

OM HOLDINGS LIMITED  
(ARBN 081 028 337)



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30 March 2009

Company Announcements Office  
ASX Limited  
4<sup>th</sup> Floor  
20 Bridge Street  
SYDNEY NSW 2000

Dear Sir/Madam

**AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2008**

Pursuant to the Corporations Act 2001 and ASX Listing Rule 4.5, please find attached the audited Financial Statements and Reports for the year ended 31 December 2008.

The 2008 Annual Report (including Reports and Financial Statements) will be despatched to all Shareholders by Thursday 30 April 2009.

Yours faithfully  
**OM HOLDINGS LIMITED**

Heng Siow Kwee/Julie Wolseley  
**Company Secretary**

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## **BACKGROUND PROFILE OF OM HOLDINGS LIMITED**

*OMH listed on the ASX in March 1998 and has its foundations in metals trading – incorporating the sourcing and distribution of manganese ore products and subsequently in processing ores into ferro-manganese intermediate products. The OMH Group now operates commercial mining operations – leading to a fully integrated operation covering Australia, China and Singapore.*

*Through its wholly owned subsidiary, OM (Manganese) Ltd, OMH controls 100% of the Bootu Creek Manganese Mine (“Bootu Creek”) located 110 km north of Tennant Creek in the Northern Territory.*

*Bootu Creek has the capacity to produce 700,000 tonnes of manganese product annually. Bootu Creek has further exploration potential given that its tenement holdings extend over 3,355 km<sup>2</sup>.*

*Bootu Creek’s manganese product is exclusively marketed by the OMH Group’s own trading division with a proportion of the product consumed by the OMH Group’s wholly-owned Qinzhou smelter located in south west China.*

*Through its Singapore based commodity trading activities, OMH has established itself as a significant manganese supplier to the Chinese market. Product from Bootu Creek has strengthened OMH’s position in this market.*

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Financial statements

**OM Holdings Limited  
and its subsidiaries**

For the year ended 31 December 2008

## Company information

Company registration number	ARBN 081 028 337
Registered office	Clarendon House 2 Church Street Hamilton, HM11 Bermuda
Directors	Low Ngee Tong (Executive Chairman) Peter Ivan Toth (Chief Executive Officer appointed on 3 September 2008) Ong Beng Chong (Chief Finance Officer) Julie Anne Wolseley (Non-Executive Director and Joint Company Secretary) John Raubenheimer (Independent Non-Executive Director) Tan Peng Chin (Independent Non-Executive Director) Thomas Teo Liang Huat (Independent Non-Executive Director appointed on 17 July 2008) Wong Fong Fui (Independent Non-Executive Director appointed on 5 June 2008)
Secretaries	Heng Siow Kwee Julie Anne Wolseley Lo Chin Men
Bankers	National Australia Bank Ltd
Auditor	Foo Kon Tan Grant Thornton Certified Public Accountants 47 Hill Street #05-01 Singapore Chinese Chamber of Commerce & Industry Building Singapore 179365  Partner-in-charge: Mr Henry Lim

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## Directors' report

The Directors present their report and the audited financial statements of OM Holdings Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2008.

### Principal Activities

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in Note 11 to the financial statements.

### Results and Appropriation

The results of the Group for the year ended 31 December 2008 and the state of affairs of the Group and the Company at that date are set out in the financial statements on page 7 to 54.

### Share Capital

Details of the movements in the share capital of the Company are set out in Note 16.

### Reserves

Details of the movements in the reserves of the Group and the Company during the year are set out in Consolidated Statement of Changes in Equity and Note 18 to the financial statements respectively.

### Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group are set out in Note 5 to the financial statements.

### Interest in Subsidiaries

Details of the Company's interest in subsidiaries are set out in Note 11 to the financial statements respectively.

