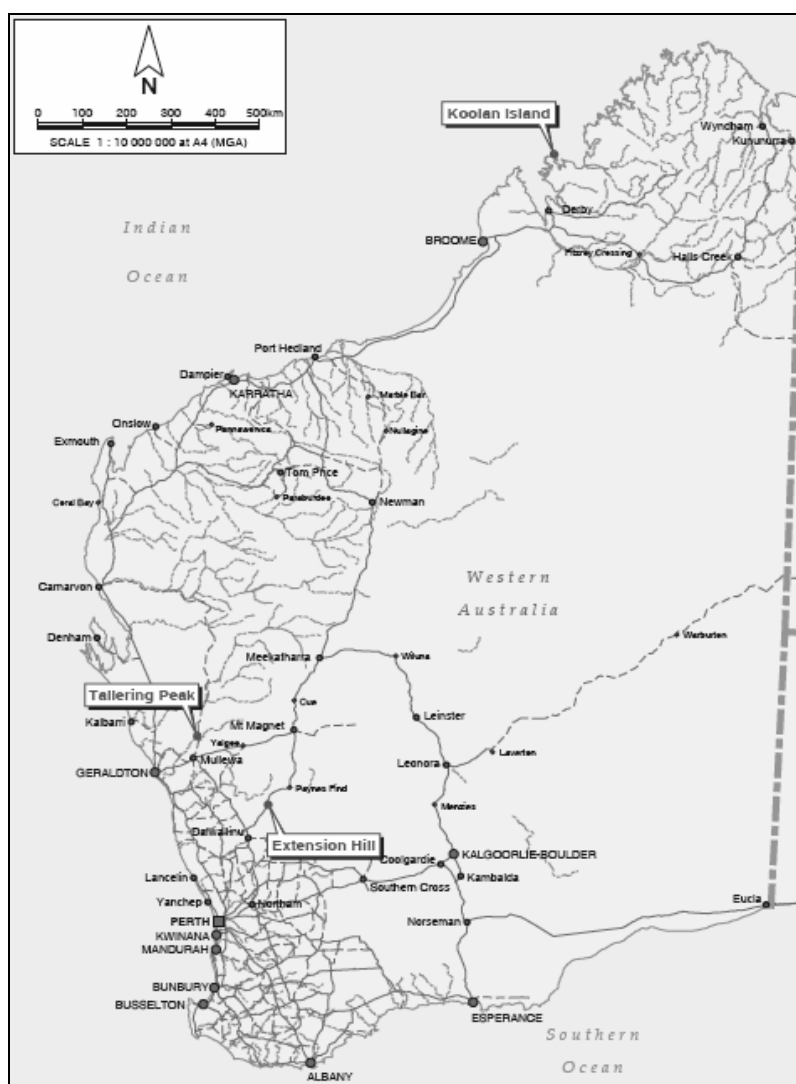
Mount Gibson is an Australian hematite iron ore company that operates two hematite iron ore mines in Western Australia:

- the Talling Peak mine, a mine in the Mid West region of Western Australia, approximately 175 kilometres east of the port city of Geraldton achieving iron ore sales of approximately 3.0 Mtpa

- the Koolan Island mine, a mine just off the Kimberley coast of Western Australia, approximately 250 kilometres northeast of Broome forecast to make sales of approximately 3.5 Mtpa.

A third project – the Extension Hill DSO hematite project in the Mt Gibson Range, approximately 260 kilometres east-southeast of Geraldton – is also owned by the Company and is still under construction with commencement of ore production scheduled for the March quarter, 2010.

Figure 2: Location of Mount Gibson's operations



Source: Mount Gibson Investor Presentation October 2008

Mount Gibson's aim is to maintain and grow long-term profitability through discovery, development, participation in and/or acquisition of mineral resources. As an established producer of direct ship hematite ore, Mount Gibson has an operating strategy to produce approximately 9.4 Mt of high grade hematite ore per annum from its three Western Australian operations by 2010, resulting in sales of approximately 7.1 Mt.

Reserves and resources

Mount Gibson's estimated total reserves and resources as at 30 June 2008 are set out below:

Table 1: Mount Gibson's estimated reserves and resources

	Tallering Peak (Mt)	Koolan Island (Mt)	Extension Hill (Mt)	Combined (Mt)
Reserves	14.6	29.4	12.8	56.8
Resources	17.2	69.1	19.5	105.8

Source: Mount Gibson ASX Announcement dated 8 September 2008

Sales of iron ore

Mount Gibson's revenue is principally derived under long-term sales contracts. Under these contracts, Mount Gibson is paid for each tonne of ore delivered free on board (FOB) calculated based upon an agreed US\$ per dry metric tonne Fe unit (dmtu). Existing Mount Gibson long-term iron ore supply contracts are based on the annually negotiated Hamersley iron ore lump and fines "benchmark industry prices" which are set each year via negotiations between major Australian producers (Rio Tinto Limited and BHP Billiton Limited in Australia) and Japanese steel mills. These prices are negotiated annually, for adjustment on 1 April of each year.

At the nominal production rate, 100 percent of Tallering Peak and Koolan Island production is covered by long term (life of mine) agreements, while excess production over forecast outputs is largely uncommitted. All ore is sold/shipped under documentary letters of credit.

On 9 October 2008, Mount Gibson announced it had received requests from a number of its customers to delay hematite ore shipments scheduled for the second quarter of the financial year. In the announcement, Mount Gibson advised it had no obligation to agree to any of the relevant customer requests as each customer had entered into binding long term ore sales agreements and was contractually obliged to take delivery of the shipments allocated to it in the second quarter. Accordingly, Mount Gibson advised it would endeavor to reach acceptable accommodation in respect of its long term shipping schedules with its contracted customers and to take the necessary steps to minimise any disruption that may have resulted to operations.

On 3 November 2008, Mount Gibson announced that three of those customers had defaulted on their binding offtake agreements, acceptable accommodation had been reached with a further two customers and discussions were ongoing with a further existing customer.

In its announcement, Mount Gibson advised that in response to these events, it had reviewed all of its available options and had taken steps which mitigate the risk of further defaults and deferments while preserving its rights against defaulting customers. Mount Gibson stated it intends to pursue 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 any new offtake agreements. Mount Gibson is taking legal advice on these matters.

Tallering Peak

Background

Mount Gibson's first iron ore mine was developed at Tallering Peak, which is located approximately 170 kilometres north east of Geraldton in the Mid West region of Western Australia. Mining of overburden commenced in November 2003 and its first shipment of direct shipping grade hematite iron ore occurred in February 2004. Tallering Peak achieved its target production rate of 3 Mtpa in the first quarter of the 2006 financial year.

During the past two financial years, the Tallering Peak mine has continued to improve its operational performance with waste and ore material movements increasing. In the year ended 30 June 2008, ore tonnes mined increased 31 percent to 3.8 Mt when compared with the corresponding period in the preceding year. Overall, Tallering Peak achieved record annual ore production, crushing, transport and sales for the year ended 30 June 2008.

Ore mined at Tallering Peak is crushed and screened on site. It is then loaded onto trucks and transported 70 kilometres to Mullewa, where it is then loaded into ore wagons at a purpose built rail loading facility and railed directly to the Port of Geraldton. At the Port of Geraldton, ore is stored in a 160,000 tonne storage shed for loading onto Panamax-sized ore carriers for export to customers in China.

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 achieved significant improvements in loading rates in the June 2008 quarter. Ore stockpiles as 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 percent in the year ended 30 June 2008 when compared with the corresponding period in the preceding year, which established a crusher throughput record for Tallering Peak. Annual records were also achieved for both road and rail haulage, which established benchmark performance criteria for the 2009 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 year ended 30 June 2008, 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.

Continued infill and extensional exploration drilling at Tallering Peak has significantly enhanced Mount Gibson's knowledge of the Tallering Peak geological resource and has allowed Mount Gibson to plan mine production with a high level of confidence. Ore mined during the year ended 30 June 2008 versus the Reserve resulted in a 98 percent tonnes and 100 percent grade reconciliation.

Geology, Reserves and Resources

Most of the pre-production drilling at Tallering Peak was carried out by diamond and percussion drilling in four campaigns (Western Mining Corporation 1970s, Kingstream-Signet and Kingstream-EMC 1990s and Mount Gibson 2002, 2005). Since May 2006, Mount Gibson has conducted a planned programme of infill resource definition drilling to improve the short-term scheduling ability of the operation for a 24-month window.

Several discrete zones of hematite enrichment/mineralisation occur within the three banded iron formation sequences exposed on the Talling Peak leases. Mineralisation is fine to medium grained massive hematite with minor secondary quartz, the hematite having completely replaced the siliceous bands in the original banded iron formation to the extent that the original banding structures are not preserved. The Main Range orebody is wedge-shaped with a fairly flat “top”, dipping 50 to 70 degrees to the north east, approximately 1.2 kilometres long, 150 metres (m) deep, typically 30m (up to 70m) wide in plan.

Main Range ore is of very consistent quality, falling within a grade range of 62 percent to 67 percent Fe. The concentrations of silica (SiO₂), alumina (Al₂O₃) and phosphorous (P) in the ore are generally within penalty levels. The distribution of the impurities appears similarly consistent, with no evidence within the design pits of areas where the levels of contaminants are anomalously high other than the presence of discrete areas of high sulphur footwall contact material. The consistency of the ore is evidenced by the historically low blending requirements on Main Range stockpiles.

A breakdown of Talling Peak’s reserves and resources as at 30 June 2008 is shown below.

Table 2: Talling Peak’s reserves as at 30 June 2008

	Mt	Fe%	SiO₂%	Al₂O₃%	P%
Proved	12.0	62.3	4.57	2.37	0.025
Probable	2.6	58.4	7.69	3.51	0.029
Total Mt/weighted ave. %	14.6	61.6	5.13	2.57	0.026

Source: Mount Gibson’s ASX Announcement dated 8 September 2008

Table 3: Talling Peak’s resources as at 30 June 2008

	Mt	Fe%	SiO₂%	Al₂O₃%	P%
Measured	12.2	63.1	3.98	2.18	0.026
Indicated	3.9	59.3	7.22	3.01	0.053
Inferred	1.1	56.1	12.10	4.67	0.065
Total Mt/weighted ave. %	17.2	61.8	4.95	2.49	0.033

Source: Mount Gibson’s ASX Announcement dated 8 September 2008

Overview of Operations

Talling Peak’s operations include the hematite iron ore mine, crushing and screening process plant, the rail loading facility at Mullewa and the ore storage facilities (owned by Mount Gibson) and loading facilities at the Port of Geraldton. The mine site consists of two starter pits at either end of the main deposit, one satellite pit, crushing and screening plant, workshop, offices and a 196-man accommodation camp.

Mount Gibson manages the Reserves definition, blasting, load and haul, mining and crush screening components of the mining operation with other functions such as blast hole drilling, road haulage, rail transport and ship loading being carried out by contractors. Until August 2006, Talling Peak’s secondary ore source, T5 Open Pit, was mined by a contractor who has since been demobilised and replaced by a large scale owner operated fleet.

Mining is performed utilising conventional large scale truck and hydraulic excavator equipment. Ore mined from the open pit is delivered to designated run of mine (ROM) stockpiles dependent on the grade of the ore being mined and all waste material from within the pit is hauled to the mine waste dump.

The mined ore (located on the various ROM stockpiles) is then fed into a two stage crushing and screening plant located adjacent to the ROM stockpiles by up to two front-end loaders in accordance with a predetermined feed blend ratio to achieve both the shipping grade (iron and contaminant) and the product size specifications nominated in Mount Gibson's product sales contracts.

Product output from the crushing plant is then placed on either the lump ore or fine ore stockpile via movable stacking conveyors. From the lump ore and fine ore stockpiles at the mine, the lump and fines product is transported 70 kilometres south by road to Mount Gibson's purpose-built rail loading facility at Mullewa.

To ensure continuity of rail transport operations Mount Gibson maintains significant stockpiles of both lump and fine ore products at the Mullewa rail loading facility. Ore from the Mullewa stockpiles is loaded by front-end loaders onto rail wagons and then railed by ore train to the Port of Geraldton, where the wagons are unloaded and the material transferred by conveyor to the Company's purpose built 160,000 tonne capacity storage and handling facilities on land leased from the GPA.

From there the ore is loaded by the GPA onto Panamax-sized ships (60,000 dead weight tonnes) for transport to China.

Mining

The Talling Peak operation involves mining from several open pits, which have a life of mine (LOM) strip ratio of 6:1. In its 2008 Annual Report, Mount Gibson stated that beyond the 2008/2009 financial year, Talling Peak's strip ratio declines rapidly which significantly enhances cash flow from the operation.

The design parameters used in the design of the pit and cutbacks have been based on the geotechnical studies undertaken by independent geotechnical consultants, Dempers & Seymour. The final LOM pit footprint designed as at June 2006 is set out in the figure below.

Figure 3: Talling Peak's final LOM pit footprint



Source: Mount Gibson

Assumed cut off mining grade for the Talling Peak mine is 50 percent Fe. Ore with greater than 57 percent Fe is suitable for direct feed to crusher while ore with less than this is directed to the stockpile for blending. Ore feed for crushing is blended with a target grade of 62.5 percent Fe for lump and 60.6 percent Fe for fines.

Production to date has had an approximate lump:fines split of 65:35 and Mount Gibson expects the relative mix to shift towards fines marginally over the remaining life of mine for Talling Peak. Talling Peak ore is of relatively high grade and is low in contaminants, being ore with minimum degradation in handling or decrepitation in the blast furnace. Lump ore is sold at a premium price to fines because fines ore must be sintered before feeding to a blast furnace.

Mining operations at Talling Peak during the September 2008 quarter focused on the stripping of waste material from the T6a3 and T2 cutbacks. The surface area of the T6a3 cutback more than doubled over the most recent September 2008 quarter. High grade ore was sourced from the T2a cutbacks. The focus on stripping waste material was made possible by Talling Peak's significant ore stockpiles located at the Ruvidini rail facility, approximately 3 kilometres west of Mullewa.

Mining activity in the December 2008 quarter is scheduled predominantly in the T2b cutback, which commenced late in the September 2008 quarter. In its 3 November 2008 ASX announcement, Mount Gibson advised that it has deferred the T6b2 cut back at Talling Peak until July 2009.

Production performance for each of the years ended 30 June 2006, 2007 and 2008 and for the three months ended 30 September 2008 for Talling Peak is shown below:

Table 4: Production summary for Talling Peak

Talling Peak	Unit	Year ended 30 June 2006 (000s)	Year ended 30 June 2007 (000s)	Year ended 30 June 2008 (000s)	3 mths ended 30 Sept 2008 (000s)
Mining					
Waste mined	bcm ¹	6,565	9,600	9,989	2,464
Ore mined	wmt	1,122	2,932	3,841	623
Crushing					
Lump	wmt	865	1,645	2,005	487
Fines	wmt	485	1,066	1,359	312
Low grade screen	wmt	258	-	-	-
		1,608	2,711	3,364	799
Transported to Mullewa Railhead					
Lump	wmt	810	1,577	1,858	452
Fines	wmt	487	1,033	1,138	381
		1,297	2,610	2,996	833
Transported to Geraldton Port					
Lump	wmt	832	1,425	1,732	320
Fines	wmt	503	976	753	344
		1,335	2,401	2,485	664
Shipping					
Lump	wmt	889	1,375	1,775	351
Fines	wmt	497	937	793	305
		1,386	2,312	2,568	656

Note 1: Bank cubic metre (bcm)

Source: Mount Gibson's 2006, 2007 and 2008 annual reports and Mount Gibson's September 2008 Quarterly Report

Mining Equipment

Mining at Talling Peak is carried out by conventional open cut techniques. The crushing and screening plant has been designed to produce a lump product of 6.33-31.5 millimetres (mm) and a fines product of less than 6.3mm. The crushing and screening plant has a design capacity of up to 600 tonnes per hour (tph) but has been successfully operated at a rate of 670 tph. The plant incorporates two stages of crushing and multiple double deck vibrating scalping screens.

Transport, Infrastructure and Shipping

Ore is transported by road from Talling Peak to Mullewa and then by rail to Geraldton. The cost of transport by road and rail contribute approximately 20 to 30 percent of the operating costs of the Talling Peak operation.

Mount Gibson uses contractors for road and rail transport under fixed term contracts. Haulage costs are based on contracted rates per tonne which are fixed over the term of the contract subject to agreed rise and fall calculations.

Mount Gibson currently uses the existing narrow gauge railway to transport Talling Peak ore from Mullewa to Geraldton. This line is operated by WestNet Rail Pty Ltd (WestNet) and Mount Gibson pays a fixed rate per tonne access charge. The site at Mullewa includes a 2.5 kilometres rail loop for loading wagons. These facilities are owned by WestNet which recovers its capital cost through the operating charge to Mount Gibson. Front-end loaders are used to load the ore from the stockpiles to the rail wagons.

The locomotives and rolling stock are provided by Australian Railroad Group (a wholly owned subsidiary of Queensland Rail), an accredited rail operator in Western Australia which uses 48 tonne capacity rail wagons. The operator provides two dedicated trains which each complete two round trips per day. The operator's freight rate is a fixed rate per tonne subject to agreed rise and fall calculations.

At the Port of Geraldton, ore is unloaded from the rail trucks by the GPA directly into Mount Gibson's storage shed at Berth 4. The rail unloader, conveyor systems and shiploader are provided by the GPA at contracted rates. Costs payable by Mount Gibson to the GPA are tonnage based and include rail unloading, shipping and Port Enhancement Project (PEP) capital recovery. Approximately \$103 million was spent on the PEP by the GPA to deepen the harbour basin and channel, as well as to upgrade three of the six berths.

The new Berth 5 ship loader was commissioned in January 2008 and Mount Gibson loaded seven ships from the new ship loader during the first quarter of 2008, at an average loading rate 55 percent higher than was previously achieved by using the Berth 4 facilities.

Exploration and capital expenditure

Mount Gibson believes further exploration upside exists at Talling Peak. Exploration will focus on extending the resource and reserve base over the next 2 years at Talling Peak. No new exploration or drilling was undertaken during the September quarter, 2008.

Koolan Island

Background

The Koolan Island hematite iron ore mining operation is located in Yampi Sound, about 1 kilometre off the Kimberley coast of north Western Australia. It is approximately 250 kilometres north east of the regional centre of Broome and 130 kilometres north of Derby.

The orebodies are tabular, high-grade hematite iron ore bodies which historically produced a 30 percent lump, 70 percent fines product. Initial production from established satellite pits has produced approximately 40 percent lump and 60 percent fines product.

Almost 70 Mt of high grade (approximately 67 percent Fe) iron ore was mined by BHP from Koolan Island from 1959 to 1993. Mount Gibson acquired the Koolan Island project as a result of its acquisition of Aztec in February 2007. Aztec acquired the Koolan Island project in 2000 and exploration drilling commenced in February 2004. Mount Gibson's Koolan Island operation involved the reopening and development of the Koolan Island iron ore mine and includes the re-establishment of mining, ore processing facilities and site infrastructure and extension of the mining operation from previous limits.

Geology, Reserves and Resources

The iron ore deposits on Koolan Island are part of the Yampi Sound group of deposits, which include Cockatoo Island. Iron deposits occur in the distinctively iron-rich, early Proterozoic Yampi member of the Pentecost Sandstone, the upper formation of the Kimberley Group. Mineralisation typically occurs at or very close to the contact with the underlying Elgee Siltstone Formation.

Deformation and erosion have produced strike continuous mineralisation on Koolan Island over a distance of 15 kilometres. Five individual deposits have been identified to date, namely Main, Mullet, Acacia, Barramundi and Eastern.

The Koolan operation is centred on the mining of the Main Pit ore body, a high grade, low contaminant hematite ore, with supplementary tonnage of slightly lower grade ore from the other deposits being blended to optimise the recovery of available resources.

A breakdown of Koolan Island's reserves and resources as at 30 June 2008 is shown below.

Table 5: Koolan Island's reserves as at 30 June 2008

	Mt	Fe%	SiO₂%	Al₂O₃%	P%
Proved	1.4	63.2	7.40	1.18	0.020
Probable	27.9	63.7	6.22	1.01	0.016
Total Mt/weighted ave. %	29.4	63.7	6.28	1.02	0.017

Source: Mount Gibson's ASX Announcement dated 8 September 2008

Table 6: Koolan Island's resources as at 30 June 2008

	Mt	Fe%	SiO₂%	Al₂O₃%	P%
Measured	1.5	63.0	7.56	1.191	0.020
Indicated	49.4	62.9	8.06	0.974	0.017
Inferred	18.3	62.6	8.37	0.926	0.017
Total Mt/weighted ave. %	69.1	62.8	8.13	0.966	0.017

Source: Mount Gibson's ASX Announcement dated 8 September 2008

The high Fe percentage, low levels of impurities, particularly after the initial development stage of operation, combined with Koolan Island's proximity to Asian markets and the ability to ship in fully laden Panamax vessels, gives the Koolan Island iron ore products a competitive edge in the long term. Main Pit grade is in excess of 65 percent Fe.

The Koolan Island main pit ore is of premium quality, being high grade with low contaminant levels, although the decrepitation levels are towards the higher end of the normal range for Western Australian ores due to the relative friability of the ore.

Mining

Recommencement of open pit mining and stockpiling of ore on the ROM pad occurred in the December quarter 2006, with the first ore shipments occurring in June 2007. Construction of the shiploader, jetty facilities and crushing and screening plant was completed and commissioned in May 2007 with the first ore shipment taking place in June 2007. Based on an average production rate in the order of 3.5 Mtpa (peaking at a forecast 4.5 Mtpa in the year ended 30 June 2010), existing ore reserves and expected conversion from resources to reserves, production is expected to continue until at least 2018 with potential to increase resources as a consequence of the planned exploration drilling to be undertaken over the next two to three years.

On 13 November 2008, Mount Gibson announced that it had reached in principle agreement with the Dambimangari Native Title Group for exploration of the western iron ore targets at Koolan Island.

In the year ended 30 June 2008, Mount Gibson completed its first full year of production from Koolan Island. Current ore production is from the satellite deposits at Acacia, Mullet and Barramundi. Access to the high grade Main Pit deposit has commenced. In its 3 November 2008 ASX announcement, Mount Gibson advised it has temporarily suspended development activities at the Main Pit of Koolan Island and expects to recommence these in July 2009. This will defer the commencement of ore mining from the Main Pit for a minimum of 6 months. However, sufficient ore is available within Mount Gibson's satellite deposits at Koolan Island to continue producing saleable product during this delay.

Production performance for each of the years ended 30 June 2007 and 2008 and for the three months ended 30 September 2008 for Talling Peak is shown below:

Table 7: Production summary for Koolan Island

Koolan Island	Unit	Year ended 30 June 2007 (000s)	Year ended 30 June 2008 (000s)	3 mths ended 30 Sept 2008 (000s)
Mining				
Waste mined	bcm	1,748	8,529	3,998
Ore mined	wmt	559	3,047	902
Crushing				
Lump	wmt	146	1,291	368
Fines	wmt	128	1,682	609
		274	2,973	977
Shipping				
Lump	wmt	74	1,306	361
Fines	wmt	76	1,594	415
		150	2,900	776

Source: Mount Gibson's 2007 and 2008 annual reports and Mount Gibson's September 2008 Quarterly Report

Infrastructure

All ore crushing, screening and shiploading is subcontracted. The process plant has been designed to crush ROM ore to produce a lump product of 6-32mm and a fines product (less than 6mm) with the ratio of lump to fines production of 30:70.

The crushing plant is a conventional two-stage operation, comprising a double toggle primary crusher and a secondary cone crusher. The secondary crusher is in closed circuit with a double-deck banana vibrating screen which delivers the lump and fines products to the appropriate stockpiles.

The design capacity of the crusher (as well as the ship loader) are such that throughput can be substantially increased to at least 6 Mtpa with minimal additional capital expenditure.

The outloading facility comprises an approach causeway, jetty and ship loader immediately adjacent to the ore processing plant. The ship loader and the associated jetty are located near the entrance to Mangrove Inlet and is designed to load up to Panamax size vessels.

Exploration

A major reverse circulation infill drilling programme continued throughout the September 2008 quarter, with the focus being reducing the drill intersection spacing within the existing resources to 25 metres. Drilling has been predominantly in the Barramundi and Eastern orebodies. The new data generated by the infill drilling is being used to create a new, upgraded resource model which will significantly improve the short term planning and reconciliation capability within the lower grade satellite orebodies at Koolan Island.

Infill resource drilling and resource extension will continue for the rest of the year, particularly in the Acacia-Barramundi and Mullet-Eastern limbs.

Extension Hill

Background

The Extension Hill DSO hematite project is located on Extension Hill in the Mount Gibson Range, 85 kilometres east of Perenjori and 260 kilometres east southeast of Geraldton.

The Company completed a Definitive Feasibility Study (DFS) in August 2007, which confirmed that a 3 Mtpa hematite mining operation at Extension Hill would generate strong financial returns. Environmental approval has been received and construction of port and mine facilities has commenced. First ore shipments are now expected in the June 2010 quarter.

The mining operation is expected to produce direct shipping grade hematite-goethite-limonite ore. 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.

The product will be 50 percent lump and 50 percent fines with grades tailored to customer requirements, expected by the Company to be in the order of 61 percent Fe for lump and 59 percent Fe for fines. At the forecast production rate of 3.0 Mtpa (peaking at a forecast 3.4 Mtpa in the years ended 30 June 2013 and 2014,

and based on existing ore reserves, the mine is expected to have a life of approximately six years assuming the current resource is converted to reserve with further drilling.

Extension Hill is part of a ridge of banded iron formations within the Mount Gibson ranges that contain a shallow, flat, hematite cap overlaying a magnetite resource. Mount Gibson acquired its interest in the Extension Hill asset in 2002 from Resource Equities Ltd, a pooled development fund that originally owned the Extension Hill magnetite deposit. Between 2003 and 2006, Mount Gibson carried out further drilling and exploration to delineate the asset.

Mount Gibson sold its rights to the magnetite deposit underlying the hematite deposit to Sinom in 2006. Mount Gibson and Sinom have entered into an agreement governing coordination of development of each of the hematite and magnetite orebodies.

State Government environmental approval for the hematite project to proceed was finalised during September 2007. Commonwealth Government approval for the project was received during December 2007. In October 2008, the Company announced it had received final Environmental Approval of Management Plans for the project from the Federal Government's Department of Environment, Water, Heritage and the Arts. Federal approval of Management Plans was the final environmental approval required prior to the commencement of ground disturbing activities.

The commencement of operations at Extension Hill was originally scheduled 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 GPA to construct. In its ASX announcement on 3 November 2008, Mount Gibson stated that some construction activities at Extension Hill will be deferred, whilst commencement of ore production has been rescheduled to the March quarter, 2010. All contracts with key suppliers have been retained and no material delay penalties are expected to be incurred.

Ore mined from Extension Hill will be crushed and screened on site, transported by sealed road 85 kilometres to Perenjori and loaded onto rail wagons for a 235 kilometres journey to the Geraldton Port. Ore will be stored at the Geraldton Port in Mount Gibson's new ore storage facilities to be constructed adjacent to the new GPA Berth 5 iron ore ship loading facility and then loaded onto Panamax-sized ore carriers for export.

Geology, Reserves and Resources

A breakdown of Mount Gibson's Extension Hill hematite reserves and resources as at 30 June 2008 is shown below.

Table 8: Mount Gibson's Extension Hill reserves as at 30 June 2008

	Mt	Fe%	SiO₂%	Al₂O₃%	P%
Proved	-	-	-	-	-
Probable	12.8	60.3	5.48	1.64	0.062

Source: Mount Gibson's ASX Announcement dated 8 September 2008

Table 9: Mount Gibson's Extension Hill resources as at 30 June 2008

	Mt	Fe%	SiO₂%	Al₂O₃%	P%
Measured	-	-	-	-	-
Indicated	12.8	60.0	5.36	1.75	0.064
Inferred	6.7	59.6	6.76	1.77	0.056
Total Mt/weighted ave. %	19.5	59.9	5.84	1.76	0.060

Source: Mount Gibson's ASX Announcement dated 8 September 2008

Ore from Extension Hill covers a wider range of material types than those encountered at Talling Peak, due to the differing, and variable, deposit genesis and mineralogy. Contaminant levels are generally low and the very low waste to ore ratio means that mining in several different parts of the deposit can occur simultaneously. Mount Gibson believes this flexibility in production scheduling will allow in-pit blending to minimise variations in grades and lump/fine ratios.

Proposed Mining Methodology

The mining method proposed for Extension Hill will be a conventional open cut drill and blast, load and haul hydraulic excavator operation, which is standard for most Australian iron ore mining operations and the same as those at the Talling Peak operation.

Ore will be delivered by truck to the ROM ore stockpile of up to 250,000 tonnes for rehandling and blending into the crusher by a front-end loader. Wherever possible, blending will be done from the pit, by mining the appropriate material types in the correct proportions thereby minimising rehandling requirements.

The pits will not require dewatering, as the standing watertable is about 20 metres below the proposed final pit base.

Infrastructure

Ore processing and transport

Mount Gibson proposes to construct and operate a 3.0 Mtpa crushing and screening plant at the Extension Hill DSO operation.

The transportation of product from the mine site to Geraldton Port is the major contributor to the capital and operating costs of the project. Ore will be transported 85 kilometres by road from the mine site east of the Great Northern Highway, to a train loading facility adjacent to the Wubin-Mullewa Road, 2 kilometres southeast of Perenjori.

To ensure a reliable, all weather operating surface for the safe haulage of 3.0 Mtpa of product on a road also open to public use, the Perenjori haul road will be upgraded at a cost of approximately \$15.7 million.

Similar to Talling Peak, Mount Gibson will use contractors for this road transport with haulage costs based on contracted rates per tonne.

Capital Expenditure

The estimated nominal capital cost of the Extension Hill development according to Mount Gibson is approximately \$110 million, of which approximately \$25 million has already been spent.

Exploration

No exploration work has been conducted at Extension Hill since March 2006 while processes related to environmental and other statutory approvals were underway. In its 2008 Annual Report, the Company stated that significant, and ongoing, resource definition and extensional drilling programmes were planned to commence once statutory approvals authorising site access was received.

6.4 Financial performance

Mount Gibson's historical audited consolidated financial results for each of the two years ended 30 June 2007 and 2008 and historical unaudited financial result for the three months ended 30 September 2008 are summarised in the table below.

Table 10: Summary of Mount Gibson's historical consolidated financial performance

	Audited Year ended 30 June 2007 \$000	Audited Year ended 30 June 2008 \$000	Unaudited 3 mths ended 30 Sept 2008 \$000
Revenue from sale of ore	156,020	409,349	162,282
Realised gain on foreign exchange hedges	6,728	23,325	4,639
Cost of sales	(108,955)	(244,635)	(73,010)
Gross profit	53,793	188,039	93,911
Other income ¹	2,805	3,881	2,100
Administrative expenses	(13,020)	(15,030)	(5,791)
Exploration expenditure written off	(8)	(38)	-
Impairment of available-for-sale financial assets	(1,506)	-	-
EBIT	42,064	176,852	90,220
Net financing revenue/(expense)	189	(12,995)	(3,246)
Profit before income tax	42,253	163,857	86,974
Income tax expense	(13,209)	(50,513)	(26,588)
Net profit after tax	29,044	113,344	60,386
Profit from discontinued operations after income tax	18,721	-	-
Net profit after tax attributable to members of the Company	47,765	113,344	60,386
Revenue growth ² - %	112.6%	162.4%	n/a ⁵
EBIT margin ³ - %	27.0%	43.2%	55.6%
NPAT margin ³ - %	18.6%	27.7%	37.2%
Basic earnings per share – cents ⁴	7.5	14.3	7.5
Closing share price - \$	1.34	3.12	1.64
<i>Notes</i>			
1 Other income excludes interest revenue			

	Audited Year ended 30 June 2007 \$000	Audited Year ended 30 June 2008 \$000	Unaudited 3 mths ended 30 Sept 2008 \$000
2	Revenue growth relates to revenue from sale of ore		
3	EBIT is earnings from continuing operations before net interest and tax. NPAT is net profit after tax. EBIT margin is calculated as EBIT divided by revenue from sale of ore. NPAT margin is calculated as NPAT divided by revenue from sale of ore		
4	Basic earnings per share for the three months ended 30 September 2008 is based on the number of shares on issue as at 30 September 2008		
5	n/a means not applicable as revenue from sale of ore is for three months only (and not for an entire 12 month period).		

Source: Mount Gibson's 2007 and 2008 annual reports, Mount Gibson's September 2008 management accounts and KPMG analysis

Observations in relation to Mount Gibson's historical financial performance are set out below:

Year ended 30 June 2007

- Mount Gibson achieved a net profit after tax from continuing operations of approximately \$29.0 million, compared to approximately \$21.6 million in the prior year, an increase of approximately 34 percent. We note that the total net profit after tax including the sale of discontinued operations for the year ended 30 June 2007 was \$47.8 million.
- Revenue from the sale of ore increased by approximately \$82.6 million or 113 percent to approximately \$156.0 million. Shipments were up 78 percent on the previous year. The benchmark price for iron ore, both lump and fines, increased by 19 percent for the contract year commencing 1 April 2006 and a further price increase of 9.5 percent for the contract year commencing 1 April 2007.
- On 17 November 2006, Mount Gibson sold its 73 percent interest in Asia Holdings Ltd (Asia Iron) to Sinom. The profit from these discontinued operations was \$18.7 million in the year ended 30 June 2007.
- On 24 July 2006, Mount Gibson announced its intention to acquire Aztec. The Company gained effective control of Aztec on 30 November 2006 and completed compulsory acquisition of the remaining Aztec shares on 9 February 2007.

Year ended 30 June 2008

- Mount Gibson achieved a record net profit after tax of approximately \$113.3 million, an increase of approximately \$65.5 million or 137 percent on the prior year.
- The earnings increase was primarily due to record sales revenue from ore of approximately \$409.3 million. The following contributed to the increased sales revenue:
 - ore production up 97 percent to 6.9 Mt. Contributing to this was Koolan Island production ramping up and the project completing its first full year of production
 - record iron ore shipments, an increase of 122 percent on the previous year

- the increase in benchmark prices for iron ore, with lump prices increasing by 96.5 percent and fines prices increasing by 79.9 percent, effective from 1 April 2008.
- Interest expense increased significantly due to Mount Gibson drawing down on a debt facility arranged by HSBC Australia Ltd (HSBC) and National Australia Bank Ltd (NAB) to 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.
- In its 2008 Annual Report, Mount Gibson stated that it achieved the strong results within a challenging environment – both regional and industry-wide – with increased pressure on input costs, onerous contractual obligations, scarcity of intellectual and human capital, infrastructure constraints in the Mid West and a debilitating State mining approvals process.

Three months ended 30 September 2008

- The first quarter results reflect continued strong operational performance and strong iron ore sales, underpinned by record benchmark prices for iron ore, which took effect from 1 April 2008. Although the company performed strongly for the first quarter there was not a corresponding increase in net assets which can be largely attributed to a negative movement in the fair value of the cash flow hedges. This movement in the cash flow hedge was principally charged to equity rather than recognised in the profit and loss in accordance with accounting policy applied by Mount Gibson.

6.5 Financial position

Mount Gibson's historical audited consolidated net assets as at each of 30 June 2007 and 2008 and its unaudited consolidated net assets as at 30 September 2008 are summarised below

Table 11: Summary of Mount Gibson's historical consolidated financial position

	Audited 30 June 2007 \$000	Audited 30 June 2008 \$000	Unaudited 30 Sept 2008 \$000
Cash and cash equivalents	60,798	48,658	126,588
Trade & other receivables	9,848	83,436	45,078
Inventories	34,581	71,448	91,306
Prepayments	1,049	1,570	4,174
Derivative financial assets	5,065	25,161	385
Total current assets	111,341	230,273	267,531
Receivables	-	1,000	-
Available for sale financial assets	1,805	1,113	1,487
Property, plant and equipment	187,768	188,497	240,683
Deferred acquisition, exploration, evaluation and development costs	9,027	25,919	37,756
Mine properties	370,684	447,235	431,972
Deferred income tax assets	11,875	-	-
Total non-current assets	581,159	663,764	711,898
TOTAL ASSETS	692,500	894,037	979,429
Trade & other payables	64,314	73,406	72,349

	Audited 30 June 2007 \$000	Audited 30 June 2008 \$000	Unaudited 30 Sept 2008 \$000
Interest-bearing loans & borrowings	98,754	12,415	15,566
Derivative financial liabilities	-	342	62,247
Provisions	1,172	1,880	2,383
Total current liabilities	164,240	88,043	152,545
Provisions	18,470	19,112	19,120
Interest-bearing loans & borrowings	55,481	145,858	164,319
Deferred income tax liabilities	-	44,532	71,120
Total non-current liabilities	73,951	209,502	254,559
TOTAL LIABILITIES	238,191	297,545	407,104
NET ASSETS	454,309	596,492	572,325
Number of shares on issue – 000s	787,787	803,841	804,256
<i>Net asset backing per share - \$</i>	<i>0.58</i>	<i>0.74</i>	<i>0.71</i>

Source: Mount Gibson's 2007 and 2008 annual reports, Mount Gibson's September 2008 management accounts and KPMG analysis

We make the following observations in relation to Mount Gibson's historical financial position as at 30 September 2008:

- The significant net increase in cash and cash equivalents over the three months to 30 September 2008 reflects principally:
 - receipt of \$55 million in debtors as at 30 June 2008
 - the operating result for the months July to September 2008.
- Trade and other receivables comprises principally trade receivables of approximately \$38 million plus other receivables including GST receivable. Trade receivables includes an amount of \$4.6 million which is currently in dispute. Mount Gibson is confident of recovery of this amount in full.
- Derivative financial liabilities includes:
 - the fair value of foreign exchange contracts. In this regard, a mark-to-market valuation of Mount Gibson's Australian dollar (AUD) to United States dollar (USD) hedge book was calculated by Oakvale Capital Limited (Oakvale) as at 30 September 2008. Further details on Mount Gibson's hedge book is discussed at section 6.7 below.
 - an amount in relation to Mount Gibson's exposure in respect of interest rate swaps.
- Derivative financial assets relates to the reverse side of the fair value of interest rate swaps both of which will be unwound over their life.
- Interest bearing loans and borrowing consists of approximately \$105 million corporate debt (in relation to the HSBC and NAB debt facility referred to at section 6.4 above) and the balance relates to finance lease

liabilities and hire purchase arrangements. In addition, Mount Gibson has drawn \$24.7 million in performance bonds under this facility.

6.6 Summary of cash flow statements

Mount Gibson's audited consolidated cash flows for each of the two years ended 30 June 2007 and 2008 are summarised below.

Table 12: Summary of Mount Gibson's historical cash flow statements

	Audited Year ended 30 June 2007 \$000	Audited Year ended 30 June 2008 \$000
Cash flows from operating activities		
Receipts from customers	154,441	357,139
Payments to suppliers and employees	(144,931)	(299,319)
Interest paid	(6,420)	(12,067)
Net cash flows provided by operating activities	3,090	45,753
Cash flows from investing activities		
Interest received	2,644	2,410
Proceeds from disposal of controlled entity, net of cash disposed	50,354	-
Payment for costs associated with acquisition of controlled entity	-	(14,131)
Net cash acquired on acquisition of controlled entity	3,652	-
Proceeds from sale of property, plant and equipment	3,767	684
Purchase of property, plant and equipment	(36,834)	(19,118)
Payment for deferred exploration and evaluation expenditure	(4,578)	(14,911)
Payment for mine properties	(37,594)	(18,102)
Proceeds from disposal of / (purchase of) available-for-sale financial assets	295	(168)
Purchase of convertible note receivable	-	(1,000)
Loans from/(to) other entities	(280)	236
Net cash flows used in investing activities	(18,574)	(64,100)
Cash flows from financing activities		
Proceeds from issue of ordinary shares	2,010	10,367
Proceeds from borrowings	73,404	105,000
Repayment of lease liabilities	(6,529)	(17,057)
Repayment of borrowings	-	(87,095)
Payment of borrowing costs	-	(5,008)
Net cash flows provided by financing activities	68,885	6,207
Net increase/(decrease) in cash held	53,401	(12,140)
Cash and cash equivalents at the beginning of the year	7,397	60,798
Cash and cash equivalents at the end of the period	60,798	48,658

Source: Mount Gibson's 2007 and 2008 annual reports

6.7 Hedging arrangements

Foreign currency hedges

Mount Gibson is exposed to the risk of adverse movement in the AUD compared to the USD as its iron ore sales receipts are denominated in USD. Mount Gibson 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 and bank mandated hedging requirements. 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 Island are denominated in USD.

Mount Gibson uses the following derivative instruments to manage foreign currency risk as set out in the table below.

Table 13: Summary of Mount Gibson's derivative financial instruments

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

Source: Mount Gibson's 2008 annual report

Consistent with both the company policies and minimum bank mandated hedging requirements, Mount Gibson has entered into foreign exchange forward contracts to cover approximately 40 percent of its budgeted USD exposure for forecast US dollar sales over the combined 2009 and 2010 financial years.

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

- US\$375 million at an average rate of AUD:USD 0.8824 due to expire in the 2008/2009 financial year
- US\$185 million at an average rate of AUD:USD 0.8109 due to expire in the 2009/2010 financial year.

In its 3 November 2008 ASX announcement, Mount Gibson stated that its 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 should these foreign exchange hedges not be rolled.

Interest rate hedges

Mount Gibson's exposure to market interest rates relates primarily to its long-term debt obligations.

Mount Gibson's policy is to manage its interest costs using a mix of fixed and variable rate debt, and to keep 70 percent of its borrowings at fixed rates of interest. The Company has entered into interest rate swaps, in which the Company 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

In order to protect against rising interest rates, the Company has entered into interest rate swap contracts under which it has a right to pay fixed interest at fixed rates. Swaps in place cover approximately 71 percent of the principal outstanding and will expire on 30 June 2010. The fixed interest rates range between approximately 7.0 percent and 8.1 percent and the variable rate is 1.5 percent above the 90 day bank bill rate.

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 effective. They are settled on a net basis.

6.8 Taxation

The Company and its 100 percent 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. The head entity of the tax consolidated group is Mount Gibson Iron Limited.

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 Ltd. The nature of the tax funding agreement is such that no tax consolidation contributions by or distributions to equity participants are required.

Revenue tax losses

As at 30 June 2008, Mount Gibson's management estimated that the Company had tax losses of approximately \$177 million representing a potential future income tax benefit of approximately \$53 million which has been recognised as an asset for accounting purposes.

Capital tax losses

In its tax return for the year ended 30 June 2007, Mount Gibson had capital tax losses of approximately \$0.5 million. Mount Gibson management has advised there is no material change expected to this amount. No

foreseeable taxable capital gains are expected by the Company to be realised, against which these capital tax losses could be absorbed.

6.9 Franking credits

Mount Gibson has advised it currently has no franking credits available to it.

6.10 Contingent liabilities

The corporate debt banks have provided a controlled entity subsidiary with performance bonds totalling \$24.7 million relating to performance of environmental obligations and rail upgrades.

6.11 Share capital and ownership

As at 31 October 2008, Mount Gibson had on issue 804,355,821 ordinary fully paid shares, which are quoted on ASX. Mount Gibson's top ten shareholders as at 31 October 2008 were:

Table 14: Mount Gibson's top 10 beneficial shareholders

	Number of shares held 000s	% of issued capital
Fortune Desire Investments Ltd	126,270	15.7%
Net Success Investments Ltd	35,060	4.4%
AMP Capital Investors	32,077	4.0%
Barclays (Institutional Group)	31,866	4.0%
Perpetual Investments Ltd	21,927	2.7%
Macquarie (Institutional Group)	21,030	2.6%
Queensland Investment Corporation	16,160	2.0%
State Street Global Advisors (Institutional Group)	14,497	1.8%
Katong Assets Ltd	12,467	1.5%
Pictet & Cie	11,935	1.5%
Total number of shares held by the top 10 shareholders	323,289	40.2%
Other shareholders	481,067	59.8%
Total number of shares on issue	804,356	100.0%

Source: Mount Gibson

Substantial shareholder notices have been received by Mount Gibson as set out below.

Table 15: Substantial shareholders

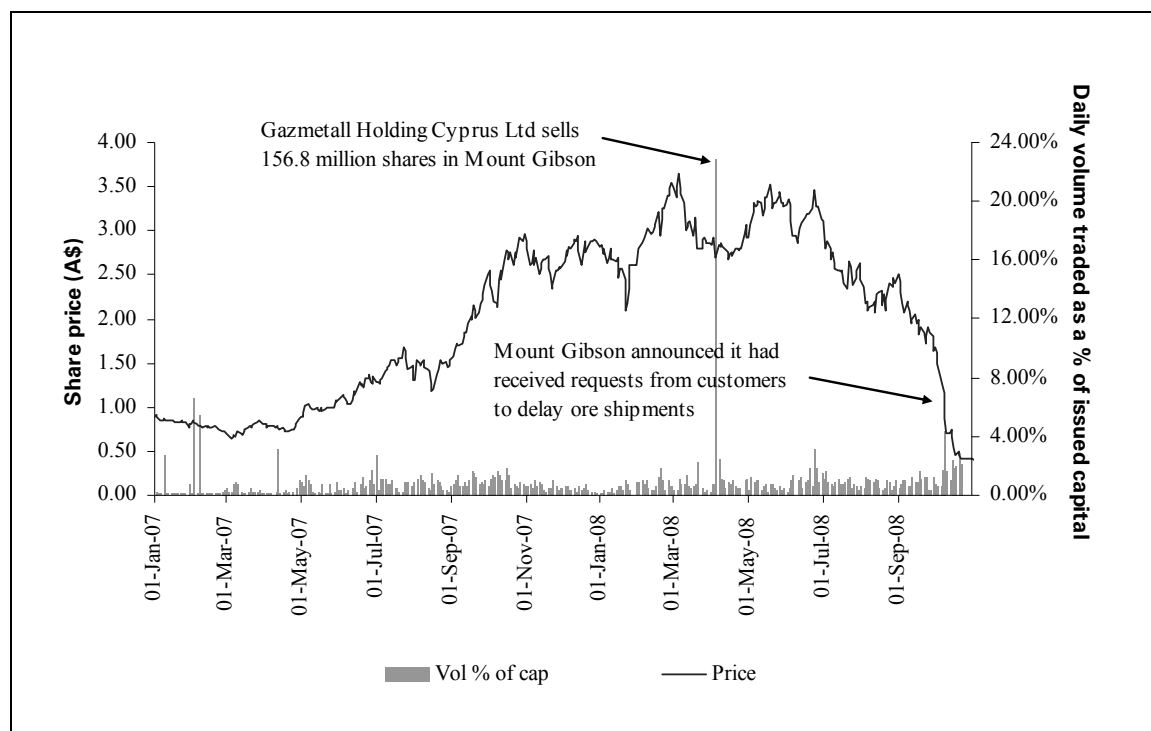
	Number of shares held 000s	% of issued capital
APAC Resources Ltd ^{1,2}	164,148	20.41%
<i>Notes</i>		
1 The substantial shareholding held in the names of APAC Resources Ltd, Fortune Desire Investments Ltd and other subsidiaries of APAC Resources Ltd.		
2 The ASX notice disclosed 160.8 million shares however Mount Gibson has advised that the total shares held by APAC is current 164.1 million as APAC have acquired shares since this notice.		

Source: Substantial shareholder notices lodged with ASX and Mount Gibson

6.12 Share price history

The chart below depicts Mount Gibson's daily closing share price since 1 January 2007 to the day prior to the announcement of the Proposed Transaction on 3 November 2008, along with the daily volume of shares traded expressed as a percentage of issued capital.

Figure 4: Mount Gibson's share price and volume trading history



Source: Bloomberg

From April 2007 to May 2008, Mount Gibson's share price exhibited significant, albeit volatile, growth. However, from June 2008 until the announcement of the Proposed Transaction on 3 November 2008, Mount Gibson's share price has decreased significantly. Since the announcement of the Proposed Transaction, Mount Gibson's shares have closed between \$0.21 on 20 November 2008 and \$0.47 on 5 November 2008. The closing price of a Mount Gibson share on the day prior to the date of this report was \$0.21.

Significant announcements made by Mount Gibson in the six months prior to the announcement of the Proposed Transaction that may have had an impact on its share price include:

- 9 October 2008 – Mount Gibson announced it had received requests from a number of its customers to delay hematite ore shipments scheduled for the second quarter of the financial year. Mount Gibson also announced it had received final Environmental Approval of Management Plans for its Extension Hill project.
- 30 September 2008 – Mount Gibson responded to recent takeover speculation in the financial press and confirmed that it was not involved in any discussions with, nor was it aware of any approach having been made by, any parties concerning a takeover of Mount Gibson.

- 8 September 2008 – Mount Gibson announced its mineral resources and ore reserves statement as at 30 June 2008.
- 11 August 2008 – Mount Gibson released its preliminary final report for the year ended 30 June 2008. This showed a 137 percent increase in net profit after tax to \$113.3 million from the previous corresponding period.
- 21 July 2008 – Mount Gibson released its quarterly report for the period ended 30 June 2008. This showed a record full year net profit after tax (unaudited) of \$113.3 million, up 137 percent on the corresponding period last year.
- 9 July 2008 – Mount Gibson provided an update to the announcement made on 27 June 2008 regarding the Koolan Main Pit extensional drill programme.
- 27 June 2008 – Mount Gibson announced the initial results from Koolan Main Pit extensional drill program testing down-dip extent of the Main Pit and Acacia hematite surface.
- 24 June 2008 – Mount Gibson announced that following the announcement by Rio Tinto Ltd that Hamersley Iron had reached agreement with China's Baosteel on the price for Hamersley lump and fines ores for the contract year commencing 1 April 2008, the Company would be notifying existing long term iron ore contract customers that lump and fine ore prices would increase to 201.69 US cents per dmtu and 144.66 US cents per dmtu respectively, effective 1 April 2008.
- 4 April 2008 – Mount Gibson announced it has been informed by Merrill Lynch International (Australia) Ltd that it has sold all of Gazmetall Holding Cyprus Ltd's (Gazmetall) 156.8 million shares in Mount Gibson (representing approximately 19.5 percent of Mount Gibson's issued capital) at \$2.65 per share to existing and new institutional shareholders. Gazmetall mandated Merrill Lynch to sell the shares by way of an institutional bookbuild.
- 1 April 2008 – The Takeovers Panel made a declaration of unacceptable circumstances in relation to the conditional sale of 77.4 million shares in Mount Gibson by Gazmetall to Shougang Concord and the granting of an option by Gazmetall to Shougang Concord to acquire a further 79.3 million shares in Mount Gibson.

6.13 Liquidity History

An analysis of the volume of trading in Mount Gibson's shares in the 12-month period to the last trading day prior to the announcement of the Proposed Transaction on 3 November 2008 is set out below.

Table 16: Trading liquidity in Mount Gibson's shares pre-announcement

Period up to and including 31 October 2008	Closing share price (low) \$	Closing share price (high) \$	VWAP \$	Cumulative volume 000s	As a % of issued capital
1 week ¹	-	-	-	0	0.0%
1 month	0.41	1.67	0.80	199,130	24.8%
3 months	0.41	2.50	1.53	451,836	56.2%
6 months	0.41	3.53	2.24	857,440	106.6%
12 months	0.41	3.65	2.49	1,431,649	178.7%
<i>Note1. Mount Gibson was in a trading halt from 23 October 2008</i>					

Source: IRESS

Mount Gibson's shares have exhibited relatively high liquidity in recent times with 106.6 percent of shares on issue being traded over the six months prior to announcement of the Proposed Transaction.

The table above excludes Gazmetall's sale of 156.8 million shares in Mount Gibson on 4 April 2008. If the impact of this transaction is included we note that the percentage of issued capital traded over the preceding 12 months increases from 178.7 percent to 198.2 percent.

An analysis of the volume of trading in Mount Gibson's shares in the period from 3 November 2008 (inclusive) to the day prior to the date of this report is set out below.

Table 17: Trading liquidity in Mount Gibson's shares post announcement

Period from 3 November 2008 to 20 November 2008	Closing share price (low) \$	Closing share price (high) \$	VWAP \$	Cumulative volume 000s	As a % of issued capital
14 trading days	0.21	0.47	0.39	299,939	37.29%

Source: IRESS

6.14 Options over unissued shares

As at 20 November 2008, there were approximately 9.0 million options over unissued shares in Mount Gibson on issue. These options were issued pursuant to Mount Gibson's Directors, Officers, Employees and Other Permitted Persons Option Plan and have various expiry dates and exercise prices as shown in the table below.

Table 18 – Mount Gibson's options

Number of options 000s	Exercise price	Exercise date
100	\$0.55	On or before 31 December 2008
2,000	\$0.90	On or before 30 June 2010
3,000	\$0.90	On or before 24 October 2010
2,000	\$1.10	On or before 24 October 2012
250	\$0.78	On or before 31 December 2009
1,681	\$0.89	On or before 31 December 2009
9,031		

Source: Mount Gibson management

In addition, as at 30 June 2008, there was 8,475,000 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.

7 Profile of APAC

7.1 Corporate Background

APAC listed on the HKSE on 29 December 1998. APAC is an investment holding company principally focused on the trading of base metals, commodities, fabric products and other merchandises, and has a trading portfolio of listed securities and investments in the resources and related industries. APAC is incorporated in Bermuda.

7.2 Operations

APAC underwent a management restructure during 2007. This has enabled the company to develop a new business around trading in iron ore. APAC's business of trading and investing in resource related businesses focuses on the following strategies:

- attracting small to mid-sized People's Republic of China (PRC) steel mills to become strategic shareholders in APAC and consolidating their demand for resources
- securing long term iron ore off-take for the small to mid-sized PRC steel mills
- creating a direct and efficient platform for small to mid-sized PRC steel mills to trade and invest in overseas resources
- identifying quality investments in the resources related sectors and investment in resources assets either through corporate investments or direct project interests.

Base metals trading business

While the development of long term planning for the establishment and expansion of business in the resources industry was in process, APAC temporarily suspended trading in base metals in 2007. Trading was resumed in the six months ended 30 June 2008, in which revenues from the sales of base metals of HK\$170.2 million were derived.

Fabric products and other merchandises trading business

Due to intense competition and a dim outlook for fabric products and other merchandises, APAC wound down its operations in these sectors during the year ended 31 December 2007.

Listed securities trading and investment business

During the year ended 31 December 2007, APAC further invested in resources related securities to capitalise on the promising outlook for the resources industry and the booming securities markets in the Asia Pacific region.

During the six months ended 30 June 2008, APAC achieved a gain on the disposal of available-for-sale investments and trading securities of HK\$57.6 million and an unrealised on trading securities of HK\$258.8 million.

Acquisitions completed during 2007 included, inter alia:

- Approximately 126.3 million shares in Mount Gibson, representing approximately 15.92 percent of the issued share capital of Mount Gibson as at 31 December 2007, for an aggregate consideration of approximately HK\$825.5 million. Since this acquisition, further acquisitions have been made and APAC interest in Mount Gibson is now approximately 20.41 percent as disclosed in section 6.11 of this report.
- 28.0 million shares and 14.0 million options in Australasian Resources Limited (ARH) representing approximately 7.29 percent of the issued share capital of ARH as at 22 March 2007, for an aggregate consideration of approximately HK\$174.8 million. Subsequent to this initial purchase, APAC's shareholding in ARH decreased to 5.60 percent as at 31 December 2007 due to APAC's decision to partially realise its investment in ARH. ARH's principal activity is mineral exploration with its main assets being the Balmoral South Iron Ore Project and Sherlock Bay Nickel Project in the Pilbara region of Western Australia
- Approximately 862.9 million shares in China Primary Resources Holdings Limited (CPR) representing approximately 11.54 percent of the issued share capital of CPR as at 31 December 2007. The acquisition was completed on 14 November 2007 and was settled by way of issue of approximately 287.6 million new shares to APAC. CPR's principal activities involve the trading of fibreglass reinforced plastic pipes (FRP Pipes), raw materials and composite materials and production of FRP Pipes and polyethylene pipes in the PRC. Furthermore, CPR is a party of a joint venture company engaging principally in mine prospecting and mining of metal and minerals, processing, sale, export and import of mining by-products.

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 the ASX, at the price of A\$0.30 per share. The gross consideration was approximately \$41,700,000.

On 16 July 2008, APAC announced that its wholly-owned subsidiary, APAC Resources Investments Ltd (ARI), entered into a conditional sale and purchase agreement with Leaping Far Investments Ltd (Leaping Far) 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 Ltd (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 million. The consideration will be satisfied as to:

- HK\$600 million by cash
- HK\$600 million by allotting and issuing a total of 600 million new ordinary shares of APAC at HK\$1.00 per share as fully paid, to Leaping Far on completion.

The acquisition was terminated on 3 October 2008.

7.3 Financial performance

APAC's audited historical consolidated financial results for the three years ended 31 December 2005, 2006 and 2007 and reviewed historical consolidated financial results for the six months ended 30 June 2008 are summarised below.

Table 19: Summary of APAC's historical financial performance

	Audited Year ended 31 Dec 2005 HK\$000	Audited Year ended 31 Dec 2006 HK\$000	Audited Year ended 31 Dec 2007 HK\$000	Reviewed 6 mths ended 30 Jun 2008 HK\$000
Revenue from sales of base metals	44,937	5,788	-	170,215
Revenue from sales of fabric products and other merchandises	23,456	14,132	24,751	-
Cost of sales/purchases	(66,113)	(19,568)	(24,055)	(162,538)
Gross profit	2,280	352	696	7,677
Gain on disposal of a subsidiary	-	-	1,536	-
Gain on disposal of available-for-sale investments and trading securities	-	910	19,646	57,567
Unrealised gain on trading securities	-	38,743	566,796	258,773
Other income	314	419	80	4,704
Equity-settled share option expenses	-	-	(214,889)	(36,637)
Credit arising from a scheme of arrangement with creditors	15,421	-	-	-
Administrative and other expenses	(9,892)	(11,116)	(31,303)	(21,280)
Impairment of goodwill	-	(3,116)	-	-
Provision for doubtful debt for other receivables	-	-	-	(17,025)
Finance costs	(1,584)	(972)	2,751	5,244
Profit before taxation	6,539	25,220	345,313	259,023
Income tax expense	(38)	(238)	-	(521)
Net profit after tax	6,501	24,982	345,313	258,502
Revenue growth, ^{1,3} - %	206.6%	(70.9)%	24.3%	n/a ⁴
NPAT margin ^{2,3} - %	9.5%	125.4%	1395.2%	151.9%
Basic earnings per share – HK cents	1.6	3.1	9.8	5.5
Closing share price – HK cents	26.0	30.0	144.0	88.0
Notes:				
1 Revenue growth relates to revenue from sales of base metals and from sales of fabric products				
2 NPAT is net profit after tax. NPAT margin is calculated as NPAT divided by revenue from sales of base metals and sales of fabric products and other merchandises				
3 Revenue growth and NPAT margin do not include as revenue the gains in relation to available-for-sales investments and trading securities				
4 n/a means not applicable as revenue is for six months only (an not for an entire 12 month period).				

Source: APAC's 2005, 2006 and 2007 Annual Reports and APAC's 2008 Interim Report

Observations in relation to APAC's historical financial performance are set out below:

Year ended 31 December 2005

- Turnover increased by approximately 206.6 percent. This increase was a result of trading in base metals revenue increasing by approximately 232.3 percent from approximately HK\$13.5 million in 2004 to approximately HK\$44.9 million in 2005. Following the resumption of the base metals trading business during 2005, APAC scaled up operations in this business segment during 2005. Trading in fabric products and other merchandises also contributed to the increase in turnover, increasing approximately 167.1 percent in 2005 from approximately HK\$8.8 million in 2004 to approximately HK\$23.5 million in 2005. APAC's management was actively looking to expand the operations of this business segment under the constraints of available working capital.

Year ended 31 December 2006

- Turnover decreased by approximately 67.2 percent from approximately HK\$68.4 million in 2005 to approximately HK\$22.8 million in 2006. This decrease was mainly due to intense competition which drove profitability downward in both the base metals and fabric products and other merchandises business segments.
- APAC commenced its securities trading and investment activities in order to diversify its sources of income and enhance return on its capital.

Year ended 31 December 2007

- APAC temporarily suspended trading in base metals while it developed a long term plan for the establishment and expansion of business in the resources industry.
- APAC's profits for the fabric products and other merchandise business segment were only minimal during 2007. Due to intense competition and the APAC's dim outlook within this market, APAC wound down operations in this business segment.
- For the business of securities trading and investment, APAC recorded a gain on disposal of available-for-sale investments and trading securities of HK\$19.6 million and an unrealised gain on trading securities of HK\$566.8 million. APAC stated that it invested in resources related securities in 2007 in order to strengthen its securities trading portfolio and to enhance shareholder returns.
- The securities trading and investment was funded by the rights issue and placements mentioned in more detail at section 7.4 below.

Six months ended 30 June 2008

- For the six months ended 30 June 2008, net profit attributable to shareholders was HK\$258.5 million as compared with HK\$142.1 million for the corresponding period of 2007.
- The substantial improvement in financial result was mainly due to the realised gain from sale of trading securities and unrealised gain on trading securities. During the period, APAC continued to maintain long-term investments in shares in Mount Gibson, ARH and CPR.

7.4 Financial position

APAC's audited historical consolidated net assets as at 31 December 2005, 2006 and 2007 and reviewed historical consolidated net assets as at 30 June 2008 are summarised below.