### Names of Directors

The Directors in office at the date of this report are:

Low Ngee Tong (Executive Chairman)  
Peter Ivan Toth (Chief Executive Officer appointed on 3 September 2008)  
Ong Beng Chong (Chief Finance Officer)  
Julie Anne Wolseley (Non-Executive Director and Joint Company Secretary)  
John Raubenheimer (Independent Non-Executive Director)  
Tan Peng Chin (Independent Non-Executive Director)  
Thomas Teo Liang Huat (Independent Non-Executive Director appointed on 17 July 2008)  
Wong Fong Fui (Independent Non-Executive Director appointed on 5 June 2008)

In accordance with clause 88(1) of the Company's Bye-laws, one-third of the Directors (excluding the Chief Executive Officer) retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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Directors' Interest in Share Capital

As at 31 December 2008, the interests of the Directors in the share capital of the Company were as follows:

	Holdings registered <u>in the name of director</u>		Holdings in which Director is <u>deemed to have an interest</u>	
	As at 1.1.2008*	As at 31.12.2008	As at 1.1.2008*	As at 31.12.2008
<u>Number of ordinary shares fully paid</u>				
<u>The Company</u>				
Low Ngee Tong (Note (a))	750,000	<b>6,000,000</b>	36,395,000	<b>37,145,000</b>
Peter Ivan Toh	-	<b>250,000</b>	-	-
John Raubenheimer	1,000,000	<b>1,000,000</b>	-	-
Julie Anne Wolseley	3,050,002	<b>5,562,002</b>	-	-
Ong Beng Chong	766,000	<b>766,000</b>	-	-
Tan Peng Chin	-	-	-	-
Thomas Teo Liang Huat	-	-	-	-
Wong Fong Fui	-	-	-	-

Note:

- (a) Mr Low Ngee Tong was deemed to be interested in 36,395,000 ordinary shares by virtue of his corporate interest in Ramley International Limited, which held such shares. Mr Low Ngee Tong was deemed to be interested in 750,000 ordinary shares by virtue of these shares being held by DBS Vickers Securities (Singapore) Pte Ltd as nominee on behalf of Mr Low Ngee Tong.

\* Balance as 1 January 2008 has been adjusted to take into consideration the effect of the subdivision of the company's issued capital on the basis that every ordinary share was subdivided into two ordinary shares as approved by shareholders at the Company's Annual General Meeting held on 30 May 2008

Unissued Shares under Option

The unissued shares under option at the end of the financial year are as follows:

OM Holdings Limited <u>Unlisted Options (in '000)</u>							
Date options granted	Balance at 1.1.2008*	Granted/ (expired) during the year	Exercised during the year	Balance at 31.12.2008	A\$ Exercise price per option	No. of options holders at 31.12.2008	Period exercisable
21.06.2004	1,000	-	(1,000)	-	0.36	-	21.06.2004 - 30.06.2009
20.12.2005	2,106	-	(2,106)	-	0.525	-	20.12.2005 - 30.11.2008
07.11.2006	1,812	-	(1,764)	48	0.30	1	07.11.2007 - 31.12.2009
07.11.2006	1,812	-	(1,764)	48	0.36	1	07.11.2007 - 30.06.2010
01.06.2007	6,000	-	(6,000)	-	0.24	-	01.06.2007 - 31.05.2010
01.06.2007	7,500	-	(1,500)	6,000	0.28	2	31.05.2008 - 31.05.2012
01.06.2007	2,000	-	(1,000)	1,000	0.14	1	12.03.2008 - 12.03.2012
01.06.2007	1,060	-	(1,060)	-	0.30	6	01.06.2007 - 31.05.2010
01.06.2007	6,190	(250)	(5,190)	750	0.30	3	31.05.2008 - 31.05.2010
01.06.2007	3,190	(210)	-	2,980	0.30	20	31.05.2008 - 31.05.2011
02.08.2007	1,000	-	(250)	750	0.365	1	02.07.2007 - 30.06.2010
02.08.2007	1,000	-	(1,000)	-	0.365	-	02.07.2008 - 30.06.2010
24.09.2007	2,000	-	-	2,000	0.365	1	24.09.2007 - 30.06.2010
24.09.2007	2,000	-	-	2,000	0.365	1	01.07.2008 - 30.06.2010
20.05.2008	-	500	-	500	0.72	1	20.05.2008 - 31.03.2011
20.05.2008	-	500	-	500	0.72	1	14.03.2009 - 31.03.2011
17.10.2008	-	4000	-	4000	1.405	1	17.10.2008 - 30.09.2010
17.10.2008	-	4000	-	4000	1.52	1	03.09.2009 - 03.09.2011
17.10.2008	-	4000	-	4000	1.64	1	03.09.2010 - 03.09.2012
17.10.2008	-	4000	-	4000	1.755	1	03.09.2011 - 03.09.2013
17.10.2008	-	4000	-	4000	1.87	1	03.09.2012 - 03.09.2014
17.10.2008	-	4000	-	4000	2.49	1	17.10.2008 - 31.10.2010
17.10.2008	-	2000	-	2000	2.49	1	01.01.2009 - 01.01.2011
17.10.2008	-	2000	-	2000	2.49	1	01.01.2010 - 01.01.2012
17.10.2008	-	2000	-	2000	2.49	1	01.01.2011 - 01.01.2013