Table 20: Summary of APAC's historical balance sheets

	Audited 31 Dec 2005 HK\$000	Audited 31 Dec 2006 HK\$000	Audited 31 Dec 2007 HK\$000	Reviewed 30 Jun 2008 HK\$000
Cash and cash equivalents	1,465	12,282	694,945	329,877
Pledged bank deposits	4,012	10,098	10,526	88,979
Trading securities	-	227,039	814,957	1,437,784
Trade and other receivables	37,526	8,460	233,296	231,008
Inventories	-	1,494	-	-
Current assets	43,003	259,373	1,753,724	2,087,648
Available-for-sale investment	-	-	2,993,426	3,250,341
Deposit for acquisition of available-for-sale investment	-	20,000	-	-
Property, plant and equipment	-	-	2,198	1,977
Non-current assets	-	20,000	2,995,624	3,252,318
Trade and other payables	6,053	7,585	9,018	9,603
Margin financing	-	141,612	1,797	-
Secured other loans	15,000	-	-	-
Income tax payable	69	200	237	758
Current liabilities	21,122	149,397	11,052	10,361
Net assets	21,881	129,976	4,738,296	5,329,605
Share capital	41,300	125,900	472,629	472,657
Reserves	(19,419)	4,076	4,265,667	4,856,948
Equity	21,881	129,976	4,738,296	5,329,605

Source: APAC's 2005, 2006 and 2007 Annual Reports and APAC's 2008 Interim Report

We make the following observations with respect to APAC's historical financial position:

- During the year ended 31 December 2007, APAC's cash balance increased considerably from approximately HK\$12.3 million in 2006 to approximately HK\$694.9 million in 2007. This was partially attributable to a rights issue of 1,259 million shares at HK\$0.3 per share raising net proceeds of approximately HK\$374.7 million and by way of various placements including 800 million shares at HK\$0.30 per share in February 2007, 665 million shares at HK\$1.29 per share in July 2007 and 400 million shares at HK\$1.48 per share in October 2007 raising total net proceeds of approximately HK\$1,643.5 million.
- Trading securities assets increased by approximately 259.0 percent, from approximately HK\$227.0 million in 2006 to approximately HK\$815.0 million in 2007. This increase is directly attributable to APAC investing in resource related securities in order to strengthen its securities trading portfolio and enhance shareholder return.

- Available-for-sale investments for the year ended 31 December 2007 relates primarily to APAC's approximate 15.92 percent investment in Mount Gibson and approximate 5.60 percent interest in ARH.

7.5 Cash flow analysis

The table below summarises APAC's audited historical consolidated cash flow for the three years ended 31 December 2005, 2006 and 2007.

Table 21: Summary of APAC's historical cash flow

	Audited Year ended 31 Dec 2005 HK\$000	Audited Year ended 31 Dec 2006 HK\$000	Audited Year ended 31 Dec 2007 HK\$000
Profit before taxation	6,539	25,220	345,313
<i>Adjustments for:</i>			
Interest charged	1,744	2,153	11,609
Depreciation	7	-	179
Equity-settled share option expenses	-	-	214,889
Unrealised gain on trading securities	-	(38,743)	(566,796)
Gain on disposal of a subsidiary	-	-	(1,536)
Impairment of goodwill	-	3,116	-
Loss on disposal of property, plant and equipment	16	-	-
Credit arising from scheme of arrangement with creditors	(15,421)	-	-
Interest income	(160)	(1,181)	(14,360)
Changes in working capital	(569)	28,864	(221,150)
Tax	(24)	(107)	37
Net cash (used in) / from operating activities	(7,868)	19,322	(231,815)
Purchase of property, plant and equipment	-	-	(2,377)
Payment for the purchase of trading securities	-	(188,296)	(21,122)
Payment for the acquisition of available-for-sale investment	-	-	(961,508)
Deposit paid for acquisition of available-for-sale investment	-	(20,000)	-
Acquisition of subsidiary	-	(876)	-
Disposal of subsidiary	-	-	777
(Increase)/decrease in pledged bank deposits	3,988	(6,086)	(428)
Interest received	160	1,181	14,360
Net cash (used in) / from investing activities	4,148	(214,077)	(970,298)
Issue of rights shares, net of expenses	-	81,113	374,678
Issue of placing shares, net of expenses	-	-	1,643,476
Issue of shares upon exercise of warrants	-	-	16,696
Interest paid	(1,744)	(2,153)	(11,609)
Increase / (repayment) of margin financing loan	-	141,612	(139,815)
Secured other loans raised	15,000	-	-
Repayment of other loans	(15,000)	(15,000)	-

	Audited Year ended 31 Dec 2005 HK\$000	Audited Year ended 31 Dec 2006 HK\$000	Audited Year ended 31 Dec 2007 HK\$000
Net cash (used in) / from financing activities	(1,744)	205,572	1,883,426
Net increase in cash and cash equivalents	(5,464)	10,817	681,313
Effect of foreign exchange rate change	-	-	1,350
Cash and cash equivalents at 1 January	6,929	1,465	12,282
Cash and cash equivalents at 31 December	1,465	12,282	694,945

Source: APAC's 2005, 2006 and 2007 Annual Reports

Movements in APAC's net cash position over the three-year period to 31 December 2007 are principally the result of:

- During the year ended 31 December 2007 Rise Cheer Limited, a wholly owned subsidiary of APAC, exercised an option to sell its 60 percent interest in Chinairight Electronics Limited to Professional Trading Limited.
- Payment for the acquisition of available-for-sale investment for the year ended 31 December 2007 relates to the acquisitions of Mount Gibson, ARH and CPR.
- As stated earlier, during the year ended 31 December 2007, APAC's financing activities included a rights issue and various share placements raising total net proceeds of approximately HK\$2,018.2 million.

7.6 Hedging

For the six months ended 30 June 2008, APAC's assets were mainly denominated in AUD while the liabilities were all denominated in HKD. In its 2008 Interim Report, APAC stated that as a substantial portion of the assets were held as long-term investments, it was of the view that there would be no material immediate effect on the cash flow of the Group. On this basis, it did not hedge for risk arising from the AUD denominated assets.

7.7 Pledge of assets

As at 30 June 2008, APAC's available-for-sale investments and trading securities amounting to approximately HK\$4,168.0 million were pledged to a stock-broking firm to a secure short term credit facility granted to APAC, and APAC's bank deposits of approximately HK\$89.0 million were pledged to banks to secure banking facilities granted to APAC.

7.8 Contingent liabilities and capital commitments

APAC did not disclose any contingent liabilities in its 30 June 2008 Interim Report.

At 30 June 2008, APAC had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises of approximately HK\$3.7 million (of which HK\$2.0 million fall due within one year). 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 a term of between two to five years.

On 20 December 2007, APAC entered into an investment agreement with two other companies to form a limited company, which will be incorporated in China. Capital payable by APAC is Renminbi (RMB) 20 million, which was equivalent to approximately HK\$23 million, and was settled on 25 July 2008. APAC considers the incorporation process as complete.

7.9 Directors

The Board of Directors of APAC as at 22 September 2008 is set out in the table below.

Table 22: APAC Directors

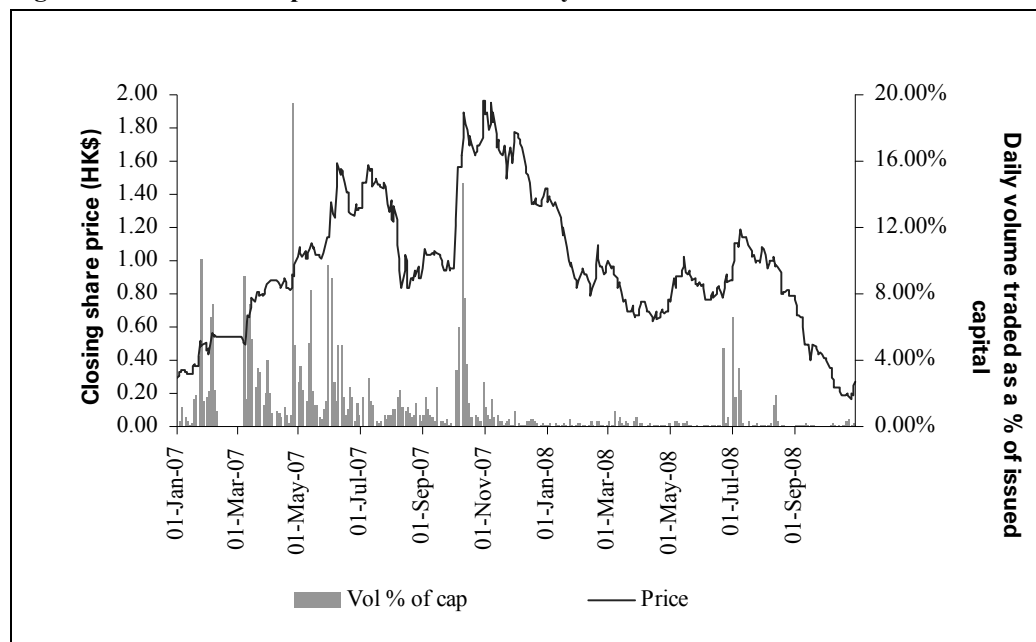
Director	Position
Cao Zhong	Chairman and Executive Director
Liu Yongshun	Chief Executive Officer
Zhou Luyong	Deputy Chief Executive Officer
Chong Sok Un	Executive Director
Chen Zhaoqiang	Executive Director
Yue Jialin	Executive Director
Wong Wing Kuen, Albert	Independent Non-Executive Director
Chang Chu Fai, Johnson Francis	Independent Non-Executive Director
Alan Stephen Jones	Independent Non-Executive Director
Robert Moyse Willcocks	Independent Non-Executive Director

Source: APAC's 2008 Interim Report

7.10 Share price and volume history

The graph below shows APAC's daily closing share price since 1 January 2007 to 31 October 2008 and the volume of shares traded expressed as a percentage of issued capital.

Figure 5: APAC's share price and volume history



Source: Bloomberg

APAC's share price exhibited a negative trend over the period from October 2007 to 31 October 2008, falling from to HK\$1.97 on 30 October 2007 to HK\$0.167 on 27 October 2008. The APAC share price closed at HK\$0.205 (approximately \$0.04⁴) on 20 November 2008.

An analysis of the volume of trading in APAC's shares subsequent to the announcement of the Proposed Transaction is set out below.

Table 23: Trading liquidity in APAC's shares post announcement

Period from 3 November 2008 to 20 November 2008	Closing share price (low) HK\$	Closing share price (high) HK\$	VWAP HK\$	Cumulative volume '000	As a % of issued capital
14 trading days	0.205	0.30	0.30	470,560	9.95%

Source: Bloomberg

7.11 Share structure and ownership

As at 30 June 2008, APAC had on issue approximately 4,726.6 million ordinary shares, which are listed on the HKSE.

As at 30 June 2008, the following persons or companies, other than a director or chief executive of APAC or any of its subsidiaries, were interested or had short positions in more than 5 percent of the shares of APAC.

Table 24: Summary of APAC's shareholdings greater than five percent

Name of shareholder	Number of shares held (including underlying shares) 000s	Total interests as % of issued capital at 30 June 2008 ¹
Benefit Rich Limited (Benefit) ²	660,000	13.96%
Easymade Investments Limited (Easymade) ²	100,000	2.12%
Shougang Holding (Hong Kong) Limited ²	760,000	16.08%
COL Capital Limited	606,120	12.82%
Ms. Chong Sok Un	716,120	15.15%
Profit Harbour Investments Limited (Profit Harbour)	487,740	10.32%
Mr. Yue Jialin	487,740	10.32%
Notes: 1. Percentage of issued capital calculated based on APAC's 4,726.6 million shares on issue as at 30 June 2008. 2. Benefit and Easymade are wholly owned subsidiaries of Shougang Holding (Hong Kong) Ltd (Shougang). Benefit and Easymade were wholly owned subsidiaries of Shougang as at 30 June 2008. As a result, Shougang was deemed to have the same long position as Benefit and Easymade.		

Source: APAC's 2008 Interim Report

Shougang Holding (Hong Kong) Limited currently owns 18.95 percent of APAC.

⁴ Australian dollar equivalent based on an exchange rate of 1AUD:4.7352HKD on 20 November 2008

APAC operates a share option scheme (the Option Scheme) for the purpose of providing incentives or rewards to selected persons who contribute to APAC. The Option 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 APAC held on 6 June 2008, the mandate limit of the Option Scheme was refreshed to approximately 472.7 million shares. As at 30 June 2008, there were 505 million share options outstanding.

On 5 February 2007, the Company issued a total of 251.8 million bonus warrants as a result of the rights issue completed on 1 February 2007, with an aggregate subscription amount of HK\$75.5 million. 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)). As at 30 June 2008, there were approximately 196.1 million warrants outstanding.

8 Profile of Shougang Concord

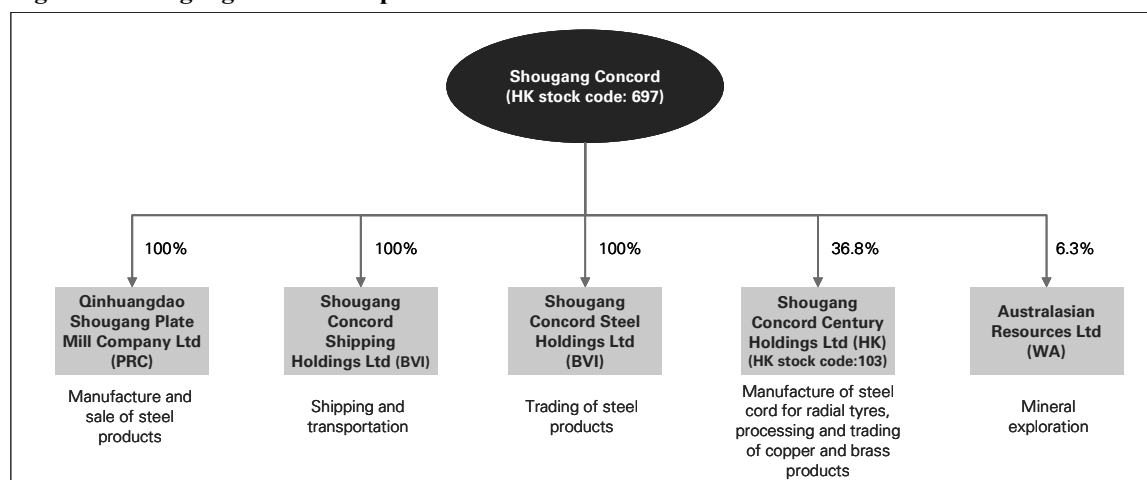
8.1 Corporate Background

Shougang Concord is an investment holding company listed on the HKSE and primarily involved in the manufacture and sale of steel products. Other business segments include shipping, electricity generation, manufacture of steel cord, processing and trading of copper and brass products, trading of steel products and mineral exploration. As at 31 December 2007, the Shougang Concord group had 4,062 employees.

8.2 Operations

The operational structure of Shougang Concord is set out in the figure below.

Figure 6: Shougang Concord's operational structure



Source: Shougang Concord's website

Shougang Concord operates in a number of business segments as set out below.

Manufacture and sale of steel products

Shougang Concord's primary business is the manufacture and sale of steel products, which contributed approximately 79 percent of the Group's total turnover for the year ended 31 December 2007. It operates in this segment via its wholly owned subsidiary Qinhuangdao Shougang Plate Mill Co. Ltd and 76 percent owned Qinhuangdao Shouqin Metal Materials Co Ltd (Shouqin).

Steel production in 2007 included 2.07 million tonnes of steel plate and 2.43 million tonnes of steel slab, with commissioning of the Shouqin heavy plate hot rolling facility in April 2007 significantly expanding Shougang Concord's production capabilities. Shouqin is an integrated facility encompassing the entire process from iron, steel, slab to plate.

Shipping and transportation

Shougang Concord owns 100 percent of Shougang Concord Shipping Holdings Limited (Shougang Concord Shipping) which is mainly engaged in the time charter business. Shougang Concord Shipping owns two capsize dry bulk vessels under 15-year charter, used mainly for transporting iron ore and coal.

Manufacture of steel cord; processing and trading of copper and brass products

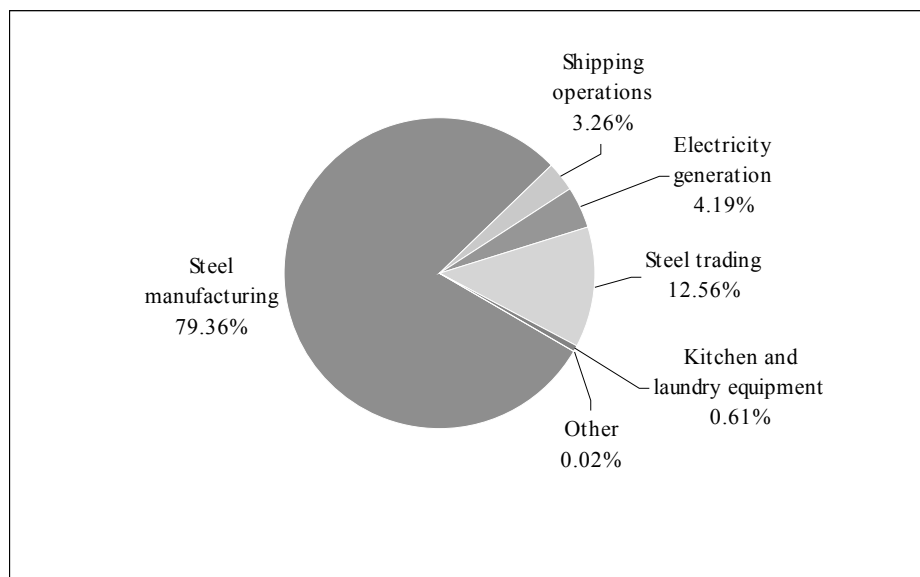
Shougang Concord holds a 36.8 percent equity interest in Shougang Concord Century Holdings Limited, a company listed on the HKSE and is engaged in the manufacture of steel cord for radial tyres and process and trade of copper and brass products.

Mineral exploration

As part of a move to secure upstream resources, Shougang Concord subscribed for a 6.3 percent interest in ARH in June 2007. The purpose of this subscription was to fund ARH's feasibility studies into an iron ore mine in the Pilbara Region of Western Australia.

Shougang Concord's turnover by business segment for the year ended 31 December 2007 is illustrated in the figure below.

Figure 7: Turnover by principal activity for the year ended 31 December 2007

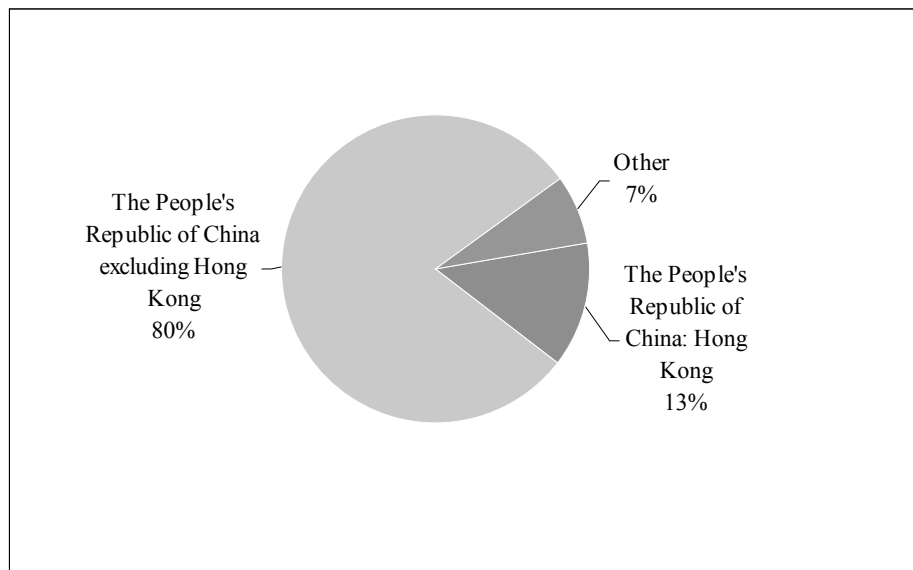


Source: Shougang Concord's 2007 Annual Report

Shougang Concord intends to focus on developing its heavy plate business going forward and will divest a number of its other businesses and follow through vertical integration to expand its profit base.

Shougang Concord's turnover by geographical location for the year ended 31 December 2007 is illustrated in the figure below.

Figure 8: Turnover by geographical location for the year ended 31 December 2007



Source: Shougang Concord's 2007 Annual Report

8.3 Financial performance

Shougang Concord's audited historical consolidated financial results for the three years ended 31 December 2005, 2006 and 2007 and the unaudited historical consolidated financial results for the six months ended 30 June 2008 are summarised below.

Table 25: Summary of Shougang Concord's historical financial performance

	Audited Year ended 31 Dec 2005 (restated) HK\$000	Audited Year ended 31 Dec 2006 HK\$000	Audited Year ended 31 Dec 2007 HK\$000	Unaudited 6 mths ended 30 Jun 2008 HK\$000
Revenue	4,569,979	6,381,328	11,407,570	8,243,002
Cost of sales	(4,143,063)	(5,527,481)	(9,099,228)	(6,256,208)
Gross profit	426,916	853,847	2,308,342	1,986,794
Other income and gains	61,634	101,184	352,398	90,088
Discount on acquisition of partial interest in an associate	-	-	-	12,840
Change in fair value of derivative financial instruments	-	-	-	(87,775)
Distribution costs	(22,499)	(115,336)	(176,540)	(148,579)
Administrative expenses	(207,473)	(315,277)	(542,457)	(265,572)
Finance costs	(39,947)	(260,780)	(358,083)	(200,724)
Share of profit of an associate	130,241	20,974	23,282	10,216
Gain on disposal of associate	4,355	-	-	-
Gain on disposal of partial interest in a subsidiary	-	-	103,710	-
Gain (loss) on deemed disposal of partial interest in an associate	-	(4,582)	5,166	-
Profit before taxation	353,227	280,030	1,715,818	1,397,288
Income tax expense	(20,995)	(26,613)	(35,127)	(27,962)
Profit for the period from continuing operations	332,232	253,417	1,680,691	1,369,326
Profit/(loss) for the period from discontinued operation	-	2,347	(7,872)	11,237
Profit for the period	332,232	255,764	1,672,819	1,380,563
Attributable to:				
Equity holders of the parent	303,946	221,618	1,404,196	1,092,279
Minority interests	28,286	34,146	268,623	288,284
	332,232	255,764	1,672,819	1,380,563
<i>Revenue growth - %</i>	<i>38.9%</i>	<i>39.6%</i>	<i>78.8%</i>	<i>n/a²</i>
<i>NPAT margin¹ - %</i>	<i>7.3%</i>	<i>4.0%</i>	<i>14.7%</i>	<i>16.7%</i>
<i>Basic earnings per share – HK cents</i>	<i>6.4</i>	<i>3.9</i>	<i>22.1</i>	<i>15.2</i>
<i>Closing share price – HK</i>	<i>50.0</i>	<i>51.0</i>	<i>319.0</i>	<i>255.0</i>

	Audited Year ended 31 Dec 2005 (restated) HK\$000	Audited Year ended 31 Dec 2006 HK\$000	Audited Year ended 31 Dec 2007 HK\$000	Unaudited 6 mths ended 30 Jun 2008 HK\$000
<i>cents</i>				
<i>Notes:</i>				
1. NPAT is net profit after tax for the year from continuing operations. NPAT margin is calculated as NPAT dividend by revenue				
2. n/a means not applicable as revenue is for six months only (not for an entire 12 month period).				

Source: Shougang Concord's 2005, 2006 and 2007 Annual Reports and 30 June 2008 Interim Report

Observations in relation to Shougang Concord's historical financial performance are set out below:

Year ended 31 December 2005

- Revenue increased approximately 38.9 percent from approximately HK\$3,289.6 million in the year ended 31 December 2004 to approximately HK\$4,570.0 million in the year ended 31 December 2005. The most significant corporate event that took place in 2005 was the acquisition of a further 45 percent direct interest in Shouqin, which increased production capacity in the manufacture and sale of steel products business segment.

Year ended 31 December 2006

- Revenue increased approximately 39.6 percent to approximately HK\$6,381.3 million in the year ended 31 December 2006. The commencement of phase two of the expansion of Shouqin's facilities in the first half of the year expanded the Group's scale of production.
- Finance costs increased significantly from approximately HK\$39.9 million in the year ended 31 December 2005 to approximately HK\$260.8 million in the year ended 31 December 2006. This was primarily due to a combination of the higher leverage of Shouqin due to its expansion and the interest expense of the Company's newly established incepted consortium loans.

Year ended 31 December 2007

- Shougang Concord's 31 December 2007 Financial Report indicates that revenue for the period increased by approximately 78.8 percent from the year ended 31 December 2006 to 31 December 2007. The increase is principally due to higher sales of Shouqin's heavy plates since reaching design capacity in April 2007.
- Gross profit margin increased from 13.4 percent in the year ended 31 December 2006 to 20.2 percent in the year ended 31 December 2007. This increase was principally attributable to the shipping segment's gross profit margin increasing as a result of dry bulk market demand increasing and as a result increasing hire income of the Group's two vessels under time charter. The steel manufacturing segment also contributed to Shougang Concord's increased gross profit margin as greater demand for steel products increased unit selling prices.
- Finance costs increased by approximately 37.3 percent to approximately HK\$358.1 million in the year ended 31 December 2007. In its 2007 annual report, Shougang Concord stated that apart from rising

interest rates, the increase was attributable to the fact that most interest expenses flow into the profit and loss instead of being capitalised with Shouqin's completion in construction.

Six months ended 30 June 2008

- Shougang Concord's revenue for the six months ended 30 June 2008 was higher than for the corresponding period in 2007 due mainly to higher selling prices and increased sales volume in the steel manufacturing segment.

8.4 Financial position

Shougang Concord's audited historical consolidated net assets as at 31 December 2005, 2006 and 2007 and the unaudited historical consolidated net assets as 30 June 2008 are summarised below.

Table 26: Summary of Shougang Concord's historical balance sheets

	Audited 31 Dec 2005 (restated) HK\$000	Audited 31 Dec 2006 HK\$000	Audited 31 Dec 2007 HK\$000	Unaudited 30 Jun 2008 HK\$000
Bank balances and cash	558,317	1,728,222	3,256,837	5,695,634
Pledged deposit	-	10,123	-	-
Restricted deposits	204,526	116,277	68,779	432,060
Other financial assets	-	-	177,654	96,061
Amount due from ultimate holding company of controlling shareholder	12,596	1,703	269,570	156,803
Amount due from a minority shareholder of a subsidiary	2,884	2,990	3,204	3,204
Amounts due from related companies	162,016	177,979	679,893	1,356,455
Tax recoverable	9,535	4,936	8,778	1,315
Prepaid lease rentals	8,706	8,976	9,431	5,069
Prepayments, deposits and other receivables	33,102	81,137	359,709	504,392
Trade and bill receivables	324,621	375,192	845,043	327,554
Inventories	541,778	847,013	1,299,129	2,417,559
Amounts due from customers for contract work	312	186	-	-
Current assets	1,858,393	3,354,734	6,978,027	10,996,106
Deposit for acquisition of P,P&E	40,189	174,620	319,774	148,692
Available-for-sale investments	-	-	467,573	314,712
Interests in associates	193,835	215,022	310,368	706,971
Goodwill	292,170	292,170	283,122	218,015
Intangible assets	1,003	472	77	37
Prepaid lease rentals	278,086	275,535	354,243	303,800
Property, plant and equipment	4,761,720	6,911,247	7,818,140	8,614,820
Investment properties	22,605	35,660	32,217	34,952
Non-current assets	5,589,608	7,904,726	9,585,514	10,341,999

	Audited 31 Dec 2005 (restated) HK\$000	Audited 31 Dec 2006 HK\$000	Audited 31 Dec 2007 HK\$000	Unaudited 30 Jun 2008 HK\$000
Amounts due to customers	866	562	-	-
Trade and bill payables	521,010	523,834	954,829	1,701,628
Other payables and accrued liabilities	340,900	884,821	1,597,538	1,831,664
Tax payable	2,230	2,825	16,233	36,752
Amounts due to related companies	234,105	633,165	546,797	972,283
Amount due to ultimate holding company of controlling shareholder	410,873	56,676	209,281	77,642
Obligations under a finance lease	534	267	-	-
Bank borrowings	1,994,372	3,021,425	3,194,900	2,634,574
Provision for a compensation claim	-	-	-	-
Other financial liabilities	2,103	91	13,949	20,131
Loans from ultimate holding company of controlling shareholder	-	785,750	1,070,663	931,490
Loan from related company	242,189	-	-	-
Current liabilities	3,749,182	5,909,416	7,604,190	8,206,164
Obligations under a finance lease	267	-	-	-
Bank borrowings	429,642	1,555,781	965,044	4,326,135
Other payables	-	149,268	-	-
Deferred tax liabilities	38,777	44,153	50,374	51,038
Loan from a fellow subsidiary	-	-	-	-
Loans from ultimate holding company of a controlling shareholder	796,328	338,814	-	-
Non-current liabilities	1,265,014	2,088,016	1,015,418	4,377,173
Net assets	2,433,805	3,262,028	7,943,933	8,754,768
Share capital	986,811	1,172,811	1,400,639	1,456,668
Share premium and reserves	1,189,087	1,770,783	5,414,092	6,031,313
Equity attributable to equity holders of the parent	2,175,898	2,943,594	6,814,731	7,487,981
Minority interests	257,907	318,434	1,129,202	1,266,787
Equity	2,433,805	3,262,028	7,943,933	8,754,768

Source: Shougang Concord's 2005, 2006 and 2007 Annual Reports and 30 June 2008 Interim Report

8.5 Cash flow analysis

The table below summarises Shougang Concord's audited historical consolidated cash flow for the three years ended 31 December 2005, 2006 and 2007 and the unaudited historical consolidated cash flow for the six months ended 30 June 2008.

Table 27: Summary of Shougang Concord's historical cash flow

	Audited Year ended 31 Dec 05 (restated) HK\$000	Audited Year ended 31 Dec 06 HK\$000	Audited Year ended 31 Dec 07 HK\$000	Unaudited 6 mths ended 30 June 08 HK\$000
Cash generated from operations	426,135	932,103	1,491,448	
Interest paid	(46,131)	(304,153)	(354,374)	
Income taxes paid	(25,399)	(17,188)	(24,787)	
Net cash from operating activities	354,605	610,762	1,112,287	2,663,945
Purchase of property, plant and equipment	(532,049)	(2,008,244)	(1,010,377)	(845,360)
Purchase of investment properties	-	-	(1,249)	-
Advance to an associate	(345,259)	-	-	-
Acquisition of subsidiary / additional interest in a subsidiary	(182,482)	-	-	-
Increase in deposits for acquisition of P,P&E	(40,189)	(173,142)	(306,498)	(8,995)
Addition of prepaid lease rentals	(27,655)	(428)	(75,332)	-
Purchase of available-for-sale investments	-	-	(212,103)	-
Net decrease/(increase) in restricted/pledged deposits	(16,869)	85,647	66,462	(359,062)
Interest received	7,240	52,163	91,573	-
Disposal/(acquisition) of an associate	4,357	-	-	(415,689)
Increase in amount due from ultimate holding company of controlling shareholder	-	-	(1,036)	(155,767)
Proceeds from disposal of P,P & E	1,953	5,748	2,121	-
Decrease/(increase) in amount due from related companies	-	6,980	1,275	(331,775)
Proceeds from disposal of partial interest in subsidiary	-	-	411,812	-
Net cash outflow from disposal of subsidiaries	-	-	(394)	(14,443)
Dividends received from associate	4,300	-	2,867	6,866
Proceeds - disposal of investment properties	-	-	17,910	-
Other investing activities	-	-	-	41,749
Net cash (used in) / from investing activities	(1,126,653)	(2,031,276)	(1,012,969)	(2,082,476)
New borrowings raised	687,183	3,862,707	3,806,102	5,856,806
Net proceeds from issue of shares	9,868	492,575	2,002,248	105,390
(Repayment of) loan from ultimate holding company of controlling	-	298,954	(139,395)	(204,847)

	Audited Year ended 31 Dec 05 (restated) HK\$000	Audited Year ended 31 Dec 06 HK\$000	Audited Year ended 31 Dec 07 HK\$000	Unaudited 6 mths ended 30 June 08 HK\$000
shareholder				
Capital contribution from a minority shareholder of a subsidiary	1,507	30,975	186,922	-
Repayment of bank borrowings	(426,777)	(1,797,238)	(4,480,663)	(3,300,860)
Repayment of loan from a related company	242,189	(242,189)	-	-
Repayment of loans from a fellow subsidiary	(123,904)	-	-	-
Increase in amounts due to related companies	-	26,791	78,564	(101,583)
Increase (decrease) in amount due to ultimate holding company of controlling shareholder	481,281	(53,351)	51,774	(48,127)
Payment of dividend	-	(35,185)	(123,162)	(582,668)
Dividend paid to minority shareholders of a subsidiary	(8,494)	(11,295)	(13,949)	-
Repayment of a finance lease	(534)	(534)	(267)	-
Other financing activities	-	-	-	59,129
Net cash (used in) / from financing activities	862,319	2,572,210	1,368,174	1,783,240
Net increase in cash and cash equivalents	90,271	1,151,696	1,467,492	2,364,709
Effect of foreign exchange rate change	-	18,209	61,123	74,088
Cash and cash equivalents at 1 January	468,046	558,317	1,728,222	3,256,837
Cash and cash equivalents at end of period	558,317	1,728,222	3,256,837	5,695,634

Source: Shougang Concord's 2005, 2006 and 2007 Annual Reports and 30 June 2008 Interim Report

During the 2007 year, the Company entered into share subscription agreements with China Gate Investments Limited (China Gate) and Grand Invest International Limited (Grand Invest), respectively. Pursuant to the agreements, China Gate subscribed to 200 million new ordinary shares of the Company at HK\$1.00 per share in June 2007 and to 500 million new ordinary shares of the Company at HK\$2.26 per share in August 2007. Grand Invest subscribed for 300 million new ordinary shares of the Company at HK\$2.26 per share in August 2007. Furthermore, certain employees of the Group exercised the granted options, pursuant to which approximately 139 million new ordinary shares were issued at an average exercise price of HK\$0.319 per share. The proceeds from these share issues represent a significant amount of the cash realised from financing activities.

8.6 Hedging

Currency

The functional currency of Shougang Concord is RMB, the currency of the primary economic environment in which the principal subsidiaries of Shougang Concord operate. As Shougang Concord was incorporated in Hong Kong, its financial statements are presented in Hong Kong dollars.

The group conducts its business mainly in Hong Kong and Mainland China, with small equity investment in Australia. Therefore, it is subject to the foreign exchange fluctuations of HK Dollars, US Dollars, RMB and Australian Dollars. In its 2007 Annual Report, Shougang Concord advised that to minimise currency exposure, non Hong Kong Dollar assets are usually financed in the same currency as the asset or cash flow from it via borrowings.

As at 31 December 2007, the Shougang Concord group had entered into a number of forward foreign currency contracts as set out in their 2007 annual report.

Interest rates

The Shougang Concord group is exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings. In its 2007 annual report, Shougang Concord stated it does not enter into any interest rate swaps to convert floating rate to fixed rate obligations. However, the management closely monitors interest rate change exposure and will consider hedging significant interest rate change exposure should the need arise.

8.7 Tax losses

As at 31 December 2007, Shougang Concord Group had unused tax losses of approximately HK\$540 million, of which HK\$247 million is subject to Inland Revenue Department's confirmation, available offset against future profits. A deferred tax asset has been recognised in respect of approximately HK\$5 million of such losses. The 2007 annual report states that the unrecognised tax losses may be carried forward indefinitely. These deferred tax assets have not been recognised for the balance due to the unpredictability of future profit streams.

8.8 Contingent liabilities and capital commitments

In its 2007 annual report Shougang Concord stated the Group had no significant contingent liabilities at 31 December 2007. In respect of Shougang Concord, the 2007 annual report disclosed that the financial guarantee given to banks in respect of banking facilities utilised by subsidiaries of Shougang Concord amounted to approximately HK\$133.6 million of which approximately HK\$6.2 million was recognised in the financial statements.

8.9 Directors

The Board of Directors of Shougang Concord is set out in the table below.

Table 28: Shougang Concord Directors

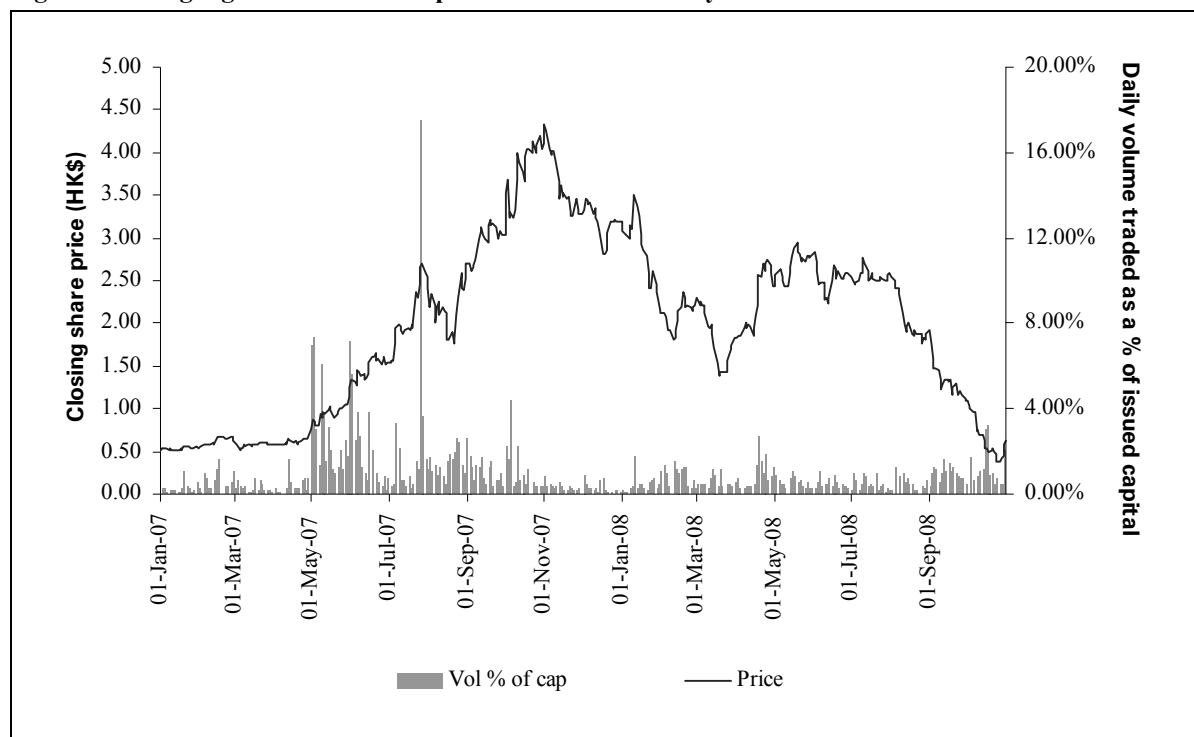
Director	Position
Wang Qinghai	Chairman
Cao Zhong	Managing Director
Chen Zhouping	Deputy Managing Director
Zhang Wenhui	Deputy Managing Director
Luo Zhenyu	Deputy Managing Director
Ip Tak Chen, Edmond	Non-Executive Director
Leung Shun Sang, Tony	Non-Executive Director
Kan Lai Kuen, Alice	Independent Non-Executive Director
Wong Kun Kim	Independent Non-Executive Director
Leung Kai Cheung	Independent Non-Executive Director

Source: Shougang Concord's website

8.10 Share price history

The graph below depicts Shougang Concord's daily closing share price since 1 January 2007 to 31 October 2008 and the volume of shares traded expressed as a percentage of issued capital.

Figure 9: Shougang Concord's share price and volume history



Source: Bloomberg

Shougang Concord's share price exhibited a negative trend over the period from 1 November 2007 to 31 October 2008, with the share price ranging closing in the range of HK\$4.34 on 1 November 2007 to

HK\$0.385 on 24 October 2008. The Shougang Concord share price closed at HK\$0.65 (approximately \$0.14⁵) on 20 November 2008.

An analysis of the volume of trading in Shougang Concord's shares subsequent to the announcement of the Proposed Transaction is set out below.

Table 29: Trading liquidity in Shougang Concord's shares post announcement

Period from 3 November 2008 to 20 November 2008	Closing share price (low) HK\$	Closing share price (high) HK\$	VWAP HK\$	Cumulative volume 000s	As a % of issued capital
14 trading days	0.56	0.98	0.80	1,640,508	22.84%

Source: IRESS

8.11 Share capital and ownership

As at 13 November 2008, Shougang Concord had on issue approximately 7,175.4 million ordinary shares, which are listed on the HKSE.

As at 13 November 2008, the following companies and persons had interests or short positions of 5 percent or more in the shares of Shougang Concord.

Table 30: Summary of Shougang Concord's shareholdings greater than 5 percent

Name of shareholder	Capacity in which interests are held	Number of shares held 000s	% of issued capital as at 30 June 2008
Shougang Holding (Hong Kong) Limited (Shougang Holding) ¹	Beneficial owner, interests of controlled corporations	2,986,233	41.61%
Grand Invest International Limited ¹	Beneficial owner	768,341	10.70%
China Gate Investments Limited ¹	Beneficial owner	1,529,905	21.32%
Argepa S.A. (Argepa) ²	Beneficial owner, interests of controlled corporations	699,000	9.74%
Zygmunt Zaleski Stichting (ZZS) ²	Interests of controlled corporations	569,000	7.92%
Carlo Tassara S.p.A. (CT S.p.A) ²	Interests of controlled corporations	569,000	7.92%
Carlo Tassara International S.A. (CIT S.A) ²	Beneficial owner	569,000	7.92%
Cheung Kong (Holdings) Limited ^{3,4}	Interests of controlled corporations	455,402	6.34%
Max Same Investment Limited ³	Beneficial owner	423,055	5.89%
Li Ka-shing ⁴	Interests of controlled corporations, founder	455,402	6.34%

⁵ Australian dollar equivalent based on an exchange rate of 1AUD:4.7352 HKD on 20 November 2008

Name of shareholder	Capacity in which interests are held	Number of shares held 000s	% of issued capital as at 30 June 2008
of discretionary trusts			
Li Ka-Shing Unity Trustee Company Limited (TUT1) ⁴	Trustee	455,402	6.34%
Li Ka-Shing Unity Trustee Corporation Limited (TDT1) ⁴	Trustee, beneficiary of a trust	455,402	6.34%
Li Ka-Shing Unity Truscorp Limited (TDT2) ⁴	Trustee, beneficiary of a trust	455,402	6.34%
Keywise Capital Management (HK) Limited	Investment manager	505,596	7.04%
Lazard Asset Management LLC	Investment manager	578,640	8.06%
<i>Notes:</i> 1. Both Grand Invest International Limited and China Gate Investments Limited were wholly owned subsidiaries of Shougang Holding and their respective interests were included in the interests held by Shougang Holding. 2. CTI S.A. was a wholly owned subsidiary of CT S.p.A. which in turn was controlled by Argepa and ZZS as to 48.8% and 47.15% respectively. 3. Max Same was a wholly owned subsidiary of Cheung Kong and its interest was included in the interests held by Cheung Kong. 4. Li Ka-Shing Unity Holdings Limited (Unity Holdco), of which each of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard was interested in one-third of the entire issued share capital, owned the entire issued share capital of TUT1. TUT1 as trustee of The Li Ka-Shing Unity Trust (UT1), together with certain companies which TUT1 as trustee of UT1 was entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, held more than one-third of the issued share capital of Cheung Kong. In addition, Unity Holdco also owned the entire issued share capital of TDT1 as trustee of The Li Ka-Shing Unity Discretionary Trust (DT1) and TDT2 as trustee of another discretionary trust (DT2). Each of TDT1 and TDT2 held units in UT1. By virtue of the Securities and Futures Ordinance (SFO), each of Mr. Li Ka-shing, being the settlor and may being regarded as a founder of each of DT1 and DT2 for the purpose of the SFO, TUT1, TDT1 and TDT2 was deemed to be interested in the same block of shares in which Cheung Kong was interested under the SFO.			

Source: Shougang Concord's 2008 Interim Report and HKSE

Shougang Holding (Hong Kong) Limited currently owns 41.7 percent of Shougang Concord.

Shougang Concord adopted a share option scheme in June 2002. The purpose of the share option scheme is to enable Shougang Concord to grant share options to selected participants as incentives or rewards for their contributions to Shougang Concord and/or its subsidiaries and/or its associated companies. The scheme will operate for a period of 10 years commencing on 7 June 2002, being the date of adoption of the scheme, to 6 June 2012.

As at 30 June 2008 Shougang Concord has on issue the following share options.

Table 31 – Shougang Concord options at 30 June 2008

Category or name of grantees	Number of options 000s	Date of grant	Exercise period	Exercise price HK\$
Directors of Shougang Concord				
Cao Zhong	65,000	20/12/2007	20/12/2007 to 19/12/2014	\$2.944
Chen Zhouping	45,000	20/12/2007	20/12/2007 to 19/12/2014	\$2.944
Zhang Wenhui	35,000	20/12/2007	20/12/2007 to 19/12/2014	\$2.944
Luo Zhenyu	25,000	20/12/2007	20/12/2007 to 19/12/2014	\$2.944
Ip Tak Chuen, Edmond	8,000	23/08/2002	23/08/2002 to 22/08/2012	\$0.295
Ip Tak Chuen, Edmond	4,590	12/03/2003	12/03/2003 to 11/03/2013	\$0.280
Kan Lai Kuen, Alice	1,500	20/12/2007	20/12/2007 to 19/12/2014	\$2.944
Wong Kun Lim	1,500	20/12/2007	20/12/2007 to 19/12/2014	\$2.944
Leung Kai Cheung	1,500	20/12/2007	20/12/2007 to 19/12/2014	\$2.944
Employees of the group	37,500	20/12/2007	20/12/2007 to 19/12/2014	\$2.944
Other participants	50	23/08/2002	23/08/2002 to 22/08/2012	\$0.295
Other participants	1,000	20/12/2007	20/12/2007 to 19/12/2014	\$2.944
	225,640			

Source: Shougang Concord 2008 Interim Report

9 Impact of the Proposed Transaction

9.1 Financial position

Section 6 of the Explanatory Memorandum sets out a pro forma balance sheet showing the impact of the Rights Issue, Underwriting and Placement as if they had occurred on 30 September 2008 (based on Mount Gibson's unaudited balance sheet as at 30 September 2008), which is summarised below.

Table 32: Mount Gibson's pro-forma balance sheet

	Unaudited 30 Sep 2008 \$000	Pro forma Adjustment \$000	Pro forma 30 Sep 2008 \$000
Cash and deposits	126,588	157,824	284,412
Receivables	45,078		45,078
Inventories	91,306		91,306
Foreign exchange hedging gain	385		385
Prepayments	4,174		4,174
Total current assets	267,531	157,824	425,355
Available for sale financial assets	1,487		1,487
Property, plant and equipment	240,683		240,683
Mine properties	433,993		433,993
Deferred acquisition and exploration expenditure	35,735		35,735
Total non-current assets	711,898		711,898
TOTAL ASSETS	979,429	157,824	1,137,253

	Unaudited 30 Sep 2008 \$000	Pro forma Adjustment \$000	Pro forma 30 Sep 2008 \$000
Trade creditors and accruals	72,349		72,349
Provisions	2,383		2,383
Leases and HP contracts	15,566		15,566
Foreign exchange hedging loss	62,247		62,247
Total current liabilities	152,545		152,545
Interest bearing loans and borrowings	164,319		164,319
Provisions	19,120		19,120
Deferred tax liability	71,120		71,120
Total non-current liabilities	254,559		254,559
TOTAL LIABILITIES	407,104		407,104
NET ASSETS	572,325	157,824	730,149
Issued capital	397,639	157,824	555,463
Accumulated profits	231,592		231,592
Reserves	(56,906)		(56,906)
TOTAL SHAREHOLDERS EQUITY	572,325	157,824	730,149
Number of shares on issue – 000s	804,256		1,075,227
<i>Net asset backing per share - \$</i>	<i>0.71</i>		<i>0.68</i>
<i>Current assets / current liabilities – times</i>	<i>1.8</i>		<i>2.8</i>
<i>Gearing¹ - times</i>	<i>0.09</i>		<i>-0.14</i>
<i>Note 1: gearing is net interest bearing liabilities, leases and HP contracts after cash, divided by net assets</i>			

Source: Explanatory Memorandum

The Rights Issue, Underwriting and Placement together result in a net increase in cash of approximately \$157.8 million, the break down of which is set out below. Please note that Mount Gibson recognises derivative financial instruments at fair value at the date the derivative contract is entered into, which are subsequently remeasured to fair value at year-end. The pro forma balance sheet above does not take into account any adjustments as a result of rolling up to US\$180 million of the foreign exchange hedge position, as under the accounting standards they may not qualify as “effective hedges” under hedge accounting. Should this be the case, an accounting mark-to-market loss of approximately \$75 million pre-tax (\$53 million post-tax) will be required. Any such adjustment will be reflected in the 31 December 2008 financial statements.

Table 33: Pro forma adjustments – cash and deposits

	Pro forma adjustments \$000
Proceeds from Rights Issue	96,523
Underwriting fees	(3,379)
Net proceeds from Rights Issue	93,144
Proceeds from Share Placement	66,000
Other transaction costs	(1,320)
Net increase in cash	157,824

Source: Explanatory Memorandum

The Pro forma adjustments to issued capital, as set out in section 6 of the Explanatory Memorandum is set out below.

Table 34: Pro forma adjustments – cash and deposits

	Shares 000s	Pro forma adjustments \$000
Shares on issue at 30 September 2008	804,356	367,639
Shares to be issued under Rights Issue	160,871	96,523
Underwriting fees		(3,379)
Net proceeds from Rights Issue	965,227	490,783
Proceeds from Share Placement	110,000	66,000
Other transaction costs		(1,320)
Total	1,075,227	555,463

Source: Explanatory Memorandum

9.2 Dilutionary impact

As at 30 September 2008, Mount Gibson had 804,355,821 ordinary shares on issue. Should both the Placement, Rights Issue and Underwriting proceed, Mount Gibson will issue 270,871,164 new ordinary shares, increasing the ordinary shares on issue to 1,075,226,985.

Accordingly, as set out in the table below, dependent upon the take up of rights under the Rights Issue, Mount Gibson's shareholders, other than APAC and Shougang Concord, will hold between 59.5 percent and 71.4 percent of the issued capital in the expanded Mount Gibson based on the terms of the Proposed Transaction.

Due to the nature and extent of the relationship between APAC and Shougang Concord, Mount Gibson is of the view that they may be considered to be associates for the purposes of the Act. In that case, APAC and Shougang Concord are each taken to have voting power in Mount Gibson that includes shares held by them, and held by the other entity.

Based on this view, should the Placement, Rights Issue and Underwriting proceed, each of APAC and Shougang Concord will have voting power in Mount Gibson of between 28.5 percent and 40.4 percent depending upon the extent non-associated shareholders exercise their rights under the proposed Rights Issue.

Table 35 below illustrates the changes in shareholdings in Mount Gibson following completion of the Proposed Transaction in which no shareholders exercise their rights under the proposed Rights Issue (with the exception of APAC who are assumed for this estimate to exercise their full rights under the proposed Rights Issue). In contrast, table 36 below illustrates the changes in shareholdings in Mount Gibson following completion of the Proposed Transaction in which all shareholders exercise their rights under the proposed Rights Issue.

Table 35: Mount Gibson's estimated future shareholder interests – no subscription under Rights Issue (except APAC)

Estimated change in shareholding	APAC millions	Shougang Concord millions	Other millions	Total millions
Shares on issue as at 31 Oct 08	164.1	-	640.2	804.3
% voting interest	20.4%	0.0%	79.6%	100.0%
Rights taken up	32.8	-	-	32.8
Rights underwriting	82.9	45.2	-	128.1
Placement	-	110.0	-	110.0
Shares on issue after Proposed Transaction	279.8	155.2	640.2	1,075.2
% voting interest	26.0%	14.4%	59.6%	100.0%

Source: Mount Gibson's management and KPMG analysis

Table 36: Mount Gibson's estimated future shareholder interests – fully subscribed Rights Issue

Estimated change in shareholding	APAC millions	Shougang Concord millions	Other millions	Total millions
Shares on issue as at 31 Oct 08	164.1	-	640.2	804.3
% voting interest	20.4%	0.0%	79.6%	100.0%
Rights taken up	32.8	-	128.1	160.9
Rights underwriting	-	-	-	-
Placement	-	110.0	-	110.0
Shares on issue after Proposed Transaction	196.9	110.0	768.3	1,075.2
% voting interest	18.3%	10.2%	71.5%	100.0%

Source: Mount Gibson's management and KPMG analysis

9.3 Board of directors

Currently, Mount Gibson's Board is comprised of seven directors. Mount Gibson advised that APAC already has one representative on the Board of the Company, with a second expected to be appointed on or around the date of this report as part of the Short Term Offtake agreement. If the Proposed Transaction is successful Shougang Concord will be entitled to appoint a nominee to the Mount Gibson Board.

APAC and Shougang Concord will together have three nominees out of a total of seven directors on the Mount Gibson Board.

9.4 APAC and Shougang's intentions

APAC and Shougang have indicated to the Company that their intentions in relation to the Company following the implementation of the Proposed Transaction are as set out below.

- to support Mount Gibson and its management in relation to the operational plans as described in the Explanatory Memorandum
- to support Mount Gibson in pursuing its strategic goal of becoming a leading Australian independent iron ore producer

APAC and Shougang have indicated to the Company that they have 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 APAC or Shougang Concord
- redeploy any of Mount Gibson's fixed assets.

10 Valuation of Mount Gibson

10.1 Valuation methodology

In assessing the value of Mount Gibson we have considered a range of valuation methods. ASIC Regulatory Guide 111 "Content of expert reports" states that it is appropriate for an independent expert to consider, amongst other methods of valuation, discounted cash flow (DCF) analysis, asset-based methodologies and the application of earnings multiples.

The principal assets of Mount Gibson comprise:

- its interest in the Tallering Peak project
- its interest in the Koolan Island project
- its interest in the Extension Hill project.

Such assets have limited lives and future profitability and mine life depend upon, amongst other factors, the outcome of exploration programmes that are inherently unpredictable.

In our experience, the most appropriate method for determining the value of companies with similar asset profiles to Mount Gibson is on the basis of the fair value of their underlying net assets, with the principal operating assets being valued using the DCF approach.

The DCF methodology has a strong theoretical basis, valuing a business on the net present value (NPV) of its future cash flows. It requires an analysis of future cash flows, the capital structure and costs of capital. This technique is particularly appropriate for start up companies and companies with a limited asset life, which is often the case with companies dependent upon depleting mineral resources. Application of this technique generally requires a five year minimum period of analysis. In addition, sensitivity analysis for variations in key assumptions adopted needs to be performed. On application, the DCF technique should not give a materially different result to that resulting from a capitalisation of the maintainable future earnings of the business.

We note however adopting the DCF methodology is predicated upon the assumption of the Company continuing as a going concern over the life of the underlying projects and therefore provides an assessment of the values of Mount Gibson in the event the Proposed Transaction is approved. In circumstances where the ability to continue as a going concern is not assured, it is usual that regard be given to the value of the Company's underlying assets under a forced sale scenario. Accordingly, given the real and material risk that

Mount Gibson may not be in a position to continue as a going concern we have, in assessing the value of the Company in the absence of the Proposed Transaction, had regard to the net asset backing of the Company.

We have used the unaudited net assets of the Company as at 30 September 2008 as set out in section 6.5 of this report as the basis for our valuation. Mount Gibson has advised there have been no material transactions since the date, other than cashflows relating to the iron ore projects (which are reflected in the cashflow models underpinning our NPV valuation) and the movement in the value of the hedge book (which is reflected in the current mark-to-market valuation we have used for the purposes of our assessment).

ASIC Regulatory Guides envisage the use by an independent expert of specialists when valuing specific assets. To assist KPMG in the valuation of Mount Gibson's iron ore assets, assuming the Proposed Transaction is successfully implemented, Al Maynard & Associates Pty Ltd (AMA) was engaged to prepare independent technical advice confirming that the operating and mineralogy assumptions adopted by Mount Gibson in its internal project cash flow forecasts in respect of Tallering Peak, Koolan Island and Extension Hill are not unreasonable. In addition, AMA's scope of work with KPMG included the provision of independent valuation advice in relation to Mount Gibson's exploration assets.

AMA's technical and valuation assessment was prepared in accordance with the requirements of the AusIMM Code and Guidelines for Assessment and Valuation of Mineral Assets and Mineral Securities for Independent Expert Reports (the ValMin Code).

We have satisfied ourselves as to AMA's qualifications and independence from each of Mount Gibson, APAC and Shougang Concord and have placed reliance on the outcomes of its work.

KPMG was responsible for the determination of certain macro economic and other assumptions such as forecast iron ore prices, exchange rates, discount rates and inflation assumptions.

Due to the various uncertainties inherent in the valuation process, we have determined a range of values within which we consider the value of each of the mineral assets of Mount Gibson to lie. These valuations have been adopted in our report.

Other assets and liabilities of Mount Gibson have been incorporated in our valuation at book values unless noted otherwise.

10.2 Valuation summary

In considering the Proposed Transaction, we have considered both the value of Mount Gibson in the event that the Proposed Transaction proceeds and the value of Mount Gibson in the absence of the Proposed Transaction.

Valuation of Mount Gibson in the event that the Proposed Transaction proceeds

We have assessed the going concern value of Mount Gibson as a whole on the basis that the Proposed Transaction proceeds to lie in the range of \$1,331.0 million to \$1,434.4 million, or between approximately \$1.23 and \$1.32 per Mount Gibson share.

We have assessed the value of Mount Gibson by aggregating the estimated market value of Mount Gibson's interests in mineral assets, adding the assessed value of other assets and, if appropriate, deducting any external borrowings and non-trading liabilities. The value of Mount Gibson has been assessed on the basis of fair

market value, that is, the value that would be negotiated between a knowledgeable and willing, but not anxious buyer, and a knowledgeable and willing, but not anxious seller, acting in an arm's length transaction, where both buyer and seller are fully informed.

In forming our view as to the going concern value of Mount Gibson, we have relied upon the life of mine cash flow projections for Talling Peak, Koolan Island and Extension Hill prepared by Mount Gibson. Further, in forming our view as to value, we have relied upon the independent technical and valuation advice prepared by AMA. An overview of our valuation results, adopted methodologies and assumptions in respect of Mount Gibson's iron ore assets, in terms of assessed values, is set out in section 10.3 to 10.6 below.

Below is a summary of the range of fair market values at which Mount Gibson's shares have been assessed on the basis that the Proposed Transaction proceeds.

Table 37: Summary of assessed fair market value of Mount Gibson on the basis that the Proposed Transaction proceeds

	Assessed values	
	Low \$m	High \$m
Talling Peak	454.9	466.3
Koolan Island	587.4	635.6
Extension Hill	261.0	271.6
Other exploration assets	109.3	138.3
Total mineral assets	1,412.6	1,511.8
Add: Cash and cash equivalents	126.6	126.6
Utilisation of carried forward tax losses	42.6	43.2
Less: Senior debt	(105.0)	(105.0)
Finance leases & hire purchase contracts	(74.9)	(74.9)
Tax effected hedge book	(171.9)	(171.3)
Other net liabilities	(5.3)	(0.3)
Future corporate overheads – corporate office	(35.9)	(37.1)
Future corporate overheads – mining operations	(20.6)	(21.4)
Total equity value	1,168.2	1,271.6
Add: Proceeds from unlisted options exercised	5.0	5.0
Proceeds from Proposed Rights Issue & Placement	157.8	157.8
Total equity value (diluted)	1,331.0	1,434.4
Number of ordinary shares (million)	804.3	804.3
Add: Unlisted options exercised (million)	9.0	9.0
Proposed Placement & Rights Issue (million)	270.9	270.9
Diluted number of shares on issue (million)	1,084.2	1,084.2
Value per share (diluted) - \$	1.23	1.32

Source: KPMG analysis

We have assessed the fair value of a fully diluted share in Mount Gibson, inclusive of premium for control, as lying in the range of \$1.23 to \$1.32. The value provides an indication of the value to existing shareholders that

the Directors are seeking to preserve by entering into the Proposed Transaction and avoiding Mount Gibson ceasing to be a going concern.

As mentioned earlier, three of Mount Gibson's customers defaulted on their binding offtake obligations by failing to collect shipments of ore they were scheduled to take in October and November 2008. Consequently, Mount Gibson terminated their agreements, at the same time reserving its right to claim damages against those customers for breach of contract. Given the early stages of this dispute, no recovery actions commenced or claims lodged at this time, we have not attributed value or significant weight to these potential assets and potential liabilities due to the high level of uncertainty attaching to the outcome of each.

Premium for control

It is generally acknowledged that in order to acquire a 100 percent controlling interest in a listed company, the acquirer must pay a premium over and above the price at which the shares in the target are trading on ASX prior to the announcement of the takeover bid. This premium reflects the benefits the acquirer achieves through holding a 100 percent controlling interest in contrast to a portfolio shareholding and even a controlling interest of less than 100 percent, although the level of premium paid in the latter circumstances may be less than otherwise may have been the case.

The benefits of holding a 100 percent controlling interest typically may include:

- full and unfettered access to cash flows of the business
- control over dividend decisions
- control over voting at shareholder meetings and, in particular decisions requiring special resolutions, and composition of the Board of Directors
- absolute control over the future direction of the company without the need to have regard to prejudicing the interests of minority shareholders
- ability to group tax losses.

Premia are paid for reasons that vary from case to case. In some situations the premium paid may be greater than others due to synergies or other benefits the acquirer expects to realise.

A DCF valuation provides a valuation of 100 percent of a project and accordingly incorporates a premium for control in respect of the benefits of accessing in full the cash flows attributable to the Company. Mount Gibson's interests in Tallering Peak, Koolan Island and Extension Hill has been valued using methods including the DCF method. Accordingly, no additional premium for control to reflect the increase in APAC and Shougang Concord's combined shareholding has been included in our valuation.

Our assessed value of share in Mount Gibson as a going concern represents a premium of between 204 percent and 226 percent to Mount Gibson's last closing price immediately prior to the announcement of the Proposed Transaction on 3 November 2008 of \$0.405 and a premium of between 486 percent and 528 percent to the closing share price on 20 November 2008. If comparing to Mount Gibson's last closing price immediately prior to the announcement of requests from a number of its customers to delay hematite ore shipments scheduled for

the second quarter of the financial year on 9 October 2008 of \$1.155, these assessed fair values represent a premium of between 6 percent and 14 percent.

Accordingly, Shougang Concord and APAC are paying a significant premium over the current share price of \$0.21 as at 20 November 2008, even though they will not achieve full control of Mount Gibson, and potentially an even greater premium over the value of a Mount Gibson share in the absence of the Proposed Transaction as discussed later in this report.

Valuation of Mount Gibson in the absence of the Proposed Transaction

As noted above, we have based our assessment of the business as a going concern on the value implied by the terms of the Proposed Transaction. This results in a valuation that is at a significant premium to the Company's current share price which price arguably reflects concern over the ability of Mount Gibson to continue as a going concern in the absence of the Proposed Transaction.

As mentioned previously, Mount Gibson has advised that, if the Proposed Transaction is not implemented, and in the absence of alternative offtake arrangements, the Company will be required to seek the sale of its production through the spot market which may lead to sales falling below production levels. If the Company was forced to sell through the spot market, Mount Gibson's Board of Directors expects, given the current state of the spot market, that the Company would suffer material financial distress and consequently would most likely default on its debt facility agreement and may not be able to continue as a going concern.

This real and material risk of Mount Gibson ceasing to be a going concern is the primary driver for the Proposed Transaction.

We note that whilst Mount Gibson has commented that it has received informal approaches to provide information, no proposals have been received by Mount Gibson, the Company is not in active discussions with any party and no such alternative investor or acquirer has emerged to the date of this report.

Mount Gibson has advised that, prior to agreeing to the Proposed Transaction, the Company sought to find alternative offtake purchasers to its defaulting customers and, after conducting a wide ranging search, concluded that the best alternative option was the Proposed Transaction.

Accordingly, in the absence of the Proposed Transaction, we note that the value of shares in Mount Gibson would likely be significantly lower than the value attributed on the basis that the Proposed Transaction proceeds. We have valued Mount Gibson in accordance with the Proposed Offtake agreements in order to illustrate the potential value that can be realised under the Proposed Transaction and to indicate the value that can potentially be realised by existing shareholders in Mount Gibson in the event that it is able to continue as a going concern.

We note the views of the directors that the Company may not be able to retain and develop its Koolan Island or Extension Hill assets in the absence of the Proposed Transaction and may be forced to seek to realise them in a distressed sale environment. The ability of the Company to also realise full, if any, value for its exploration assets and tax losses would also likely be adversely impacted. We note, for illustrative purposes, that the combined value of these assets as set out in the table above lies between \$1,000.3 million and \$1,088.7 million as a going concern, and represents approximately 86 percent of the total assessed equity value of the Company before dilution for the Rights Issue, the Placement and options.

Clearly, the potential impact of trying to realise these assets on a forced sale basis in the current environment and in the context of a significant shortfall of sales against production would likely result in significant financial distress for Mount Gibson.

In this context, we have assessed that it is reasonable to assume that the value of a share in Mount Gibson in the absence of the Proposed Transaction is currently in the range of nil to \$0.56 (representing the worst case scenario if Mount Gibson ceases to be a going concern and the net asset backing per share as at 30 September 2008 adjusted to reflect the current mark-to-market position of the Company's hedge book). We note that shares in Mount Gibson are presently trading on ASX in the current difficult market at prices that lie within this range,

Rights Issue and Placement price

The Rights Issue price and Placement price of \$0.60 per share, represents a discount of between 51 percent and 55 percent to our assessed range of fair values of \$1.23 to \$1.32 for Mount Gibson as a going concern.

KPMG has compiled data relating to rights issues proposed and completed by ASX listed companies within the last six months. Based on our analysis, resource based underwritten rights issues have recently been undertaken at a discount to the share price on average of 26 percent, with a range of 5 percent to 45 percent. We note that the observed discount to the 5 day VWAP for such companies is also broadly similar to this. Accordingly, the level of discount of the Rights Issue price and Placement Price is above this average, and reflects the current vulnerable position in which the Company finds itself.

10.3 Value of Talling Peak

In assessing the value of the Talling Peak operations on the basis that the Proposed Transaction proceeds, we have considered the life of mine cash flow forecast prepared by Mount Gibson with an effective valuation date of 30 September 2008, in addition to the independent technical advice provided by AMA.

The principal operational assumptions underpinning Mount Gibson's cash flow model are summarised in the table below.

Table 38: Talling Peak key operating assumptions

Factor	Unit	Assumption
Mine life	Years	5
Total ore mined	mwmt	13.8
Average grade – lump	% Fe	62.7
Average grade – fines	% Fe	60.6
Moisture content – lump	%	1.24
Moisture content – fines	%	2.29
Total sales – lump	mwmt	9.6
Total sales – fines	mwmt	5.9
<i>Note 1: Million wet metric tonne (mwmt)</i>		

Source: Cash flow model provided by Mount Gibson, KPMG analysis supported by AMA technical advice

AMA reviewed the operating and mineralogy assumptions adopted by Mount Gibson in its internal project cash flow forecasts provided to KPMG. Based on the information available to AMA, AMA advised that it is of the opinion the various assumptions adopted by Mount Gibson are reasonable.

The modelling results used in our valuation of the Talling Peak operations are set out below.

Table 39: Talling Peak modelling results

Item	Unit	Total	2009 (Oct to Jun)	2010	2011	2012	2013 to 2014
Product sales	mwmt	15.4	2.0	2.8	3.0	3.0	4.6
Revenue	\$m	1,728	168	374	375	325	486
Operating costs	\$m	882	126	200	192	163	201
Capital costs	\$m	17	0	4	4	4	5

Source: Cash flow model provided by Mount Gibson, KPMG analysis supported by AMA technical advice

At the low end of our valuation range, using a post tax nominal discount rate of 14.0 percent per annum, we have determined an NPV of \$454.9 million. The high end value using a post tax nominal discount rate of 13.0 percent per annum is \$466.3 million.

Sensitivity analysis: Talling Peak

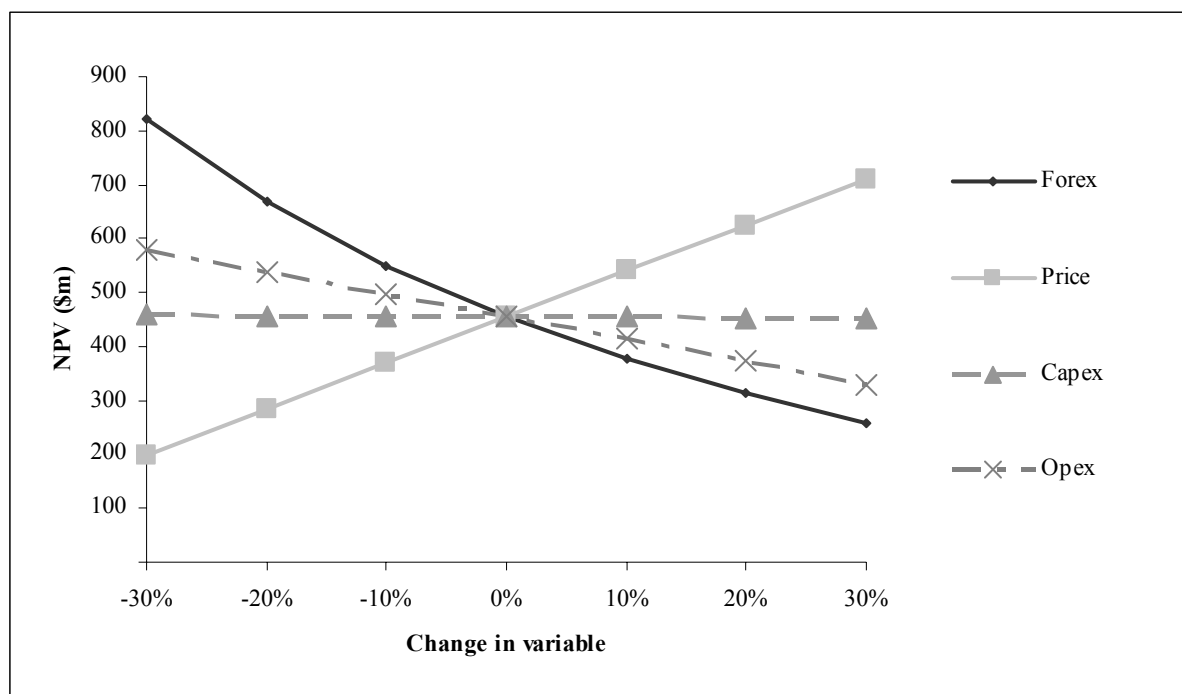
We have undertaken sensitivity analysis around the valuation for the Talling Peak project based on a range of iron ore price, exchange rate, operating cost and capital cost assumptions, the outcome of which is shown in the table and figure below.

Table 40: Sensitivity analysis - Talling Peak

% change	Net present value			
	Iron ore price \$m	Exchange rate \$m	Operating costs \$m	Capital costs \$m
-30%	199.1	820.3	579.8	458.3
-20%	284.4	668.1	538.2	457.2
-10%	369.7	549.7	496.5	456.1
0%	454.9	454.9	454.9	454.9
10%	540.2	377.4	413.3	453.8
20%	625.4	312.8	371.7	452.7
30%	710.7	258.2	330.1	451.5

Source: KPMG analysis

Figure 10: Sensitivity analysis - Tallering Peak



Source: KPMG analysis

The sensitivity analysis indicates that the NPV of the Tallering Peak project is particularly sensitive to the underlying assumptions made in relation to future iron ore prices and exchange rate assumptions.

Our range of assessed fair values for Tallering Peak does not incorporate any terminal value. At the end of the discrete forecasting period, we have assumed any proceeds from the realisation of mining infrastructure is required to meet mine closure and/or rehabilitation commitments, resulting in a nil net value to the company. In reality, there may be a prospect of Mount Gibson achieving further success with exploration programmes resulting in an extension of ore reserves available for exploitation, which may extend the operational life of Tallering Peak past the end of the forecast period assumed by Mount Gibson. However, given the current uncertainty attaching to this scenario eventuating and that AMA has separately assessed the value of Tallering Peak exploration, we do not consider any purchaser of the Tallering Peak operations would attach any significant additional value to this potential at this time.

Economic and financial assumptions

The economic and financial assumptions as used in our valuation are set out below.

Denomination of cash flows

Cash flows denominated in United States dollars (USD), specifically the iron ore pricing assumptions, were converted to AUD to reflect Mount Gibson's functional currency at the rates discussed below.

Exchange rate assumptions

The exchange rate assumptions applied to the USD commodity price assumptions are summarised in the table below.

Table 41: Summary of exchange rate assumptions

	2008	2009	2010	2011
AUD:USD	0.67	0.68	0.68	0.68

Source: KPMG analysis

The AUD:USD exchange rate is assumed to depreciate post 2011 at a rate consistent with the difference in the expected long-term inflation rates between Australia and the United States such that purchasing power parity is maintained (i.e. the AUD:USD exchange rate is assumed to remain constant in real terms post 2011).

Forecast exchange rates have been assessed by us having regard to the current spot exchange price, the prevailing forward rate and also forecasts published by various economic commentators and broking houses.

Commodity prices

Commodity pricing assumptions utilised by KPMG to determine appropriate nominal pricing assumptions in respect of the Talling Peak, Koolan Island and Extension Hill cash flow models in the period to 2012 are summarised in the table below.

Annual iron ore contract price negotiations between Australian iron ore producers and Asian steel mills for the for the 2008 Japanese fiscal year (JFY), which commences 1 April 2008 and ends 31 March 2009, resulted in prices for iron ore fines of US cents 144.66 per dry metric tonne unit (dmtu) and lump US cents 201.69 per dmtu.

Table 42: Commodity price assumptions: Japanese Fiscal Years (i.e. year ending 31 March)

US\$ nominal	Unit	2009	2010	2011	2012
Iron ore –Fines	US\$/dmtu	144.7	130.0	130.0	110.0
Iron ore –Lump	US\$/dmtu	201.7	180.0	180.0	150.0

Source: Reports from various broking houses and economic commentators, KPMG analysis

Subsequent to 2012 we have assumed iron ore prices to increase by the assumed long-term inflation rate for the United States of 2.5 percent per annum, such that the real price of the relevant commodity (i.e. ignoring the impact of inflation, is maintained at a constant level).

The above price assumptions based on Japanese Fiscal Years were converted on a weighted average basis to arrive at appropriate nominal pricing assumptions for financial years (to match the time periods of Mount Gibson's DCF cash flow models) as set out in the table below.

Table 43: Commodity price assumptions: Financial Years (i.e. year ending 30 June)

<i>US\$ nominal</i>	<i>Unit</i>	2009	2010	2011	2012
Iron ore –Fines	US\$/dmu	141.0	130.0	125.0	110.7
Iron ore –Lump	US\$/dmu	196.3	180.0	172.5	150.9

Source: Reports from various broking houses and economic commentators, KPMG analysis

Iron ore prices applied in our valuation have also been adjusted for the negotiated discounts and contractual conditions of the offtake agreements with APAC and Shougang Concord.

In the short term to the end of December 2008, pricing reflects sales already made and budgeted by Mount Gibson. In the medium term to the end of June 2009, pricing is at the negotiated level of US\$56.00 FOB per wet metric tonne (wmt) for both lump and fines (as adjusted for variations in Fe content). Beyond June 2009, prices incorporating the agreed discount of 10 percent for lump and fines from Tallering Peak and Koolan Island, and 16 percent for lump and fines from Extension Hill have been adopted. We note that the Extension Hill product quality is sub-benchmark, more like Yandi fines. We understand Yandi fines are sold at a 6 percent discount to benchmark and accordingly have adopted a similar discount for this location.

The Long Term Offtake agreements with APAC and Shougang Concord also contain penalties depending on the specification of the iron ore received. The penalties that apply include:

- penalty for lump iron grade below 62 percent
- penalty for lump silica and aluminium (combined) content above six percent, with an increased penalty for silica and aluminium content above eight percent
- penalty for fines iron grade below 60 percent
- penalty for fines silica and aluminium (combined) content above seven percent, with an increased penalty for silica and aluminium content above nine percent.

We have applied the penalty provisions where appropriate.

Other assumptions

Other key financial and economic assumptions adopted by us in assessing the value of Mount Gibson's interest in the Tallering Peak iron ore operations include:

- A constant long-term inflation rate in respect of the United States of 2.5 percent per annum. This rate was assessed having regard to the rates implied by the current yields on relevant long-dated Government bonds and inflation linked bonds.
- A constant long-term inflation rate in respect of Australia of 3.0 percent per annum. This rate was assessed having regard to the rates implied by the current yields on relevant long-dated Government bonds and inflation linked bonds which implied a rate of 2.7 percent per annum and the top end of Reserve Bank of Australia's (RBA) target range for inflation of 3.0 percent per annum.

In a statement made by the RBA on 7 November 2008, the RBA commented that “Consumer price inflation in Australia remained high in the September quarter. As expected, CPI inflation in year-ended terms picked up to 5 percent, while underlying measures were just over 4.5 percent. Nonetheless, capacity pressures are now easing and, given the outlook for moderate growth in demand and activity, it is reasonable to expect that inflation in Australia will soon start to fall. Global disinflationary forces will assist in this regard, though depreciation of the exchange rate means that the decline of inflation to the target could take longer than would otherwise be the case”.

The RBA further commented that it will continue to monitor developments and make adjustments as needed to promote sustainable growth consistent with achieving the 2-3 percent inflation target over time.

- An Australian corporate tax rate of 30 percent over the life of the operations.
- An ungeared post tax nominal discount rate in the range of 13.0 percent per annum and 14.0 percent per annum. For the purpose of the valuation, we have adopted a range of values by applying each end of the discount rate range. The basis for our calculation of discount rates is discussed at Appendix 4 to this report.

10.4 Valuation of Koolan Island

In assessing the value of the Koolan Island operations on the basis of the Proposed Transaction proceeds, we have considered the life of mine cash flow forecast prepared by Mount Gibson with an effective valuation date of 30 September 2008, in addition to the independent technical advice provided by AMA.

The principal operational assumptions underpinning Mount Gibson’s cash flow model are summarised in the table below.

Table 44: Koolan Island key operating assumptions

Factor	Unit	Value
Mine life	Years	10
Total ore mined	mwmt	37.1
Average grade – lump	% Fe	65.6
Average grade – fines	% Fe	62.3
Moisture content – lump	%	1.24
Moisture content – fines	%	2.29
Total sales – lump	mwmt	17.2
Total sales – fines	mwmt	20.5

Source: Cash flow model provided by Mount Gibson, KPMG analysis supported by AMA technical advice

AMA reviewed the operating and mineralogy assumptions adopted by Mount Gibson in its internal project cash flow forecasts provided to KPMG. Based on the information available to AMA, AMA advised that they are of the opinion the various assumptions adopted by Mount Gibson are reasonable.

Table 45: Koolan Island modelling results

Item	Unit	Total	2009 (Oct to Jun)	2010	2011	2012	2013 to 2019
Product sales	mwt	37.7	1.6	3.4	3.6	3.0	26.1
Revenue	\$m	4,565	129	412	415	322	3,287
Operating costs	\$m	2,023	159	297	306	315	946
Capital costs	\$m	95	11	27	7	7	43

Source: Cash flow model provided by Mount Gibson, KPMG analysis supported by AMA technical advice

At the low end of our valuation range, using a post tax nominal discount rate of 14.0 percent per annum, we have determined an NPV of \$587.4 million. The high end value using a post tax nominal discount rate of 13.0 percent per annum is \$635.6 million.

Sensitivity analysis: Koolan Island

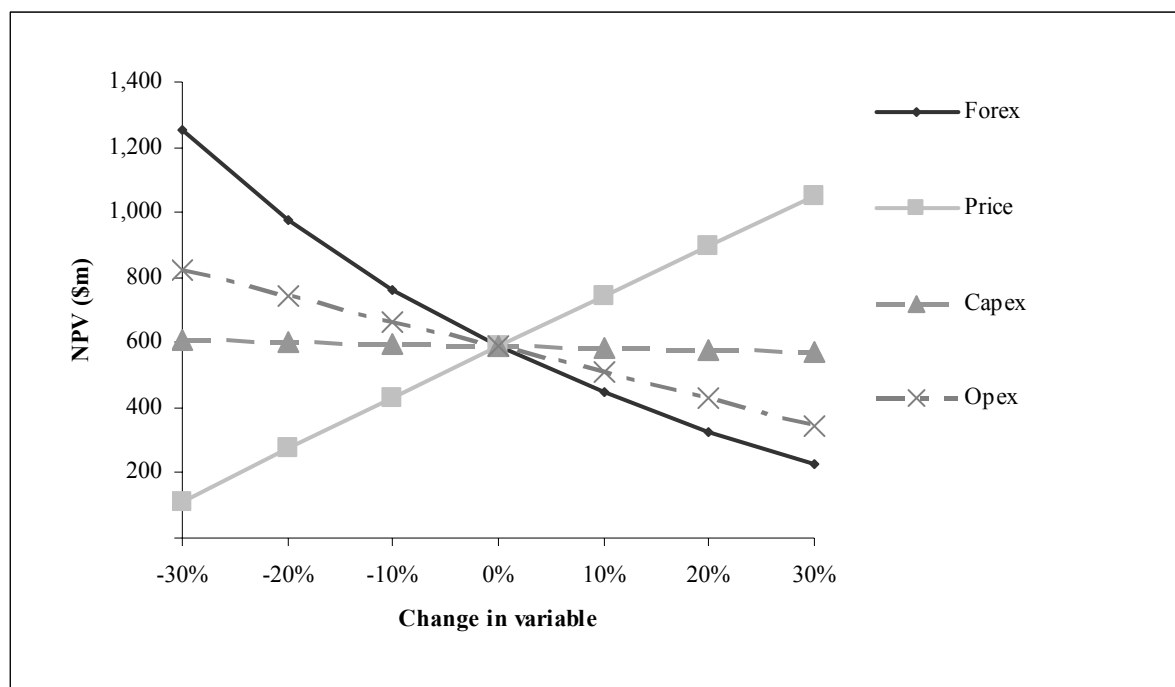
We have undertaken sensitivity analysis around the valuation for the Koolan Island project based on a range of iron ore price, exchange rate, operating cost and capital cost assumptions, the outcome of which is shown in the table and figure below.

Table 46: Sensitivity analysis – Koolan Island

% change	Net present value			
	Iron ore price \$m	Exchange rate \$m	Operating costs \$m	Capital costs \$m
-30%	111.7	1,247.9	823.6	605.7
-20%	274.7	973.9	744.9	599.6
-10%	432.2	759.2	666.1	593.5
0%	587.4	587.4	587.4	587.4
10%	742.0	446.4	508.2	581.3
20%	896.6	328.1	428.6	575.2
30%	1,051.0	224.9	345.0	569.1

Source: KPMG analysis

Figure 11: Sensitivity analysis – Koolan Island



Source: KPMG analysis

The sensitivity analysis indicates that the NPV of the Koolan Island project is particularly sensitive to the underlying assumptions made in relation to future iron ore prices and exchange rate assumptions.

Our range of assessed fair values for Koolan Island does not incorporate any terminal value. At the end of the discrete forecasting period, we have assumed any proceeds from the realisation of mining infrastructure is required to meet mine closure and/or rehabilitation commitments, resulting in a nil net value to the company. In reality, there may be a reasonable prospect of Mount Gibson achieving further success with exploration programmes resulting in an extension of ore reserves available for exploitation, which may extend the operational life of Koolan Island past the end of the forecast period assumed by Mount Gibson. However, given the current uncertainty attaching to this scenario eventuating and that AMA has separately assessed the value of Koolan Island exploration, we do not consider any purchaser of the Koolan Island operations would attach any significant additional value to this potential at this time.

Economic and financial assumptions

All of the economic and financial assumptions used in the valuation of Talling Peak have equal application in the valuation of Koolan Island. These economic and financial assumptions are set out above at section 10.3 of our report.

10.5 Valuation of Extension Hill

In assessing the value of the Extension Hill operations on the basis that the Proposed Transaction proceeds, we have considered the life of mine cash flow forecast prepared by Mount Gibson with an effective valuation date of 30 September 2008, in addition to the independent technical advice provided by AMA.

The principal operational assumptions underpinning Mount Gibson's cash flow model are summarised in the table below.

Table 47: Extension Hill key operating assumptions

Factor	Unit	Value
Mine life	Years	6
Total ore mined	mwmt	17.5
Average grade – lump	% Fe	60.4
Average grade – fines	% Fe	59.0
Moisture content – lump	%	1.24
Moisture content – fines	%	2.29
Total sales – lump	mwmt	8.7
Total sales – fines	mwmt	8.7

Source: Cash flow model provided by Mount Gibson, KPMG analysis supported by AMA technical advice

AMA reviewed the operating and mineralogy assumptions adopted by Mount Gibson in its internal project cash flow forecasts provided to KPMG. Based on the information available to AMA, AMA advised that it is of the opinion the various assumptions adopted by Mount Gibson are reasonable.

Table 48: Extension Hill modelling results

Item	Unit	Total	Pre-prod and 2010	2011	2012	2013	2014 to 2016
Product sales	mwmt	17.4	0.8	3.0	3.0	3.0	7.6
Revenue	\$m	1,690	95	323	281	280	711
Operating costs	\$m	895	54	143	145	159	394
Capital costs	\$m	122	96	4	4	5	13

Source: Cash flow model provided by Mount Gibson, KPMG analysis supported by AMA technical advice

At the low end of our valuation range, using a post tax nominal discount rate of 14.0 percent per annum, we have determined an NPV of \$261.0 million. The high end value using a post tax nominal discount rate of 13.0 percent per annum is \$271.6 million.

Sensitivity analysis: Extension Hill

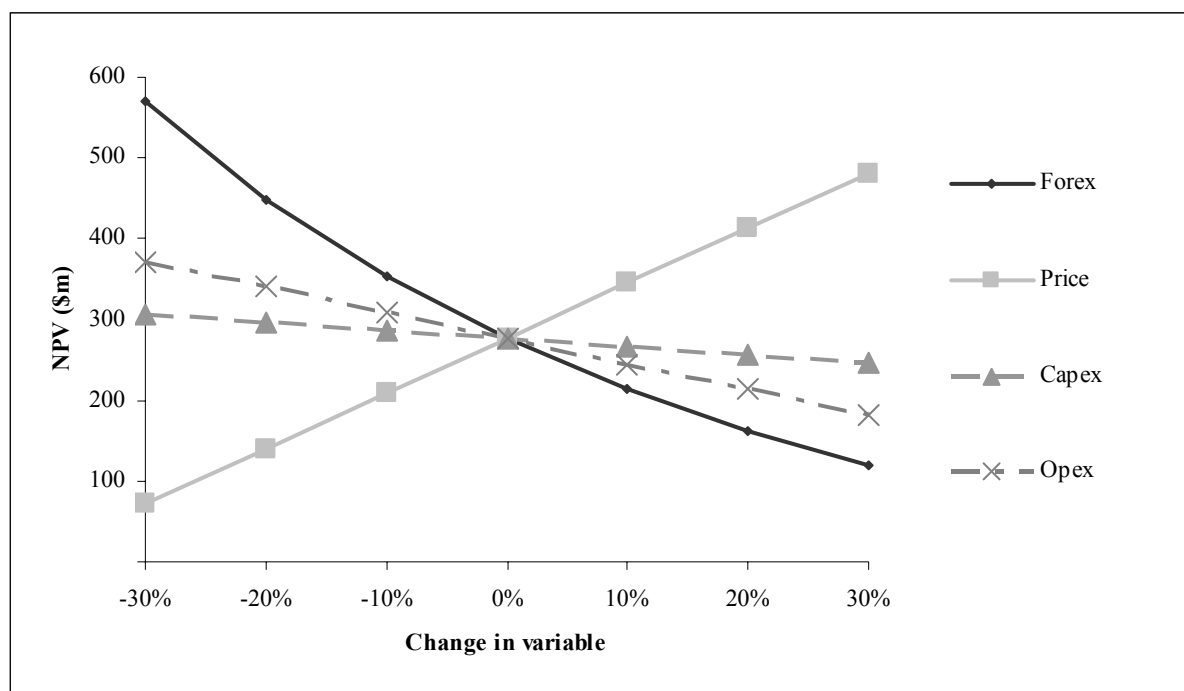
We have undertaken sensitivity analysis around the valuation for the Extension Hill project based on a range of iron ore price, exchange rate, operating cost and capital cost assumptions, the outcome of which is shown in the table and figure below.

Table 49: Sensitivity analysis – Extension Hill

% change	Net present value			
	Iron ore price \$m	Exchange rate \$m	Operating costs \$m	Capital costs \$m
-30%	56.1	553.8	360.8	291.0
-20%	124.4	431.8	327.5	281.0
-10%	192.7	336.9	294.3	271.0
0%	261.0	261.0	261.0	261.0
10%	329.3	198.9	227.7	251.0
20%	397.6	147.1	194.5	241.0
30%	465.9	103.3	161.2	231.0

Source: KPMG analysis

Figure 12: Sensitivity analysis – Extension Hill



Source: KPMG analysis

The sensitivity analysis indicates that the NPV of the Extension Hill project is particularly sensitive to the underlying assumptions made in relation to future iron ore prices and exchange rate assumptions.

Our range of assessed fair values for Extension Hill does not incorporate any terminal value. At the end of the discrete forecasting period, we have assumed any proceeds from the realisation of mining infrastructure is required to meet mine closure and/or rehabilitation commitments, resulting in a nil net value to the company. In reality, there may be a prospect, albeit slim, of Mount Gibson achieving further success with exploration programmes resulting in an extension of ore reserves available for exploitation, which may extend the operational life of Extension Hill past the end of the forecast period assumed by Mount Gibson. However, given the current uncertainty attaching to this scenario eventuating and that AMA has separately assessed the

value of Extension Hill exploration, we do not consider any purchaser of the Extension Hill operations would attach any significant additional value to this potential at this time.

Economic and financial assumptions

All of the economic and financial assumptions used in the valuation of Talling Peak have equal application in the valuation of Extension Hill. These economic and financial assumptions are set out above at section 10.3 of our report.

10.6 Exploration potential

AMA has valued Mount Gibson's exploration assets not factored into the above project cash flows in the order of \$124.6 million from within range of \$109.3 million to \$138.3 million. In assessing these values, AMA has considered accepted methods for valuing mineral assets and applied the empirical method.

Under the empirical method (termed a "Yardstick" or a "Real Estate" approach), the market value determination for exploration may be made according to the independent technical expert's knowledge of the particular property. This can include a discount applied to values arrived at by considering conceptual target models for the area. The market value may also be rated in terms of a dollar value per unit area or dollar value per unit of resource in the ground. This includes the range of values that can be estimated for an exploration property based on current market prices for equivalent properties, existing or previous joint venture and sale agreements, the geological potential of the properties, regarding possible potential resources, and the probability of present value being derived from individual recognised areas of mineralisation. The Yardstick and Real Estate methods are inherently subjective according to technical considerations and the informed opinion of the valuer.

Table 50: Valuation of exploration assets

Location	Low \$m	High \$m	Preferred \$m
Talling Peak	8.5	17.0	13.6
Koolan Island	100.0	120.0	110.0
Extension Hill	0.8	1.3	1.0
Total	109.3	138.3	124.6

Source: AMA

10.7 Other assets

Net assets not valued as part of Mount Gibson's mining operations comprise cash, non-mining items of plant and equipment and sundry other assets and liabilities. Except as specifically noted below, having regard to their nature and quantum, these assets and liabilities have been incorporated in our valuation at net book values as at 30 September 2008.

Inventories and working capital

Ore inventory, trade debtors and trade creditors as at 30 September 2008 have been included in the cash flows underpinning the valuation of Mount Gibson's iron ore assets.

Funding of consumable supplies have been separately modelled and have been assumed to be realised and replenished on an on-going basis over the life of Mount Gibson's operational iron ore assets.

Trade receivables includes an amount of \$4.6 million which is currently in dispute. Although Mount Gibson is confident of recovery of this amount in full we have reduced the low end of our valuation range for this amount.

Prepayments

Other current assets as at 30 September 2008 includes prepayments of approximately \$4.2 million. We have not included any value in respect of prepayments as we do not consider any third party purchaser would be prepared to pay any consideration in respect of these assets.

Available for sale assets

Mount Gibson currently holds approximately 34.8 million shares in Resource Mining Corporation Limited (RMC), representing an ownership of approximately 7 percent.

The valuation of Mount Gibson's shareholding in Mount Gibson has been assessed based on recent share trading. Over the past six months, RMC stock has demonstrated low liquidity and the share price has fallen from around \$0.07 to its current trading level as at 12 November 2008 of less than \$0.01.

Considering the recent liquidity of RMC's shares and the size of Mount Gibson's holding, in the event a strategic investor was unable to be identified it may take a significant period of time to effect an orderly realisation of this parcel of shares on market. Accordingly, we have applied a discount to the value implied by current trading prices. We have included a premium at the high end of our range to reflect the potential to realise a control premium having regard to Mount Gibson's interest in the issue capital of RMC, whilst considering other significant shareholders. On this basis, we have assessed the value of Mount Gibson's investment in RMC to be in the range of \$0.2 million to \$0.3 million.

Mount Gibson also holds a convertible note in RMC. The convertible note has a face value of \$1,000,000 and is convertible into 31.25 million shares (which is a fixed number of shares). The note will mature on 19 December 2009. We have assessed the value of the convertible note held by Mount Gibson to be the face value of \$1.0 million, given 31.25 million shares based on the above current share price would be far less than the face value and therefore it is reasonable to assume Mount Gibson would not choose to convert the note.

Net payable on foreign currency hedge contracts

Oakvale Capital Limited (Oakvale) has completed a mark-to-market calculation of Mount Gibson's hedge book which indicated that, as at 20 November 2008, Mount Gibson's hedge book was approximately \$230.7 million out of the money. We have relied upon this calculation for the purpose of our assessment.

After consideration of a mark-to-market calculation of Mount Gibson's hedge book prepared by Oakvale as at 20 November 2008 and associated tax implications, we have valued Mount Gibson's net hedge book as being approximately \$171.3 million to \$171.9 million out of the money on a post-tax basis.

Property, plant and equipment

Items of plant and equipment required for the operation of Mount Gibson's iron ore operations have been incorporated in our valuation of Mount Gibson's iron ore production assets. The remaining items of non-

mining property, plant and equipment as at 30 September 2008 comprise office furniture and equipment in the corporate office and a shed at the Port of Geraldton.

We have relied on the Company's written down value of non-mining property, plant and equipment as at 30 September 2008 for the purposes of our assessment.

10.8 Off balance sheet items

Future corporate overheads

Mount Gibson incurs corporate overheads in relation to managing its business and maintaining its operating assets. These costs have not been incorporated into the valuations of Mount Gibson's iron ore assets set out above, and therefore it is necessary to deduct the present value of anticipated future management and administration costs in relation to Mount Gibson's operating assets from the value of the Company. Mount Gibson estimates that its corporate costs are likely to be in the order of \$9.7 million per annum (in 2008 post-tax dollars). However, of this amount approximately \$3.5 million per annum (in 2008 post-tax dollars) are costs relating to the operation of the mines underpinning the cash flows used in our assessment of the value of the iron ore assets but not allocated to the three iron ore project cash flows.

For the purpose of our valuation, Mount Gibson's corporate overheads, excluding the mine related costs of \$3.5 million per annum (in 2008 post-tax dollars) referred to above, have been estimated at between approximately \$35.9 million and \$37.1 million on a post-tax basis over the life of Mount Gibson's current production and development projects. The NPV of these corporate costs has been calculated having regard to the nature of the Company's portfolio of operating assets, the expected lives of the various assets, an assumed long term inflation rate for Australia of 3.0 percent per annum.

For the purpose of our valuation, Mount Gibson's other mine related corporate cost overheads of \$3.5 million per annum (in 2008 post-tax dollars), have been estimated at between approximately \$20.6 million and \$21.4 million on a post-tax basis over the life of Mount Gibson's current production and development projects. The NPV of these mine related corporate costs has been calculated having regard to the nature of the Company's portfolio of operating assets, the expected lives of the various assets, an assumed long term inflation rate for Australia of 3.0 percent per annum.

Revenue tax losses

We have assessed that NPV of Mount Gibson's carry forward tax losses at 30 September 2008 on the basis that the Proposed Transaction proceeds to lie in the range of \$42.6 million and \$43.2 million having principal regard to Mount Gibson's forecast earnings profile from its iron ore operations and our range of assessed discount rates.

Capital tax losses

Given the uncertainty as to the ultimate realisation of these tax losses, as detailed in section 6.8 above, we have not ascribed a value to these capital tax losses for the purpose of our valuation.

10.9 Other valuation parameters

Value per reserves

KPMG's valuation of Mount Gibson's equity of between \$1,331.0 million and \$1,434.4 million and the implied reserves based on the cash flows adopted attributable to Mount Gibson of 68 Mt implies valuation multiples as set out in the table below.

Table 51: Mount Gibson valuation multiples per tonne implied by KPMG assess fair values

Parameter	Valuation range	
	Low \$/t	High \$/t
Implied value of reserves based on cash flows adopted	19.57	21.09

Source: KPMG analysis supported by AMA technical advice

Set out in Appendix 5 is an analysis of the value per reserve tonne for selected comparable companies implied by the current trading prices of those companies. Notwithstanding that this analysis indicates a wide range of potential outcomes, both within individual countries and in an overall context, we note that the range of implied multiples above lies within the range of observed multiples but above the average and median, of the iron ore production and exploration companies included in our selection. The actual valuation multiplies per tonne implied by the Placement price and Rights Issue are lower than those set out above.

We note that implied value per reserve tonne as a measure should however be viewed with some caution as it does not capture such things as:

- the extent to which reserves have been developed, their quality (including whether the reserve base is magnetite or hematite), location or proximity to infrastructure
- the quantum or timing of future capital costs required to realise the underlying reserves
- potential timing differences companies in reporting updated reserves and resources figures.

Comparable company trading multiples

We do not consider that a comparison of the implied multiples to comparable company trading multiples to be particularly meaningful given the early stage of exploration or development of a number of the comparable companies and the diversified businesses of some of the larger comparable companies.

Transaction multiples

KPMG has reviewed data on a range of recent domestic and international acquisition transactions for iron ore production and exploration companies. The results of this analysis are set out at Appendix 5 to this report and indicate a wide range of valuation metrics. However, we make the following general observations from the analysis:

- There have been limited successful transactions involving Australian iron ore companies in recent times, with the focus on companies still in the exploration or development stages and therefore not directly comparable to Mount Gibson.
- The range of values per reserve tonne implied by our valuation range is within the range of observed value per reserves tonnes but above the average (excluding outliers) of those implied by recent Australian transactions.
- Similar to trading multiples mentioned above, we note that transaction implied value per reserve tonne as a measure should however be viewed with some caution as it does not capture such things as:
 - the extent to which reserves have been developed, their quality (including whether the reserve base is magnetite or hematite), location or proximity to infrastructure
 - the quantum or timing of future capital costs required to realise the underlying reserves
 - potential timing differences companies in reporting updated reserves and resources figures.

Having regard to the foregoing, we do not consider the outcome of our analysis of comparable trading and transaction valuation metrics to be unexpected.

11 **Assessment of the Proposed Transaction**

In our opinion, the Proposed Transaction is fair to Mount Gibson shareholders and therefore, pursuant to guidance set out in ASIC's RG111, also deemed to be reasonable

We have concluded that, in the absence of a superior alternative offer, the Proposed Transaction is fair having regard to the interests of the non-associated shareholders of Mount Gibson.

In forming this opinion, the primary factor that we have had regard to is that, notwithstanding that the Placement and Rights Issue price of \$0.60 cents represents a discount to the value of a share in Mount Gibson after the Proposed Transaction (which we have assessed as lying in the range of \$1.23 to \$1.32), the proposed issue price of \$0.60 cents per share represents a healthy premium over the current share price of Mount Gibson, a premium over net asset backing per share (after adjustment to reflect the current mark-to-market position of the Company's hedge book) and positions the Company strongly to continue as a going concern and thereby avoid the potential for the Company to cease trading which could, in the worst case, result in no value attaching to the existing shares in Mount Gibson.

We note that, the net asset backing per share as at 30 September was \$0.71, however, after adjusting the net assets to reflect the Company's current hedge book position, the net asset backing per share falls to in the order of \$0.56. In the event of a distressed sale it would be reasonable to expect further erosion of asset values from those recorded in the Company's books, which have been prepared on the assumption of the Company continuing as a going concern and the ability to realise the benefit of tax losses arising from a close out of the current hedge book is at best doubtful.

In assessing whether the Proposed Transaction is fair and reasonable to the non-associated shareholders of Mount Gibson we have considered various advantages and disadvantages that are likely to accrue to the non-associated shareholders as set out below.

11.1 Advantages

Mount Gibson will have offtake arrangements in place for all available production from January 2009 onwards

The Proposed Transaction will return Mount Gibson to a position of having 100 percent of its Available Production subject to offtake agreements from January 2009.

Mount Gibson announced 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. Mount Gibson subsequently announced on 3 November 2008 that three of those existing offtake customers had defaulted on their legally binding offtake agreements, by failing to collect shipments of ore they were scheduled to take in October and November.

In addition to Mount Gibson's announcement of customer requests to delay iron ore shipments and offtake defaults, both Rio Tinto Ltd and Companhia Vale do Rio Doce (Vale) have also made recent announcements that they intend to reduce production in the short term. Although BHP has not made any formal announcements, a recent news article⁶ refers to an interview with BHP's Chief Financial Officer, Alberto Calderon, in which Mr Calderon is reported to have mentioned that credit issues had led some steel mills to ask for shipment deferrals and that this would reduce iron ore sales by up to 6 Mt by the end of the year.

Further, iron ore spot prices are currently lower than the applicable benchmark contract prices. In the period from July 2008 until November 2008, the spot price for iron ore fines in China has dropped significantly, in the order of 60 percent.

In such a volatile and adverse market environment and against the background of a deepening global economic crisis, it is especially important for Mount Gibson to have the security of offtake agreements with large customers, particularly where these customers are also heavily invested in Mount Gibson as shareholders.

Mount Gibson has advised that if the Proposed Transaction is not implemented, and in the absence of alternative offtake arrangements, the Company would suffer material financial distress and consequently may not be able to continue as a going concern. In this regard, Mount Gibson believes that it is likely the Company's financiers would seek to rely upon a Material Adverse Change provision in the relevant loan documentation, which would, in turn necessitate an immediate refinancing of all debt, bonds and FX Facilities which may be problematic in the current financial environment. There is a material risk that Mount Gibson would not be able to achieve a refinancing and consequently may be unable to continue as a going concern.

We concur that in the present circumstances, there is a real and material risk that Mount Gibson would not be able to achieve a refinancing and consequently may be unable to continue as a going concern.

Under the Medium Term Offtake agreement, Shougang Concord, will purchase all of Mount Gibson's Available Production between 1 January 2009 to 30 June 2009 at US\$56 FOB per wet metric tonne (as adjusted

⁶ The Australian, 15 November 2008

for variations in Fe content). This is a relatively substantial discount to the contracted benchmark prices and compares to a current spot price for iron ore fines CFR (cost and freight) China main ports of US\$69.00 per metric tonne. However, in the context of a downward trending spot market and given the relatively short term application of this Medium Term Offtake agreement, this arrangement provides a valuation floor to Mount Gibson's revenue stream for the remainder of the financial year.

Under the Long Term Offtake agreement, APAC will purchase 20 percent of, and Shougang will purchase 80 percent of, Mount Gibson's Available Production from July 2009 for the life of mine at a 10 percent discount to Hamersley Benchmark prices, which represents a premium to the current spot market. This arrangement provides a badly needed solution to Mount Gibson's current vulnerable position and its immediate need to secure offtake arrangements in order to address the imminent going concern risk. The discount also takes into account extra freight costs of only using Panamax to Koolan Island and Geraldton (approximately US\$3 to US\$5 per tonne) compared with Cape size vessels into Port Hedland/Dampier. In this regard, the price has to be competitive to take into account this freight disadvantage.

Approval of the Proposed Transaction will improve Mount Gibson's net assets position and cash reserves

Completion of the Proposed Transaction will result in a significant pool of funds becoming available to the Company through:

- an equity injection of \$93.1 million as a result of the Rights Issue (after reduction of proceeds for underwriting fees)
- a further equity injection of \$66 million as a result of the Placement

which will be used to continue development at Koolan Island and Extension Hill.

Completion of the Underwriting and the Placement (and the Medium and Long Term Offtake contracts) are conditional upon each other. Accordingly, in the event the Proposed Transaction is not approved, neither the Underwriting arrangement nor the Placement will take place and the equity injection from the completion of these transactions will not be realised by the Company.

However, we are advised that the Rights Issue is not subject to shareholder approval and it will proceed whether or not the Proposed Transaction is approved, although it will not be underwritten by APAC or Shougang Concord if not approved by Mount Gibson shareholders. Accordingly, there will be an equity injection but only to the extent that shareholders (including APAC) take up their rights under the Rights Issue.

Shares acquired by a shareholder holding an interest of greater than 20 percent interest pursuant to a equal access Rights Issue are separately excluded under the Act as requiring shareholder approval. Accordingly APAC will be entitled to increase its relevant interest in the Company (depending upon the level of acceptances by non-associated shareholders) without the need for shareholder approval.

The Proposed Transaction would bolster substantially the financial stability of the Company through, inter alia, the injection of a further \$157.8 million in equity, which will better place Mount Gibson to be able to deal with further volatility in the iron ore and financial markets. The improved cash position should also allow Mount Gibson to avoid drawing down on existing debt facilities further.

This improved financial stability will enhance the prospects of the Company realising the maximum value of its development at Koolan Island and Extension Hill. Mount Gibson has advised that if the Proposed Transaction proceeds it will be better placed to proceed with the planned development activities at Koolan Island and Extension Hill in due course.

Further, the Proposed Transaction will materially reduce the Company's reliance on public equity and debt markets, which is an advantage given the current financial climate and current difficulty of raising capital and raising capital on attractive terms. Mount Gibson has advised that prior to agreeing to the Proposed Transaction, the Company undertook a process to assess the availability of funding from external sources. Mount Gibson advised this process did not result in any superior or equivalent proposals.

With a significant equity position APAC and Shougang Concord will be incentivised to work towards the future success of Mount Gibson

APAC with its increased shareholding, and Shougang Concord, as a major shareholder, will be incentivised to work towards the future success of the Company. APAC is a trader in the iron and steel industry and Shougang Concord is a steel producer and trader in the iron and steel industry.

If the Proposed Transaction proceeds, APAC and Shougang Concord will collectively own between 28.5 percent and 40.4 percent of Mount Gibson depending on the level of uptake of the Rights Issue by existing shareholders. Continuing non-associated shareholders will participate in any benefits that may be realised from the alliance with APAC and Shougang.

11.2 Disadvantages

The completion of the Proposed Transaction will result in a dilution of non-associated shareholders interests in the Company

Successful completion of the Proposed Transaction would result in a dilution of non-associated shareholders interests from 79.6 percent to between 59.6 percent and 71.5 percent.

We note that as the Rights Issue is a renounceable issue, all Mount Gibson shareholders have the opportunity, at their election, to participate in the pro-rata equity issue based on the number of shares they presently hold and thereby limit the extent of their dilution to the lower end of the range stated above.

11.3 Other key issues

APAC and Shougang Concord could still acquire the shares proposed to be issued under the Proposed Transaction in the absence of the Proposed Transaction

Section 606 of the Act, provides a general prohibition to any person with a relevant interest of 20 percent or more of the voting capital of a company from increasing their interest in the absence of a takeover offer. There are, however, various exemptions to this rule set out in Section 611 of the Act, which include:

- the acquisition of shares pursuant to an equal access rights issue, including in a person's capacity as underwriter

- the acquisition of up to 3 percent of a Company's issued share capital within any six month period (the creep acquisition provisions).

Accordingly, in the absence of the Proposed Transaction, APAC would be entitled to participate in any rights issue by the Company both as a shareholder and underwriter without the need for shareholder approval. Further, it is conceivable that Shougang Concord could enter the market in the future to acquire the same number of shares currently proposed to be issued under the Placement (under the creep acquisition provisions).

The practical impact of this would be that:

- APAC and Shougang Concord would still be able to achieve the same shareholding position as that immediately following completion of the Proposed Transaction, albeit over a longer timeframe
- Shougang Concord would be required to pay the prevailing share price at the relevant time, which, whilst currently at a discount to the proposed Placement price of \$0.60 per share, will be subject to future movements in the Company's share price
- more importantly, the funds paid by Shougang Concord to acquire shares on-market would remain outside of the Company and would be to the benefit only of those shareholders from which Shougang Concord acquired additional Mount Gibson shares and not pro rata to Mount Gibson shareholders as a whole.

We note that based on the diluted capital of the Company following completion of the Proposed Transaction, the shares proposed to be issued under the Placement would represent approximately 10.2 percent of Mount Gibson's expanded issued capital. Therefore under the creep provisions of the Act, Shougang could achieve the same equity position as that under the Proposed Transaction within 2 years of the Proposed Transaction, all other things being equal, without the need for shareholder approval. This time frame could be accelerated in the event Mount Gibson was to pursue any further equity raising in this period.

The Rights Issue price and Placement price is at a premium to Mount Gibson's current market price but a discount to recent historical market prices

The Rights Issue price and Placement price, both being at \$0.60 per share, is at a 186 percent premium to the last trading price for a Mount Gibson share on the day prior to the date of this report of \$0.21.

Over approximately the past 6 months until the announcement of the Proposed Transaction the share price has decreased significantly. The Rights Issue price and the Placement price are at a discount to prices at which Mount Gibson shares have traded until recently. The implied discount of the Rights Issue price and the Placement price to the VWAP for Mount Gibson's shares at various points in the six months prior to the announcement of the Proposed Transaction is detailed in the table below.

Table 52: Implied discount of Rights Issue/Placement price to VWAP for Mount Gibson shares

Period prior to 3 November 2008	Issue/Placement price \$	VWAP \$	Discount \$
1 week	0.60	- ¹	n/a ¹
1 month	0.60	0.80	0.20
3 months	0.60	1.53	0.93
6 months	0.60	2.24	1.64
<i>Note 1. Mount Gibson shares was in a trading halt from 23 October 2008</i>			

Source: IRESS and KPMG analysis

The Rights Issue is being offered to all Mount Gibson shareholders on an equal basis, however the Rights Issue Price is at a significant premium to the current trading price for the Company's shares on ASX and this is potentially a significant disincentive to existing shareholders to participate in the Rights Issue rather than acquiring additional shares on market from other existing shareholders in the Company. Non-associated shareholders however participate in the premium over existing share price being paid by APAC and Shougang Concord by virtue of the cash injected to Mount Gibson accompanying their investment.

We do note however that the current share price of Mount Gibson can reasonably be expected to alter over time from the price at which Mount Gibson shares will be trading at the date non-associated shareholders meet to consider the Proposed Transaction. General market sentiment and conditions and reaction to future Mount Gibson announcements could all impact upon the Company's share price. To the extent that the current share price is not representative of the longer term trading prices for shares in Mount Gibson, non-associated shareholders participating in the Rights Issue may be advantaged or disadvantaged.

Accordingly, non-associated shareholders will need to consider, inter alia, movements in the underlying Mount Gibson share price subsequent to the date of this report and also form a view as to the future prospects of Mount Gibson in deciding whether to support the Proposed Transaction and also whether they themselves subscribe for shares under the Rights Issue.

As noted previously, the proposed Placement to Shougang at \$0.60 per Mount Gibson shares is at a premium to the last trading price for a Mount Gibson share on the day prior to the date of this report of \$0.21. Whilst Shougang Concord does not currently hold a relevant interest in the issued capital of Mount Gibson, we have been advised that as a result of the substantial shareholding of SHHKL in both Shougang Concord and APAC, Shougang Concord and APAC may be considered to be associated for the purpose of the Act (APAC and Shougang are referred to jointly as the associated parties). It is reasonable that the Placement price should be at a premium to the price that a portfolio shareholding trades on ASX to reflect APAC and Shougang's increased level of control over the Company.

We note, in the event that the Underwriting and Placement had not been made conditional upon each other, APAC would have been entitled to participate in the Rights Issue, including as underwriter, without the need for the approval of non-associated shareholders. We also note that Mount Gibson has advised that APAC already has one representative on the Board of the Company, with a second expected to be appointed on or about the date of this report as a part of the Short Term Offtake agreement. Shougang Concord's ownership interest in the diluted capital of the Company as a result solely of the Placement would be 10.2 percent.

The Proposed Transaction may potentially reduce the likelihood of a takeover offer being received

If the Proposed Transaction proceeds, APAC and Shougang Concord will collectively own between 28.5 percent and 40.4 percent of Mount Gibson depending on the level of uptake of the Rights Issue by existing shareholders. As a result there is potentially reduced likelihood of a third party making a takeover bid for Mount Gibson.

However, APAC currently already holds 20.4 percent of Mount Gibson's issued share capital. Accordingly, even in the absence of the Proposed Transaction, any takeover offer for the Company as a whole would require the support of APAC to be successful.

APAC and Shougang have indicated to the Company that their intentions in relation to the Company following the implementation of the Proposed Transaction are as set out below:

- to support Mount Gibson and its management in relation to the operational plans as described in the Explanatory Memorandum
- to support Mount Gibson in pursuing its strategic goal of becoming a leading Australian independent iron ore producer.

As mentioned in section 9.3 above, if the Proposed Transaction is successful Shougang Concord will be entitled to appoint a nominee to the Mount Gibson Board. APAC and Shougang Concord will together have three nominees out of a total of seven directors on the Mount Gibson Board. APAC and Shougang have indicated to the Company that they have 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 APAC or Shougang Concord
- redeploy any of Mount Gibson's fixed assets.

Accordingly, given the size of APAC's pre-existing shareholding in the Company and representation on the Board, we do not consider completion of the Proposed Transaction, materially adversely impacts the prospects of the Company receiving a takeover offer in the future as compared to current prospects.

The Directors have considered alternative transactions

Mount Gibson has advised that, prior to agreeing to the Proposed Transaction, the Company sought to find alternative offtake purchasers to its defaulting customers and after conducting a wide ranging search the best alternative option was the Proposed Transaction.

The Directors have advised that in seeking funding for its continued operations (at the same time as seeking alternative offtake agreements), Mount Gibson undertook a process to identify potential investors and underwriters on commercial terms. However, Mount Gibson was unable to identify any willing underwriters and ultimately APAC and Shougang proposed to underwrite the Rights Issue.

In accordance with the terms of the Underwriting agreements APAC and Shougang will be paid an underwriting fee of 3.5 percent of its underwriting commitment.

Underwriting fees in relation to new issues completed in the metals and mining sector on ASX in the past 12 months have averaged in the order of 4 percent.

Earlier this year Mount Gibson prevented Shougang Concord acquiring approximately 19.7 percent of Mount Gibson

In January 2008, Shougang Concord entered into an agreement to purchase a substantial holding in Mount Gibson (156.8 million shares, representing 19.73 percent of the issued capital at the time) from a third party. As a result of an application by Mount Gibson to the Takeovers Panel, the sale was eventually cancelled and the third party sold its stake in April 2008 through an institutional book build process.

In contrast to the acquisition under the Proposed Transaction, the funds that would have been paid by Shougang Concord to acquire the 156.8 million shares from the third party would have remained outside of the Company and would have been to the benefit only of the third party vendor rather than being shared pro rata to Mount Gibson shareholders as a whole.

As disclosed by Mount Gibson in the Explanatory Memorandum, there are a number of differences between the Proposed Transaction and the earlier proposed purchase of the 19.72 percent. The major difference being, the key components of the Proposed Transaction are conditional on shareholder approval being obtained. Shareholders will therefore collectively determine, on an informed basis, whether the Proposed Transaction proceeds.

In addition, the directors consider that, in the absence of any superior proposal, the Proposed Transaction is in the best interests of all shareholders.

The Independent Directors have indicated that they intend to recommend approval of the Proposed Transaction

We have been advised that at the date of this report, the independent directors of Mount Gibson have unanimously recommended that shareholders vote to approve the resolutions relating to the Proposed Transaction, subject to there being no superior proposal received or publicly announced.

The outcome of various other matters is presently uncertain

As mentioned earlier, three of Mount Gibson's customers defaulted on their binding offtake obligations by failing to collect shipments of ore they were scheduled to take in October and November 2008. Consequently, Mount Gibson terminated their agreements, at the same time reserving its right to claim damages against those customers for breach of contract.

In its 3 November 2008 announcement, Mount Gibson advised it intends to pursue those customers that 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.

Conversely, as disclosed by Mount Gibson in the Explanatory Memorandum, there is a risk that existing customers may claim that the termination is not justified and take proceedings against Mount Gibson.

Given the early stages of this dispute, no recovery actions commenced or claims lodged at this time, we have not attributed value or significant weight to these potential assets and potential liabilities due to the high level of uncertainty attaching to the outcome of each.

Final documentation in relation to the Proposed Transaction is yet to be executed

We note that a number of the agreements formalising the Proposed Transaction are yet to be executed. In the event that the final terms of these documents differ from those detailed in this report and relied on by us, this may have a material impact on our opinion. In the event there is a material change we will notify shareholders and consider the implications, if any, for our report.

Appendix 1 – KPMG Disclosures

Qualifications

The individuals responsible for preparing this report on behalf of KPMG are Mr Duncan Calder and Mr Jason Hughes. Each has a significant number of years experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Duncan is a partner of the KPMG Partnership, an executive director of KPMG and Chairman of the Energy and Natural Resources Group of the KPMG Partnership's Perth practice. Duncan is an Associate of the Institute of Chartered Accountants in Australia and of the Institute of Chartered Accountants in England and Wales as well as an Associate of the Financial Services Institute of Australasia. Duncan has over 20 years experience in the preparation of independent expert reports and has been personally involved in a wide range of valuation assignments conducted by KPMG.

Jason is an Executive Director of KPMG, an Associate of the Institute of Chartered Accountants in Australia and a Fellow of the Financial Services Institute of Australasia and holds a Bachelor of Commerce from the University of Western Australia. Jason has extensive experience in the preparation of independent expert reports and corporate valuations.

Mr Calder and Mr Hughes were assisted in the preparation of this report by other staff of KPMG as required.

In addition KPMG retained the services of AMA to provide technical specialist support in relation to certain of the valuation input assumptions adopted in our valuation of Mount Gibson.

Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than KPMG's opinion as to whether the Proposed Transaction is fair and reasonable for Mount Gibson's shareholders. KPMG expressly disclaims any liability to any Mount Gibson shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Other than this report, neither KPMG nor the KPMG Partnership nor AMA has been involved in the preparation of the Notice of Meeting and Explanatory Memorandum or any other document prepared in respect of the Proposed Transaction. Accordingly, we take no responsibility for the content of the Notice of Meeting and Explanatory Memorandum as a whole (except for this report) or other documents prepared in respect of the Proposed Transaction.

Independence

KPMG is entitled to receive a fee of \$170,000, excluding GST, for the preparation of this report. Except for these fees, KPMG has not received and will not receive any pecuniary or other benefit whether direct or indirect for or in connection with the preparation of this report.

KPMG has also engaged the services of AMA to provide us with independent valuation advice in relation to Mount Gibson's iron ore assets. ASIC Regulatory Guides recommend the fees payable to the technical specialists be paid in the first instance by the independent expert and claimed back from the party

commissioning the independent expert. KPMG's preferred basis for appointment of independent technical specialists is that, whilst KPMG engages the technical specialist, the client pays the fees directly to the technical specialist. We do not consider that the independence of the technical specialist is impaired by this arrangement.

KPMG and the KPMG Partnership has also provided professional services to Mount Gibson in the form of ad hoc taxation and advisory services in the past, for which it has received time based fees. By way of disclosure, fees received for the provision of these services over the past two years total, in aggregate, approximately \$31,640, excluding GST. Other than this report, none of these services related to any aspect of the Proposed Transaction.

Neither KPMG nor the KPMG Partnership has provided professional services to Shougang Concord or APAC in the past.

Employees of KPMG, the KPMG Partnership and its affiliated entities or AMA may hold securities in Mount Gibson, Shougang Concord and/or APAC. However, no individual involved in the preparation of this report, or review thereof, holds a material direct interest in the securities of Mount Gibson, Shougang Concord and/or APAC. With the exception of these matters, neither KPMG or the KPMG Partnership or AMA will receive any other benefits, whether directly or indirectly, for or in connection with the making of this report.

During the course of this engagement, KPMG provided draft copies of this report to management of Mount Gibson for comment as to factual accuracy, as opposed to opinions, which are the responsibility of KPMG alone. Changes made to this report as a result of these reviews have not changed the opinion reached by KPMG.

Consent

KPMG and AMA consents to the inclusion of this report in the form and context in which it is included with the Notice of Meeting and Explanatory Memorandum to be issued to the shareholders of Mount Gibson. Neither the whole nor the any part of this report nor any reference thereto may be included in any other document without the prior written consent of KPMG as to the form and context in which it appears.

Indemnity

Mount Gibson has agreed to indemnify and hold harmless KPMG, the KPMG Partnership and/or KPMG entities related to the KPMG Partnership against any and all losses, claims, costs, expenses, actions, demands, damages, liabilities or any other proceedings, whatsoever incurred by KPMG, the KPMG Partnership and/or KPMG entities related to the KPMG Partnership in respect of any claim by a third party arising from or connected to any breach by Mount Gibson of Mount Gibson's obligations.

Mount Gibson has also agreed that KPMG, the KPMG Partnership and/or KPMG entities related to the KPMG Partnership shall not be liable for any losses, claims, expenses, actions, demands, damages, liabilities or any other proceedings arising out of reliance on any information provided by Mount Gibson or any of Mount Gibson's representatives, which is false, misleading or incomplete. Mount Gibson has agreed to indemnify and hold harmless KPMG, the KPMG Partnership and/or KPMG entities related to the KPMG Partnership from any such liabilities we may have to you or any third party as a result of reliance by KPMG, the KPMG Partnership and/or KPMG entities related to the KPMG Partnership on any information provided by Mount Gibson or any of Mount Gibson's representatives, which is false, misleading or incomplete.

Appendix 2 – Sources of information

In preparing this report we have been provided with and considered the following principal sources of information:

Mount Gibson

- audited consolidated financial statements for Mount Gibson in relation to the years ended 30 June 2006, 2007 and 2008
- independently reviewed consolidated financial statements for Mount Gibson for the six months ended 31 December 2007
- unaudited management accounts for the three months ended 30 September 2008, including various supporting worksheets and calculations
- Mount Gibson's quarterly reports for 2008
- life of mine cashflow forecasts in relation to Talling Peak, Koolan Island and Extension Hill prepared by Mount Gibson
- Mount Gibson's website and announcements to ASX
- Mount Gibson's Debt Information Memorandum, November 2007
- Mount Gibson's "Detailed Feasibility Study – Briefing Note", for Extension Hill DSO Project
- discussions with and advice letter prepared by independent mineral specialist, Al Maynard & Associates Pty Ltd
- various broker and analyst reports in relation to Mount Gibson and selected comparable companies
- discussions with Mount Gibson directors and management and Mount Gibson's financial advisor, Azure
- mark-to-market valuation report of Mount Gibson's hedging prepared by Oakvale
- draft Notice of Meeting and Explanatory Memorandum as at 19 November 2008
- other non-public company information as required.

Publicly available information

- Shougang Concord - audited consolidated financial statements in relation to the years ended 31 December 2005, 2006 and 2007
- Shougang Concord - unaudited interim report for the six months ended 30 June 2008
- APAC - audited consolidated financial statements for APAC in relation to the years ended 31 December 2005, 2006 and 2007

- Hong Kong Stock exchange
- various ASX company announcements, broker and analyst reports, press articles and media articles
- various publicly available reports published by IBISWorld Pty Ltd (IBISWorld), The Economic Intelligence Unit and the Australian Bureau of Agriculture and Resource Economics (ABARE)
- financial information from IRESS and Bloomberg
- acquisition data, share market data and related information on Australian and international listed companies.

Appendix 3 – Industry overview

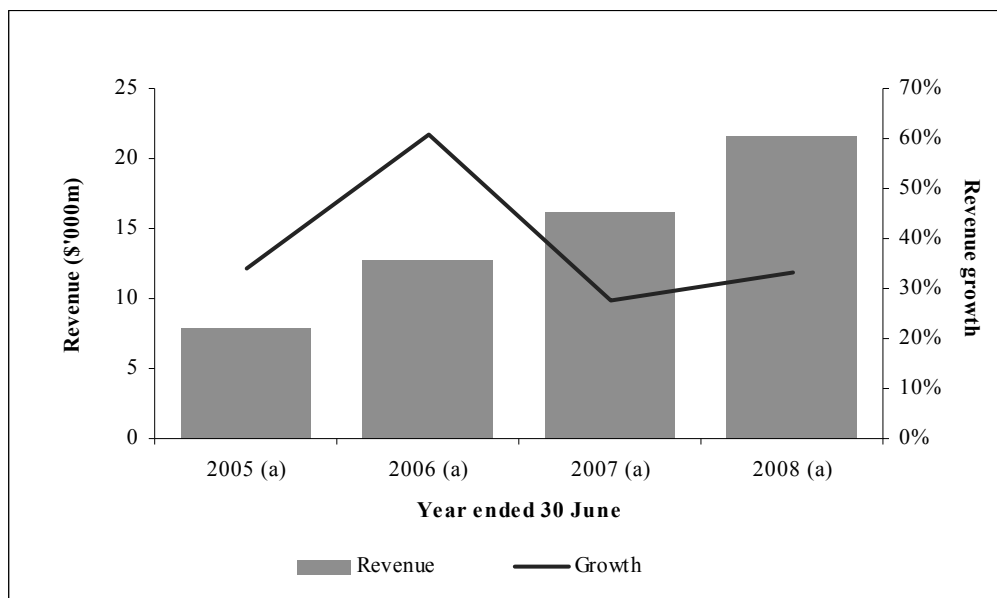
Iron ore mining is a substantial industry in Australia, representing approximately 1.5 percent of Australia's gross domestic product. Virtually all of Australia's iron ore is mined in Western Australia (about 97 percent), with the vast majority of the industry being concentrated in the Pilbara region.

Iron ore is commonly classified as either lump, fines or iron ore pellets. Production of lump and fines ore accounts for approximately 99 percent of overall production. Iron ore concentrate for pellet plants, produced as a result of a beneficiation process, currently form a very small proportion of overall iron ore production. There are, however, a number of iron ore magnetite projects in development that will result in an increase in production of iron ore pellets.

Industry size

IBISWorld estimates that in the year ended 30 June 2008, Australia's iron ore industry produced approximately 325.0 Mt of iron ore and generated approximately \$21.6 billion in revenue. Historical revenue and revenue growth rates for the four years ended 30 June 2008 are set out in the figure below.

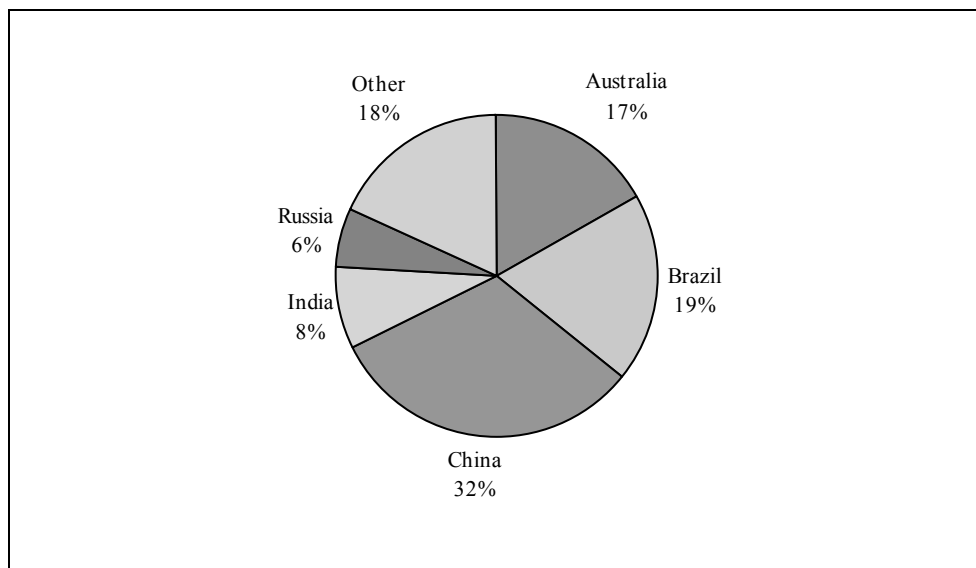
Figure A3-1: Historical revenues and revenue growth for the Australian iron ore industry



Source: IBISWorld

Internationally, Australia is one of the world's largest producers of iron ore. According to the January 2008 United States Geological Survey, Australia ranks third only behind China and Brazil. Other significant producers are Russia and India.

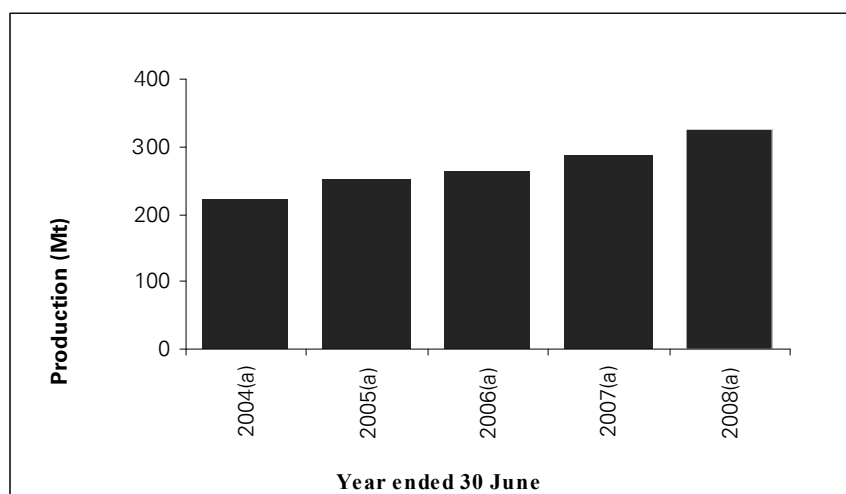
Figure A3-2: Global production of iron ore by country



Source: United States Geological Survey, Mineral Commodity Summaries, January 2008

Until the recent downturn, Australian production volumes had also increased substantially to meet the favourable market conditions. Production of 325.0 Mt of ore in the year ended 30 June 2008 was approximately 47 percent higher than production in the year ended 30 June 2004 of 221.5 Mt. The following graph summarises the increase in Australian production volumes to date and further expected increases.

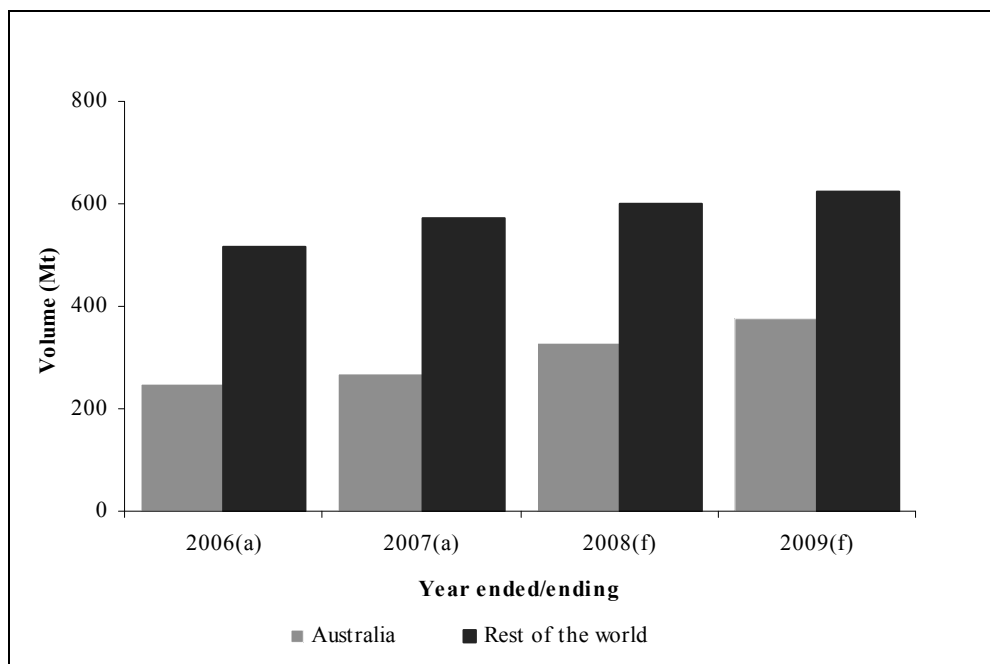
Figure A3-3: Historical iron ore production in Australia



Source: IBISWorld

Set out below is the historical and forecast volume of iron ore exports for Australia and the rest of the world according to ABARE.

Figure A3-4: Volume of global iron ore exports



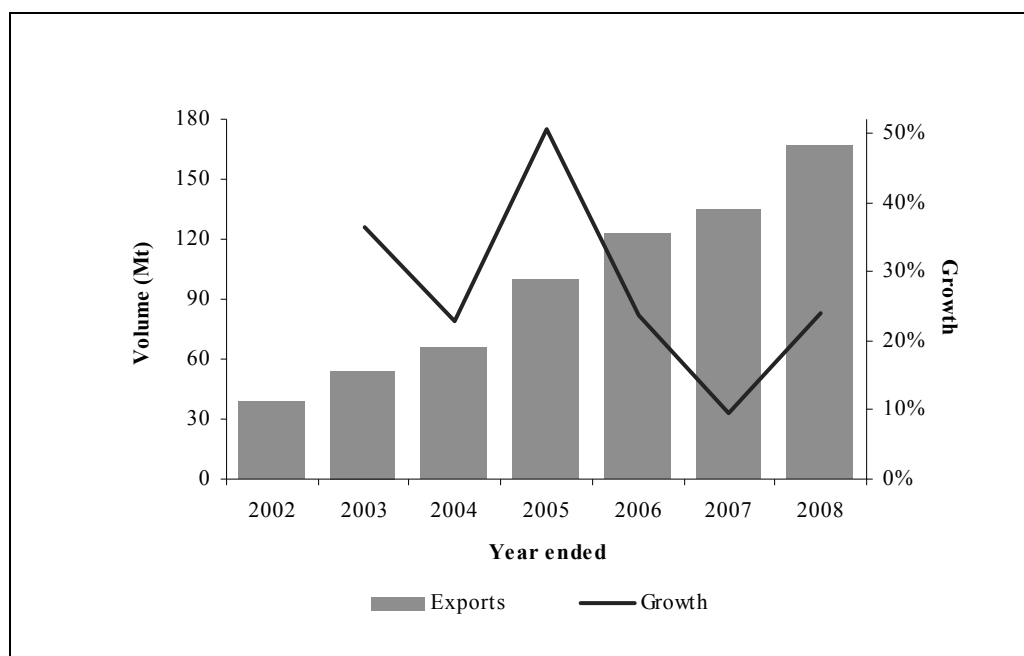
Source: ABARE

The vast majority of iron ore production in Australia goes towards export sales, with IBISWorld estimating this figure at around 90 percent (by volume). IBISWorld estimates that of total exports, China accepts approximately 60 percent of Australia's exports, with Japan accounting for 25 percent, South Korea 10 percent, Taiwan three percent and the European Union two percent.

During the 1990s, Japan was consistently the primary export destination for Australian iron ore. However, in the last few years the strong level of general economic growth in China has seen it overtake Japan and increase in importance for Australia's iron ore exports.

The following graph shows the volume of iron ore exports to China in recent years, along with the associated growth rates. The overall volume of annual exports increased four times from financial years 2002 to 2008, recording growth rates in excess of 20 percent per annum, and as high as 50 percent per annum in the year ended 30 June 2005. Growth in the year ended 30 June 2007 was slightly lower at 9.6 percent but was followed by a significant increase of 23.9 percent in the year ended 30 June 2008.

Figure A3-5: Growth in Australian iron ore exports to China



Source: IBISWorld

Demand

Almost all iron ore is used to make steel. As a result, the demand for iron ore is almost solely influenced by the volume of steel production. Steel is used in numerous applications, primarily structural engineering, maritime purposes, automobiles and machinery. The demand for steel and steel products is closely linked to general economic growth.

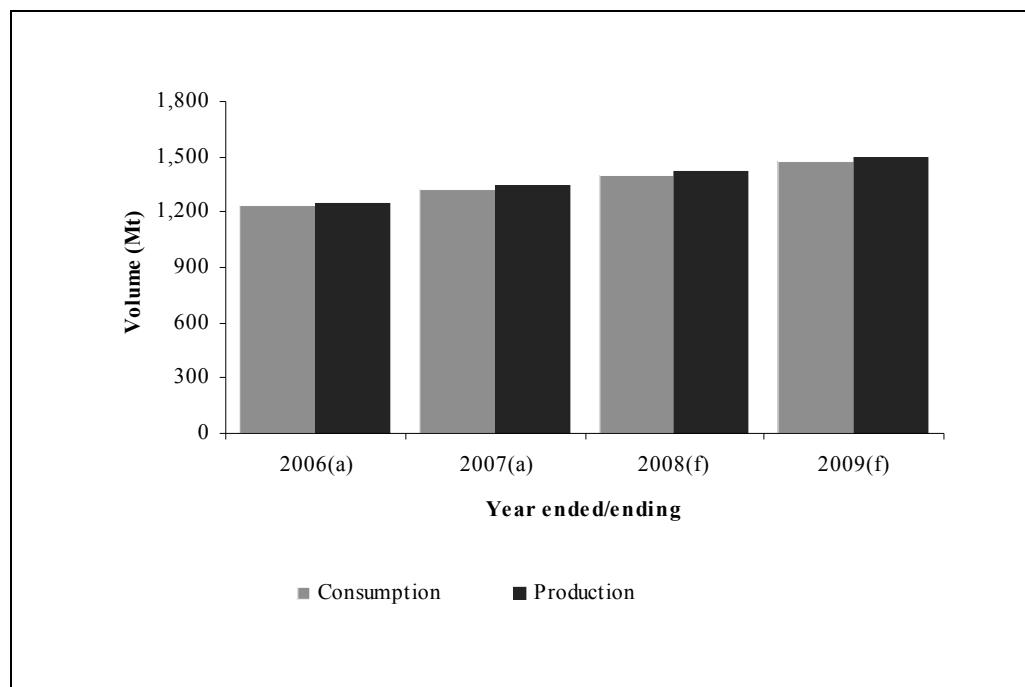
In its Australian Commodities September Quarter 2008 publication released on 22 September 2008, ABARE anticipates that world steel production will increase by 5.7 percent (to 1,420 Mt) in 2008 and a further 5.4 percent (to 1,497 Mt) in 2009. ABARE expects steel production to grow strongly in developing economies, underpinned by strong steel demand in these regions. In contrast, ABARE expects steel production in the United States and the European Union to be weaker because of lower demand associated with lower economic growth in these regions and the longer-term trend of relocating steel production facilities from developed countries to the developing world.

ABARE anticipates that world steel consumption will increase by 5.7 percent (to 1,398 Mt) in 2008 and a further 5.4 percent (to 1,473 Mt) in 2009. ABARE expects that steel consumption in China will continue its strong expansion, as steel intensive industries, such as automobile manufacturing, electrical appliance manufacturing and construction grow strongly in line with rising incomes and infrastructure spending. ABARE is forecasting China to account for around 60 percent of the increase in global steel consumption in 2008 and 2009.

China is both the largest producer and consumer of steel globally, and currently the main driver for growth. ABARE estimates that China accounted for approximately 34.5 percent of global steel consumption and

37.8 percent of production in the year ended 30 June 2008. Recent and forecast trends in global steel production and consumption are summarised in the following graph.

Figure A3-6: Recent and forecast global steel production and consumption



Source: ABARE

However, since the release of ABARE's September Quarter 2008 publication, the market has changed dramatically, at least for the short term. There has been a significant drop in demand from China as many smaller steel mills have remained closed after the Beijing Olympics and a number of the major steel mills have also announced closure of furnaces and reduced production forecasts. The reduced demand is due to the negative impact on the global steel industry of the current state of the global economic outlook.

In addition to Mount Gibson's announcement of customer requests to delay iron ore shipments and offtake defaults, two of the major producers in the global iron ore industry have also made recent announcements in relation to its customers as follows:

- On 10 November 2008, Rio Tinto announced to ASX that it is revising its estimate of iron ore shipments from the Pilbara region of Western Australia to between 170 Mt and 175 Mt (100 percent basis) in 2008. As a result of the reduced demand from its customers and reduced shipments, the annualised run rate of iron ore production from its Pilbara mines will be reduced by approximately ten percent.
- On 31 October 2008, Companhia Vale do Rio Doce (Vale) informed the market it was taking steps to change its production plans in accordance with the new global economic outlook. In its announcement, Vale commented that one of the implications of the new global economic outlook is a strong negative impact on the global steel industry with steel companies around the globe announcing significant production cuts. The production cuts will be enforced through the shut down of some mines, in the Southern and Southeastern Systems, in the state of Minas Gerais, Brazil, from 1 November 2008. Vale

said these are the higher-cost iron ore mines with lower-quality output relative to the average quality of Vale's iron ores.

In this context, Vale announced a reduction to its iron ore production by approximately 30 Mt (about 9 percent of annual production). Additionally, Vale announced two pellet plants, representing approximately 20 percent of their total nominal capacity, will also be shut down from November 2008 onwards.

- Although BHP has not made any formal announcements, a recent news article⁷ refers to an interview with BHP's Chief Financial Officer, Alberto Calderon, in which Mr Calderon is reported to have mentioned that credit issues had led some steel mills to ask for shipment deferrals and that this would reduce iron ore sales by up to 6 Mt by the end of the year.

The length of this demand downturn is uncertain with various iron ore producers and economic and market commentators expressing their varying views ranging from a short, sharp slowdown continuing early into next year with a turnaround later in the 2009 year to a longer period. Although market commentators generally remain positive that there will be continued growth in the future years as China continues its expansions and massive internal urbanisation and infrastructure programmes.

In its 31 October 2007 announcement, Vale advised that given its confidence in the long-term fundamentals of the markets for minerals and metals, it will implement the capital expenditure budget for 2009 as announced on 16 October 2008, which will imply significant job creation in the future.

Supply

The iron ore mining industry has high barriers to entry. This is largely a result of the huge amounts of capital required to fund exploration and later project and infrastructure development, as well as the need to secure long-term sales contracts so as to gain certainty as to future cash flows. These high barriers to entry provide some explanation for the high level of concentration in the industry. IBISWorld estimates that the two largest players, Rio Tinto Ltd and BHP Billiton Ltd, together currently hold an approximate 90 percent market share in Australia.

However, as a result of strong demand and corresponding price increases in recent years, many smaller players have been encouraged to enter the market and develop new production. These new entrants include companies such as Mount Gibson, Midwest Corporation Ltd and Murchison Metals Ltd, as well as numerous companies in exploration and development stages including the potentially large Cape Preston project acquired by CITIC Pacific Ltd.

The development of Fortescue Metals Group Ltd (FMG) in the Pilbara has seen the introduction of a third substantial player in Australian iron ore mining industry. With capital costs in excess of \$2 billion including major new port and rail developments and initial targeted production of 45 Mtpa this project exceeds the scale of the other new entrants. FMG has similarly announced delays and deferrals to both its ramp up and expansion plans.

⁷ The Australian, 15 November 2008

Pricing

Annual benchmark prices

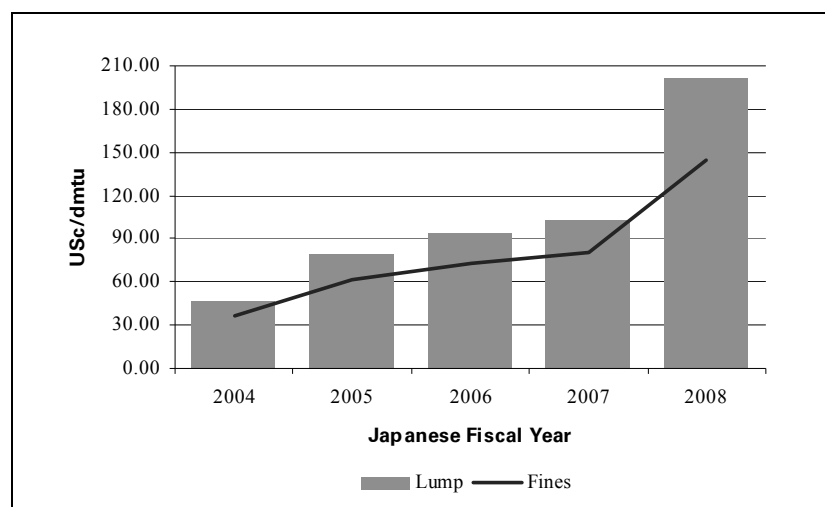
Iron ore prices are generally set annually under medium or long-term contracts negotiated in Asia and Europe between the major steel mills and the major iron ore producers. Prices for Australian Brockman ores are generally negotiated and agreed with the Japanese steel mills and prices for Brazil's Vale, the world's largest iron ore producer, are negotiated and agreed with European steel mills. Prices for other Australian ore types such as Pisolitic and Marra Mamba ores are derived as a percentage of the Brockman prices.

Annual iron ore contract price negotiations between Australian iron ore producers and Asian steel mills for the for the 2008 Japanese fiscal year (JFY), which commences 1 April 2008 and ends 31 March 2009, resulted in the largest price increases to date for Australian iron ore. The prices for iron ore fines increased by 80 percent and for lump by 97 percent.

Australian producers were able to negotiate a higher price than Vale, reflecting the lower cost of shipping ore from Australia to Asia than from Brazil to Asia.

The following graph sets out the Australian iron ore benchmark prices for the past five years and illustrates the strong price increases negotiated in recent years.

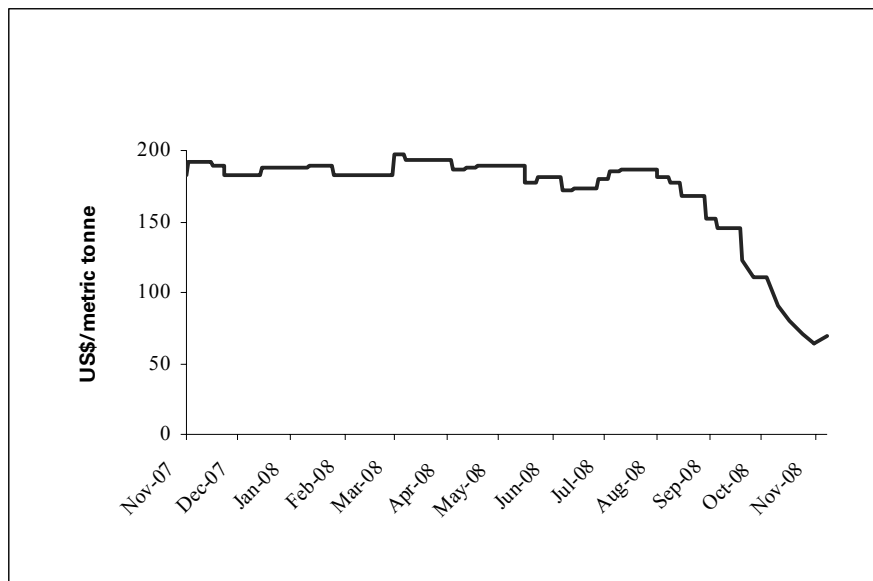
Figure A3-7: Benchmark prices for Australian iron ore



Spot prices

The graph below depicts the spot price for iron ore fines CFR (cost and freight) China main ports for the past 12 months and illustrates the steep fall commencing shortly after the Beijing Olympics.

Figure A3-8: Iron ore spot price over the past 12 months



Source: Bloomberg

According to ABARE in its September quarter 2008 release, because of large increases in China's domestic iron ore production (20 percent year on year increase in the first seven months of 2008 and forecast to include by 16 percent for the year as a whole) and an increase in Australian iron ore being sold on a spot basis in China, iron ore spot prices are expected to decline gradually over the remainder of 2008. This has proven to be the case.

Iron ore spot prices are currently lower than the applicable benchmark contract prices. As depicted in the graph above, spot iron ore prices have declined by approximately 62 percent over the last 5 months from US\$186.5 per metric tonne at 11 July 2008 to US\$69.0 per metric tonne as at 7 November 2008.

The decline in the iron ore spot price over the earlier part of this period is attributable to a number of different factors including, but not limited to, the increase of port stocks, closure of smaller steel mills due to Olympics restrictions and both rising costs and falling steel prices. In more recent times the steep decline reflects the deepening global financial crisis that has impacted China more than expected according to recent statements by Premier Wen Jiabao.

Given the current downturn referred to above, rather than forecasting price increases, various economic and market commentators outlook for pricing is turned towards either rolling over current benchmark pricing next year or on average a forecast of a decrease to contract prices in next year's annual negotiations with wide-ranging views as to the extent of the discount being forecast.

Given the downturn, the outlook for production is now a decline in the shorter term prior to a turnaround forecast by various economic and market commentators later in 2009. In our view we consider that there is now a strong likelihood of a price reduction in the near term, perhaps in the order of 10 percent to 20 percent, but this outlook remains very uncertain at this time.

Appendix 4 – Calculation of discount rates

We have assessed an appropriate nominal, post-tax weighted average cost of capital (WACC) for Mount Gibson's iron ore operations to be in the order of 13.0 percent per annum to 14.0 percent per annum.

Selection of the appropriate rate to apply to the forecast cash flows of any asset or business operations is fundamentally a matter of judgement. Whilst there is a body of theory that may provide a framework for the derivation on an appropriate discounts rate, it is important to recognise that given the level of subjectivity involved in selecting various inputs to the theoretical framework there is no absolute "correct" discount rate.

We consider the rates adopted to be reasonable discount rates that purchasers would use in the current market in assessing the individual operations of Mount Gibson and are reflective of the commercial, operational and technical risks of the individual projects.

Introduction to WACC concepts

The WACC of a firm is the expected cost of the various classes of its capital (i.e. its equity and debt), weighted by the proportion of each class of capital to the total capital of the firm and is represented by the following formula, which calculates an after tax nominal rate:

$$\text{WACC} = K_d(1-t) \times (D/D+E) + K_e \times (E/D+E)$$

where the key inputs are defined as follows:

- K_e the after-tax cost of equity, which is the rate of return required by the providers of equity capital.
- K_d the pre-tax cost of debt, which is the expected long-term future borrowing cost of the relevant project and/or business. The conventional practice for estimating K_d is to estimate an appropriate premium over the benchmark bank lending rate.
- T the applicable corporate tax rate
- D the market value of debt
- E the market value of equity.

Given that the capital of the firm is used to finance the assets of the firm, WACC can be viewed as the cost of capital for the assets of the firm. It is an opportunity cost of capital in the sense that it reflects the returns that would have been earned in the market with the relevant capital if it was employed in the next best investment of equivalent risk profile. It represents the minimum weighted-average rate of return which is required or expected by the providers of capital as compensation for bearing the risks associated with the relevant investment or business operation.

Each of the components of the WACC formula is discussed further below.

Cost of equity (K_e)

The WACC approach represents a merger of the Capital Asset Pricing Model (CAPM) with capital structure theory. In the WACC formula discussed earlier, the CAPM provides the means for estimating the cost of equity.

The CAPM provides a theoretical basis for determining a discount rate that reflects the risk of a particular investment or business operation. In simple terms, the CAPM states that the returns expected by an equity investor reflect the risk of the underlying equity investment. The risk can be determined by the risk-free rate of return plus a risk premium which reflects the relative risk (as measured by the “beta” factor) required to be borne by the investor. Therefore, the required rate of return for equity securities is determined as set out below.

$$K_e = R_f + \beta \times (\text{MRP}) + \alpha$$

where the key inputs are defined as follows:

R_f risk free rate of return

β beta factor of the investment or business operation

MRP equity market risk premium

α company/project specific risk factor (alpha)

A large degree of subjectivity is involved in estimating the inputs to the formula. These limitations mean that any estimate of the cost of equity must necessarily be regarded as indicative rather than as a firm and precise measure. Furthermore, because the cost of equity is a market-determined measure, changes in market conditions over time will affect its calculation.

Risk free rate (R_f)

The relevant risk-free rate of return is the return on a risk-free security, typically for a long-term period. In practice, long dated government bonds are an acceptable benchmark for the risk-free security. The yield to maturity of long dated government bonds at the valuation date is generally accepted as a proxy for the risk-free rate.

For Mount Gibson, a risk free rate in the order of 5.2 percent per annum has been selected having regard to the projected lives of the iron ore projects, the denomination of project cash flows and the current yield to maturity on Australian Government bonds. The 10-year bond rate has been adopted as a benchmark as it reflects a deep, well-traded market.

Market risk premium (MRP)

A MRP of 6.0 percent per annum has been assumed for Mount Gibson having regard to the denomination of the cash flows for the iron ore projects. This figure is within the range of generally accepted market risk premiums applicable in Australia.

The MRP represents the additional return that investors expect in return for holding risk in the form of a well-diversified portfolio of risky assets (such as a market index). The MRP is the expected risk premium (an ex-ante concept). Given that expectations are not observable, a historical risk premium is generally used to proxy for the expected risk premium.

In addition, the risk premium required by the market is not constant and changes over time. At various stages of the market cycle investors perceive that equities are more risky than at other times and will increase their expected return. Some observers argue that the MRP has declined over time.

An empirical study completed by Gray and Officer in 2005 indicated that the mean market arithmetic excess return over the range of periods considered is greater than 6.0 percent per annum as summarised in the table below.

Table A4 -1: Beta measurements

Length of period (years)	Period	Excess return
30	1975 to 2004	7.0%
50	1955 to 2004	6.4%
75	1930 to 2004	6.6%
100	1905 to 2004	7.2%
120	1885 to 2004	7.2%

Source: "A review of the Market Risk Premium and Commentary on Two papers" Stephen Gray and RR Officer, 15 August 2005

However, three recent studies have been completed by Hathaway⁸ and Hancock⁹ and Brailsford¹⁰ suggest a range of 4.5 percent per annum and 6.2 percent per annum:

- Hathaway concluded that the historical arithmetic MRP in Australia was 4.5 percent per annum.
- Hancock concluded after considering the findings of previous studies and data compiled by the Australian Graduate School of Management at the University of New South Wales that "the most likely value of the MRP is in the range of 5 to 6 percent, but with significant uncertainty still attached" and that the "central estimates of the 1-year equity premium over the last 30 years are in the 4.5 to 5 percent range".
- Brailsford concluded that the MRP relative to bonds has averaged 6.2 percent per annum over the period 1883 to 2005 and 6.3 percent over the period 1958 to 2005.

After reviewing the Hathaway and Hancock studies, Gray and Officer concluded that "there is nothing in the recent data or these papers that justifies a change in the regulatory precedent of using 6 percent as an estimate of" the MRP.

⁸ Hathaway, Neville, "Australian Market Risk Premium", Capital Research Pty Ltd, January 2005

⁹ The South Australian Centre for Economic Studies, "The Market Risk Premium for Australian Regulatory decisions", July 2006

¹⁰ Brailsford, Tim, Handley, John and Maheswaran, Krishnan, "A Re-examination of the Historical Equity Risk Premium in Australia", April 2007

Beta factor (β)

The beta factor is a measure of the relative risk of an investment or business operation, relative to a well-diversified portfolio of investments. In theory, the only risks that are captured by beta are those risks that cannot be eliminated by the investor through diversification. Such risks are referred to as systematic, undiversifiable or market risk. The concept of beta is central to the CAPM given that beta risk is the only risk that is priced into investor required rates of return.

The beta for equity securities can be statistically measured by regressing the returns on an equity market index, such as the All Ordinaries (Accumulation) Index, against the share price returns of the relevant stock. By definition, the market portfolio has an equity beta of 1.0. A beta greater than 1.0 implies that the returns on a stock are, on average, more volatile, and hence the stock is more risky than the market, whilst a beta of less than 1.0 implies the reverse.

The beta of a stock can be presented as either an adjusted beta or as an historical beta. The historical beta is obtained from the linear regression of a stock's historical data and is based on the observed relationship between the security's return and the returns on an index. Conversely, the adjusted beta is an estimate of a security's future beta. It is initially derived from the historical beta, but modified by the assumption that a security's true beta will move towards the market average of one, over time. Generally, an adjusted beta is used because of its greater predictive features.

Betas derived from stockmarket observations represent equity betas, which reflect the degree of financial gearing of the company. Consequently, it is not possible to compare the equity betas of different companies without having regard to their gearing levels. In theory, a more valid analysis of betas can be obtained by "ungearing" the equity beta, by applying the following formula:

$$\beta_a = \beta_e / [1 + (D/E \times (1-t))]$$

where "D/E" is the debt and equity values of the relevant equity security and "t" is the corporate tax rate. The adjustment involves stripping out the impact of financial gearing from the equity beta to obtain an ungeared beta (denoted by β_a).

The following table sets out recent financial gearing and the adjusted ungeared beta estimates for a selection of listed Australian and International iron ore explorers and producers, which have been used as a reference point for the valuation of Mount Gibson's iron ore projects. The beta factors have been calculated relative to the All Ordinaries Accumulation Index and also relative to the Morgan Stanley Capital Index – All Countries (the MSCI), an international equities market index that is widely used as a proxy for the global stockmarket as a whole. The MSCI is often used as a benchmark in respect of assets likely to be attractive to international buyers. The observation points used to calculate beta factors have been observed over 104 weeks (two years of weekly observations) and 60 months (five years of monthly observations).

Table A4 -2: Selected listed companies –financial gearing and ungeared betas

Company	Mkt Cap Millions ¹	Net debt/ Equity (%) ^{2,3}	Ungeared beta 2 year weekly		Ungeared beta 5 year monthly	
			Home exchange	MSCI	Home exchange	MSCI
Australian producers and explorers						
Fortescue Metals Group Ltd	8,450	0.0%	2.13	1.46	2.86 ⁵	2.92 ⁵
Portman Ltd ⁵	3,760	0.3%	0.85 ⁵	0.60 ⁵	0.87 ⁵	0.75 ⁵
Mount Gibson Iron Ltd	318	34.5%	1.52	1.27	1.89	1.95
Murchison Metals Ltd	349	0.0%	2.11	1.57	1.82 ⁶	2.18 ⁶
Atlas Iron Ltd	286	0.0%	1.68	1.32	2.24 ⁶	2.50 ⁶
Australasian Resources Ltd ⁵	230	0.0%	2.47	1.91	3.36	2.86
Gindalbie Metals Ltd	213	0.0%	2.28	1.78	2.38	2.07
Sphere Investments Ltd	106	0.0%	1.29	1.24	2.22	1.85
Cape Lambert Iron Ore Ltd	119	0.0%	1.10	0.81	1.15 ⁶	1.34 ⁶
Grange Resources Ltd	60	0.0%	1.27	0.96	1.81	1.87
Golden West Resources	73	0.0%	1.64	1.21	2.22 ⁶	2.53 ⁶
Territory Resources Ltd	71	0.0%	1.56	1.09	1.48 ⁶	1.36 ⁶
Average (excl. outliers) – Aust.		5.9%	1.66	1.27	2.07	1.93
Median (excl. outliers) – Aust.		0.0%	1.60	1.26	2.05	1.91
International / diversified miners						
BHP Billiton Ltd	96,754	9.1%	1.08	0.85	1.19	1.03
Rio Tinto Ltd	36,372	121.0%	0.65	0.53	0.66	0.56
Cia Vale Do Rio Doce	37,467	43.9%	0.76	0.90	0.77	1.02
Cleveland-Cliffs	5,007	4.9%	1.24	1.32	2.30	2.12
Kumba Iron Ore Ltd	6,104	5.0%	1.26	1.09	1.50 ⁶	1.43 ⁶
Average (excl. outliers) – Int./div.		36.8%	1.00	0.94	1.23	1.18
Median (excl. outliers) – Int./div		9.1%	1.08	0.90	0.98	1.03
Average (excl. outliers) – Overall		15.0%	1.44	1.16	1.65	1.56
Median (excl. outliers) - Overall		0.0%	1.29	1.21	1.85	1.86
Note 1: Market capitalisation as at 3 November 2008 converted to A\$ as at the same date based on prevailing spot price (where relevant)						
Note 2: Net debt is interest-bearing debt less cash. Net debt based on interest bearing debt as disclosed in latest available financial report as at 3 November 2008						
Note 3: Where a company does not have any interest bearing debt or the resultant net debt figure is negative i.e. where cash exceeds debt, the ratio of net debt to equity has been recorded as 0 percent						
Note 4: Excluded as an outlier (negative or abnormal beta)						
Note 5: Excluded as an outlier (insufficient observation points for beta)						

Source: Bloomberg, latest available financial statements of relevant companies

Having regard to the above, we consider that, on balance, an appropriate ungeared beta for Mount Gibson's operations to be in the order of 1.3 to 1.5.

Having determined an appropriate ungeared beta it is necessary to 'regear' the beta to a specified level of financial gearing to determine the equivalent equity beta.

Debt/equity mix

The selection of an appropriate capital structure is a subjective exercise. The tax deductibility of the cost of debt means that the higher the proportion of debt, the lower the WACC for a given cost of equity. However, at significantly higher levels of debt, the marginal cost of borrowing would increase due to the greater risk which debt holders are exposed to. In addition, the cost of equity would also be likely to increase due to equity investors requiring a higher return given the higher degree of financial risk that they have to bear.

Ultimately for each company there is likely to be a level of debt/equity mix that represents the optimal capital structure for that company. In estimating the WACC, the debt/equity mix assumption should reflect what would be the optimal or target capital structure for the relevant asset.

Optimal (as opposed to actual) capital structures are not readily observable. Accordingly, any estimate of optimal capital structure is necessarily subjective. In practice, the existing capital structures of comparable businesses can be used as a guide to the likely capital structure for a firm, taking into consideration the specific financial circumstances of that firm. In drawing any conclusions from the comparable company information, it is important to note that the observed gearing levels usually represent current gearing levels, which may or may not be representative of optimal, long term gearing levels. Furthermore, the gearing level of a company at a given point in time can reflect recent new issues of debt or equity.

In selecting a longer term gearing level for Mount Gibson's iron ore projects, we have had regard to the gearing levels for a selection of listed Australian and International iron ore explorers and producers as set out in table A4-2 above. We note that a majority of the comparable companies in table A4-2 above have little or no debt. Accordingly and in the environment of tight global credit markets, we have assumed no debt.

Cost of equity calculation

The following table sets out our cost of equity estimate for Mount Gibson's iron ore projects based on the assumptions and inputs discussed above.

Table A4 - 3: Estimated cost of equity

Input	Definition	Low value	High value
R_f	Risk free rate of return	5.2%	5.2%
β_a	Asset beta (ungeared beta estimate)	1.5	1.3
β_e	Equity beta (regeared beta estimate)	1.5	1.3
MRP	Equity market risk premium	6.0%	6.0%
K_e	Cost of equity (post-tax)	14.2	13.0%

Source: KPMG analysis

Calculation of WACC

The following table summarises the nominal post-tax WACC for application in our valuation of Mount Gibson's iron ore projects, based on the assumptions/inputs discussed above.

Table A4 -4: Calculation of WACC

Input	Definition	Low value	High value
K_d	Cost of debt (pre-tax)	n/a	n/a
K_e	Cost of equity (post-tax)	14.2%	13.0%
D/D+E	Proportion of debt in the capital mix	0.0%	0.0%
E/D+E	Proportion of equity in the capital mix	100.0%	100.0%
WACC	WACC (nominal post-tax) - calculated	14.2%	13.0%
WACC	WACC (nominal post-tax) – adopted	14.0%	13.0%

Source: KPMG analysis

Having regard to the above, we consider a discount rate in the order of 13.0 to 14.0 percent per annum to be appropriate for Mount Gibson's iron ore projects.

Appendix 5 – Comparable company valuation parameters

Table A5 - 1: Selected listed Australian and International iron ore production and exploration companies as at 3 November 2008

Company	Mkt Cap Millions ¹	EBITDA Multiple ^{2,3}		Resources \$/t	Reserves \$/t
		2007	2008		
Australian					
BHP Billiton Ltd ⁵	156,225.9	7.3	5.9	n/a ⁵	n/a ⁵
Rio Tinto Ltd ⁵	104,984.7	12.6	7.6	n/a ⁵	n/a ⁵
Fortescue Metals Group Ltd ⁷	8,480.5	n/a ⁴	32.9 ¹⁰	1.9	4.8
Portman Ltd ⁷	3,759.8	19.4	13.8	26.8	39.5
Mount Gibson Iron Ltd ⁷	317.7	4.1	1.2	4.0	7.5
Murchison Metals Ltd ⁹	348.5	n/a ⁴	n/a ⁴	0.7	43.3 ¹⁰
Australasian Resources Ltd ⁸	230.1	n/a ⁴	n/a	0.2	0.3
Atlas Iron Ltd ⁹	285.6	n/a ⁴	n/a	0.1	12.0
Gindalbie Metals Ltd ⁹	213.3	n/a ⁴	1.8	0.0	0.2
Grange Resources Ltd ⁸	60.0	n/a ⁴	160.4 ¹⁰	0.1	0.1
Sphere Investments Ltd ⁸	106.4	n/a ⁴	n/a	0.1	0.2
Golden West Resources Ltd ⁷	73.2	n/a ⁴	n/a	0.3	n/a ⁶
Cape Lambert Iron Ore Ltd ⁸	119.0	n/a ⁴	n/a	n/a ⁶	n/a ⁶
Territory Resources Ltd ⁷	71.4	n/a ⁴	n/a	9.1	17.4
International					
Cia Vale do Rio Doce ⁵	101,492.3	5.3	4.4	n/a ⁵	n/a ⁵
Cleveland-Cliffs ⁹	5,007.3	8.5	4.8	6.5	n/a ⁶
Kumba Iron Ore Ltd ⁹	6,104.1	6.5	5.0	3.5	8.7
<i>Average (excl outliers)</i>		9.9	6.2	4.1	9.2
<i>Median (excl outliers)</i>		8.5	5.0	0.5	4.8
<i>Note 1: Market capitalisation as at 3 November 2008 converted to A\$ as at the same date based on prevailing spot price (where relevant)</i>					
<i>Note 2: Earnings are for the full year ended 30 June 2008. Where a company has a year ended 31 December, earnings have been based on independently reviewed results for the six months ended 30 June 2008 and implied earnings for the six months ended 31 December 2007 based on a full year earnings for the year ended 31 December 2007 less the earnings for the 6 months ended 30 June 2007</i>					
<i>Note 3: All EBITDA multiples exclude profit after tax from discontinued operations</i>					
<i>Note 4: EBITDA multiples are negative (due to the companies generating losses) and accordingly have been set to n/a</i>					
<i>Note 5: For completeness, we have included these three diversified miners in our analysis as they belong to a pool of potential purchasers. However, given their diversified resource base, we have not calculated resource or reserve multiples for these entities</i>					
<i>Note 6: Multiple has been set to n/a as no resource/reserve has been disclosed by the company</i>					
<i>Note 7: These companies have a hematite resource base</i>					
<i>Note 8: These companies have a magnetite resource base</i>					
<i>Note 9: These companies have a hematite and magnetite resource base</i>					
<i>Note 10: Selected as an outlier</i>					

Source: Bloomberg, latest publicly available financial statements and publicly available resource/reserve information of relevant companies

Table A5 - 2: Comparable company descriptions

Comparable Companies	
BHP Billiton Ltd	An international resources company. Its principal business lines are mineral exploration and production, including coal, iron ore, gold, titanium, ferroalloys, nickel and copper concentrate, as well as petroleum exploration, production and refining.
Rio Tinto Ltd	An international mining company with interests in mining for aluminium, borax, coal, copper, gold, iron ore, lead, silver, tin, uranium, zinc, titanium dioxide feedstock, diamonds, talc and zircon. The Group has various mining operations located in Australia, New Zealand, South Africa, the United States, South America, Europe and Indonesia.
Fortescue Metals Group Ltd	Explorer and producer of iron ore through its East Pilbara Iron Ore Projects in Western Australia.
Portman Ltd	Explorer and producer of iron ore through its projects at Koolyanobbing and Cockatoo Island.
Mount Gibson Iron Ltd	Iron ore exploration and production company which holds mining leases covering hematite deposits in Western Australia.
Murchison Metals Ltd	Explorer and producer of iron ore. It is a 50% shareholder in Crosslands Resources Ltd which is the owner of the Jack Hills iron ore project located in the Mid West region of Western Australia.
Australasian Resources Ltd	A diversified exploration company which explores for iron ore, nickel, gold and other minerals in Western Australia and is approaching development.
Atlas Iron Ltd	Explorer and developer focused on discovery and development of iron ore. Projects predominantly located within the Northeast Pilbara region of Western Australia.
Gindalbie Metals Ltd	An iron ore exploration and mining company which explores for iron ore in the Mid West region of Western Australia and its projects include the Karara Magnetite, Mungada Hematite and Lodestone Project.
Grange Resources Ltd	Grange is developing a project which comprises a magnetite mine and concentrator at Southdown, Western Australia, a slurry pipeline from Southdown to the Port of Albany with storage and shipping facilities at the port and a pellet production plant at Kemaman on the east coast of peninsular of Malaysia.
Sphere Investments Ltd	A west African iron ore exploration and development company operating in Mauritania.
Golden West Resources Ltd	Focused on developing the isolated Wiluna West iron ore project in the Midwest region of Western Australia.
Cape Lambert Iron Ore Ltd	An Australian based exploration and development company, which owns 100% of the Cape Lambert South project, located in the Pilbara region of Western Australia and is seeking to acquire an interest in an African iron ore project.
Territory Resources Ltd	Territory develops and supplies iron ore to the international market. Territory's projects are located in the Northern Territory.
Cia Vale do Rio Doce (Vale)	Vale produces and sells iron ore, pellets, manganese, alloys, gold, nickel, copper, kaolin, bauxite, alumina, aluminium, and potash. Vale is based in Brazil, where it also owns and operates railroads and maritime terminals.
Cleveland-Cliffs	Cleveland-Cliffs produces iron ore pellets and sells the majority of its pellets to integrated steel companies in the United States and Canada. Cleveland-Cliffs operates several iron ore mines located in Michigan and Minnesota in the United States and in Eastern Canada.
Kumba Iron Ore Ltd	The world's fourth largest supplier of sea-borne iron ore.

Source: Bloomberg

Table A5 - 3: Comparable company transaction analysis

	Multiples ³					
Target	% Acquired	Acquirer	Date Announced	Consideration (\$m) ¹	Resource \$/Mt	Reserve \$/Mt
Australian						
Grange Resources Ltd's EL70/2512	30.0	Sojitz Resources & Technology PL	2/10/2008	13.4 ⁷	n/a	n/a
Australian Bulk Minerals	100.0	Grange Resources Ltd	25/09/2008	718.2	2.22	5.48
AusQuest Ltd	30.0	Cleveland Cliffs	11/09/2008	26.7 ⁴	2.37	n/a
Australasian Resources Ltd		Resource International Ltd	24/07/2008	973.4	0.87	1.43
Midwest Corporation Ltd	80.11 ⁵	Sinosteel Corporation	14/03/2008	1,182.6 ⁶	2.44	186.6 ¹¹
Cape Lambert Iron Ore Ltd's entire project land package	100.0	China Metallurgical Group Corporation	26/02/2008	400.0	0.26	n/a
Murchison Metals Ltd	50.0	Mitsubishi Corporation	18/06/2007	150.0	3.09	35.29 ¹¹
Gindalbie Metals Ltd	12.9	Anshan Iron & Steel Group Corporation	04/06/2007	39.0	0.23	n/a
Grange Resources Ltd	30.0	Sojitz Corporation	01/06/2007	16.8 ^{2,7}	0.12	n/a
International						
London Mining Plc's Brazilian operations	100.0	Mittal Steel NV	20/08/2008	927.1 ²	0.88	n/a
United Taconite Llc	30.0 ⁸	Cleveland Cliffs	14/07/2008	275.2 ^{2,9}	n/a	6.90
African Iron Ore Group Ltd	61.5	OAo SeverStal	23/05/2008	41.4 ²	0.13 ¹⁰	n/a
Guelb el Aouj Iron Ore Project	49.9	Qatar Steel Company	02/11/2007	406.2 ²	1.92	1.72
Minas Itatiaiuçu Ltda	100.0	London Mining Plc	08/05/2007	108.0 ²	0.40	n/a
Sesa Goa Ltd	51.0	Vedanta Resources Plc	24/04/2007	1,185.2 ²	11.22	n/a
Lapwing Ltd	70.2	Aricom Plc	29/03/2007	33.4 ²	0.12	n/a
Average					1.88	39.58
Median					0.87	6.19
Ave.(excl outliers)					1.88	3.88
Med.(excl outliers)					0.87	3.60
Note 1: Consideration represents the reported deal amount at the date of the announcement						
Note 2: Consideration converted to A\$ at the prevailing spot rate at the date of the announcement						
Note 3: Resource and reserve multiples calculated using the implied market value. Reserve multiples based on proven and probable reserves and resource multiples based on measured, indicated and inferred resources. Resource and reserves sourced from latest announcement or annual reports prior to the transaction						
Note 4: Consideration excludes the issue of 29 million additional options						
Note 5: On 14 March 2008, at the time of the offer, Sinosteel already held a 19.89 percent interest						

<i>Note 6:</i>	<i>Based on Sinosteel acquiring the entire 80.11 percent it did not already own at the date of the announcement on 14 March 2008 at the revised offer price of \$6.38 per share</i>
<i>Note 7:</i>	<i>Excludes value of future royalty stream</i>
<i>Note 8:</i>	<i>Cleveland-Cliffs previously owned a 70% interest in the joint venture and after completing the purchase now has 100% ownership</i>
<i>Note 9:</i>	<i>The transaction also includes a provision for Cleveland Cliffs to supply 1.2 Mt of iron ore pellets over the next five quarters at no cost</i>
<i>Note 10:</i>	<i>According to preliminary data, it is estimated that African Iron Ore Group Ltd's Putu Range deposit contains at least 500 Mt of iron ore</i>
<i>Note 11:</i>	<i>Selected as an outlier</i>

Source: Bloomberg, Mergermarket, Connect4 and announcements of the relevant companies

Transaction overview

In relation to the above transaction analysis for Australian acquisitions, we make the following comments sourced from announcements of the relevant companies and various databases (including Bloomberg, Mergermarket, and Connect4):

- Sojitz Resources and Technology Pty Ltd (Sojitz):** On 2 October 2008, Grange announced that it had agreed to sell a 30 percent stake in Exploration Licence E70/2512 which covers the eastern extension of the Southdown magnetite deposit to Sojitz. Under the agreement, Sojitz agreed to pay Grange a cash consideration of \$13.4 million and a revenue based royalty. Grange already has a joint venture with Sojitz as a 30 percent partner on the three Mining Leases covering the western end of the Southdown magnetite project (refer 1 June 2007 announcement below). As a result of this latest transaction, Sojitz have a 30 percent joint venture stake in the whole of the Southdown magnetite project.
- Grange Resources Ltd (Grange):** On 25 September 2008, Grange announced that it had entered into binding agreements to merge with Australian Bulk Minerals (ABM) to create a leading mid-cap iron ore group with complementary production and development assets. The merger is to be effected through Grange acquiring ABM in an all scrip transaction. The transaction is subject to a number of conditions, including approval by Grange shareholders at a general meeting expected to be held on 12 December 2008, Foreign Investment Review Board approval and approvals from relevant Chinese authorities. The Independent Expert has concluded that the transaction is fair and reasonable to the non-associated Grange shareholders.
- AusQuest Ltd (AusQuest):** On 11 September 2008, AusQuest announced it had reached agreement on a Strategic Alliance with Cleveland-Cliffs. Under the terms of the Alliance, Cleveland-Cliffs will acquire a 30 percent interest in AusQuest. Cleveland-Cliffs will make an initial \$26 million subscription at \$0.40 per share. Further AusQuest will issue Cleveland-Cliffs with 21.59 million additional options with an exercise price of \$0.40 per share and an expiry date of around 31 March 2011. AusQuest announced to the ASX on 27 October 2008 that they had received notification from Australia's Foreign Investment Review Board (FIRB) that the proposed Strategic Alliance is exempt from review under the Foreign Acquisitions and Takeovers Act 1975 (the Act). Shareholder approval will be sought at the Company's Annual General Meeting of shareholders (AGM) to be held in Perth on 18 November. Under the Agreement, the share and option placement to Cliffs will be completed within five business days of the AGM should shareholder approval be obtained.

However, AusQuest is a diversified exploration company and therefore the resource multiple, which has been calculated based only on AusQuest iron ore announced resources, is not reflective of the acquisition or a pure play iron ore project.

- **Australasian Resources Ltd (ARH):** On 24 July 2008, ARH announced it had received a proposal from Resources Development International Ltd (RDI) regarding a merger of the two companies. ARH subsequently announced on 6 August 2008 that it had entered into a Merger Implementation Agreement with RDI.

Under the proposal, and subject to shareholder and Court approval, ARH would become a subsidiary of RDI and manage the development of the enlarged company's iron ore assets, which are expected to include rights to mine up to a further 20 billion tonnes of magnetite from the broader Balmoral deposit. The proposal places a notional price of \$2.20 on each ARH share. The exchange ratio values the entire share capital at approximately \$973 million.

- **Midwest Corporation Ltd (Midwest):** On 14 March 2008, Sinosteel Corporation (Sinosteel) announced that it intended to make an all cash offer for Midwest at \$5.60 per Midwest share. At 14 March 2008, Sinosteel held a 19.89 percent interest in Midwest and therefore if Sinosteel was successful in acquiring all outstanding shares it could acquire up to the remaining 80.11 percent.

On the 29 April 2008, Midwest announced that Sinosteel had agreed to increase its offer to \$6.38 per share subject to Sinosteel receiving acceptances of 50.1 percent of Midwest shares. On the 17 September 2008 Sinosteel gave notice that at the close of the offer, Sinosteel and its associates had a relevant interest of 98.52 percent of the ordinary shares in Midwest. As a result, Sinosteel advised it will now proceed to compulsorily acquire the remaining Midwest shares. Following despatch of compulsory acquisition notices by Sinosteel, the securities of Midwest suspended from quotation at the close of trading on 25 September 2008.

- **Cape Lambert Iron Ore Ltd (Cape Lambert):** On 28 July 2008 Cape Lambert announced it had received shareholder approval for the \$400 million sale of its namesake iron ore project in Western Australia to China Metallurgical Group Corporation (MCC). On 26 February 2008, Cape Lambert announced it had signed a Memorandum of Understanding with MCC for the sale for a total consideration of \$400 million. The approval of the transaction by shareholders was the final condition precedent for the transaction.

On 15 September 2008, Cape Lambert announced it had received in total \$320 million of the consideration with the balance of \$80 million to be paid by MCC on the grant of a mining lease and related construction approvals for the project.

- **Murchison Metals Ltd (Murchison):** On 18 June 2007, Murchison announced the signing of an agreement with Mitsubishi Development Pty Ltd (MDP), a wholly-owned subsidiary of Mitsubishi Corporation (Mitsubishi), to enable MDP to acquire 50 percent of Murchison's iron ore business, including its flagship Jack Hills project. Final transaction documents were signed on 19 September 2007. Under these agreements, MDP acquired a 50 percent interest in Crosslands Resources Limited (Crosslands) through the issue of shares in Crosslands. Crosslands is the operating company for the mining operations of Jack Hills and holds the rights to the Jack Hills tenements and other iron ore tenements.

The consideration payable by Mitsubishi comprises a combination of an up-front payment of \$150 million together with an additional amount payable when construction of the expanded Jack Hills project is set to commence. This deferred payment will be based on the value of the Jack Hills project at the time that the Jack Hills expansion is set to commence.

- **Gindalbie Metals Ltd (Gindalbie):** On 4 June 2007 Gindalbie announced a Share Subscription Agreement with Anshan Iron & Steel Group Corporation (AnSteel). Under the agreement Gindalbie will issue 65 million shares at 60 cents each to AnSteel to raise \$39 million, resulting in AnSteel holding a 12.94 percent interest in Gindalbie. This share placement was completed on 4 September 2007.

On 3 November 2008, Gindalbie announced it had received an alternative funding proposal in connection with its final equity contribution to the Karara Iron Ore Project from its joint venture partner, AnSteel. Under the previously announced agreed payment schedule for equity payments, AnSteel had made three payments totalling \$228.4 million and Gindalbie had made one payment of approximately \$18.4 million. The alternative funding proposal involves Gindalbie issuing shares to AnSteel at an issue price of \$0.85 via an approximate \$162.1 million share placement, which would cover the final equity contribution. The proposed placement is subject to execution of formal agreements, shareholder and regulatory approval.

- **Grange Resources Ltd (Grange):** On 1 June 2007, Grange announced that a wholly owned subsidiary of the Japanese trading company Sojitz Corporation had entered into a binding joint venture agreement to become a 30 percent joint venture partner in Grange's Southdown project. Under the agreement, Sojitz agreed to purchase an initial 10 percent stake in the project for US\$4 million and agreed to spend a further US\$10 million on pre-commitment development expenditure for which it will earn a further 20 percent interest. Upon production, a royalty will be payable by Sojitz on the sale of pellets produced from Sojitz's proportionate share of concentrate sourced from the Southdown tenements.

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Annexure B

Notice of Meeting



MOUNT GIBSON IRON LIMITED

ACN 008 670 817

NOTICE OF MEETING

**FOR THE
GENERAL MEETING OF SHAREHOLDERS
TO BE HELD ON**

TUESDAY, 30 DECEMBER 2008

**AT THE BOUNDARY ROOM, WACA (WESTERN AUSTRALIAN CRICKET ASSOCIATION) GROUND,
NELSON CRESCENT, EAST PERTH, WESTERN AUSTRALIA (ENTRY VIA GATE 2)
AT 9.00AM (Perth, Western Daylight Time).**

IMPORTANT INFORMATION

This is an important document that should be read in its entirety.

If you do not understand it, or any part of it, you should consult with your professional advisers without delay.

This Notice of Meeting is annexed to an Explanatory Memorandum. Also annexed to the Explanatory Memorandum is an Independent Expert's Report. The Explanatory Memorandum and its Annexures have been prepared to assist Shareholders in determining whether or not to vote in favour of the Resolutions set out in this Notice of Meeting.

The Explanatory Memorandum and its Annexures are intended to be read in conjunction with this Notice of Meeting.

You are encouraged to attend the meeting, but if you cannot, you are requested to complete and return the enclosed Proxy Form without delay to

Computershare at GPO Box 242, Melbourne, Victoria 3001

or by facsimile on

1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia)

NOTICE OF THE EXTRAORDINARY GENERAL MEETING
MOUNT GIBSON IRON LIMITED
ACN 008 670 817

Notice is hereby given that the Extraordinary General Meeting of the Shareholders of Mount Gibson Iron Limited ("Mount Gibson" or the "Company") will be held on the date and at the location and time specified below:

DATE: Tuesday, 30 December 2008
LOCATION: Boundary Room, WACA (Western Australian Cricket Association) Ground,
Nelson Crescent, East Perth, Western Australia (entry via Gate 2)
TIME: 9.00am (Perth, Western Daylight Time)

Shareholders should read the Explanatory Memorandum and its Schedules and Annexures in full. Terms defined in the Explanatory Memorandum have the same meaning in this Notice of Meeting.

SPECIAL BUSINESS

RESOLUTION 1: Approval of Offtake Agreements

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

"That, subject to and conditional on resolutions 2 and 3 being passed, and for the purposes of Listing Rule 10.1 and for all other purposes, approval is given for Mount Gibson (or its wholly owned subsidiaries) to enter into, and perform its obligations under the following agreements:

- (a) three long term Offtake Agreements between Mount Gibson and APAC; and*
- (b) one medium term Offtake Agreement and three long term Offtake Agreements between Mount Gibson and Shougang Concord,*

details of which are set out in Schedule 3 of the Explanatory Memorandum accompanying this Notice of Meeting."

Voting Exclusion: In accordance with Listing Rules 10.10 and 14.11, the Company will disregard any votes cast on the resolution by APAC and by Shougang Concord, and any of their associates.

However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form or if it is cast by the person chairing the meeting as proxy for a person who is entitled to vote in accordance with a direction on the proxy form to vote as the proxy decides.

RESOLUTION 2: Approval of Underwriting of Rights Issue by APAC and by Shougang Concord

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an ordinary resolution:

"That, subject to and conditional on resolutions 1 and 3 being passed, and for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, approval is given for the Underwriting of the Rights Issue by way of separate underwritings by APAC Resources Investments Limited (guaranteed by APAC) and Shougang Concord, details of which are set out in Schedule 1 of the Explanatory Memorandum accompanying this Notice of Meeting."

Voting Exclusion: In accordance with item 7 of section 611 of the Corporations Act, the Company will disregard any votes cast on this resolution by APAC or by Shougang Concord, and any of their associates.

RESOLUTION 3: Proposed issue of Shares to Shougang Concord pursuant to Placement

To consider and, if thought fit, to pass the following resolution, with or without amendment, as an ordinary resolution:

"That, subject to and conditional on resolutions 1 and 2 being passed, for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes, approval is given for the Company to allot and issue to Shougang Concord or its nominee up to 110,000,000 ordinary shares in the capital of the Company at an issue price of A\$0.60 per Share on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice of Meeting."

Voting Exclusion: In accordance with item 7 of section 611 of the Corporations Act, the Company will disregard any votes cast on this resolution by APAC or Shougang Concord, and any of their associates.

EXPLANATORY MEMORANDUM

Shareholders are referred to the Explanatory Memorandum accompanying and forming part of this Notice of Meeting.

ENTITLEMENT TO VOTE

The Company has determined that under the Corporations Regulations 2001 (Cth) regulation 7.11.37, for the purposes of the Annual General Meeting, Shares will be taken to be held by the persons who are the registered holders at 9.00am (Perth, WDT) on 28 December 2008. Accordingly, Share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the meeting.

PROXIES

In accordance with section 249L of the Corporations Act, Shareholders are advised that:

- each Shareholder has the right to appoint a proxy;
- the proxy need not be a Shareholder of the Company; and
- a Shareholder who is entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise.

In accordance with section 250BA of the Corporations Act, the Company specifies the following information for the purposes of receipt of proxy appointments:

In person:	Level 1, 7 Havelock Street, West Perth
By Mail:	Computershare Investor Services Pty Limited GPO Box 242 Melbourne, Victoria 3001
By facsimile:	1800 783 447 (within Australia) +61 3 9473 2555 (outside Australia)

Each member entitled to attend and vote at the Meeting has the right to appoint a proxy to attend and vote at the Meeting on his behalf. The member may specify the way in which the proxy is to vote on each resolution or may allow the proxy to vote at his discretion. The instrument appointing the proxy must be received by the Company at the address notified by the Company by 9.00am (Perth, WDT) on Sunday, 28 December 2008.

If you wish to discuss any aspects of this document with the Company, please contact the Mount Gibson Investor Information Line on 1300 794 682 (toll free) from within Australia or +61 8280 7751 from outside Australia during office hours.

BY ORDER OF THE BOARD



David Berg

Company Secretary

DATED: 25 November 2008

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