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Unissued Shares under Option (cont'd)

OM Holdings Limited Unlisted Options (in '000)							
Date options granted	Balance at 1.1.2008*	Granted/ (cancelled) during the year	Exercised during the year	Balance at 31.12.2008	A\$ Exercise price per option	No. of options holders at 31.12.2008	Period exercisable
17.10.2008	-	2000	-	2000	2.49	1	01.01.2012 - 01.01.2014
17.10.2008	-	2000	-	2000	2.49	1	01.01.2013 - 01.01.2015
17.10.2008	-	4325	-	4325	2.49	33	01.01.2010 - 01.01.2012
17.10.2008	-	4325	-	4325	2.49	33	01.01.2011 - 01.01.2013
17.10.2008	-	3000	-	3000	1.405	1	17.10.2008 - 01.08.2010
17.10.2008	-	3000	-	3000	1.52	1	01.08.2009 - 01.08.2011
17.10.2008	-	2000	-	2000	1.64	1	01.08.2010 - 01.08.2012
17.10.2008	-	2000	-	2000	1.755	1	01.08.2011 - 01.08.2013
17.10.2008	-	2000	-	2000	1.87	1	01.08.2012 - 01.08.2014
17.10.2008	-	1000	-	1000	2.58	1	17.10.2008 - 31.08.2011
	38,670	56,190	(22,634)	72,226			

\* Balance as 1 January 2008 has been adjusted to take into consideration the effect of the subdivision of the Company's issued capital on the basis that every one ordinary share was subdivided into two ordinary shares as approved by shareholders at the Company's Annual General Meeting held on 30 May 2008. Unlisted options on issue were also adjusted in accordance with the ASX Listing Rules.

There were no unissued shares of subsidiaries under option as at 31 December 2008.

Mr Low Ngee Tong, Mr Peter Ivan Toth, Mr Ong Beng Chong, Mr Tan Peng Chin, Mr John Raubenheimer and Mr Wong Fong Fui are interested in 10 million, 20 million, 12 million, 1 million, 2 million and 1 million options respectively at the end of the financial year.

#### Audit Committee

The audit committee comprises the following members:

Thomas Teo Liang Huat (Chairman)  
Julie Anne Wolsley  
John Raubenheimer

The audit committee is responsible for reviewing the half-yearly and annual financial statements and the auditors' report on the annual financial statements of the Company before their submission to the Board of Directors.

The committee has full access to management and is given the resources required for it to discharge its functions. It has full authority and the discretion to invite any Director or executive officer to attend its meetings.

The committee is satisfied with the independence and objectivity of the external auditors and has recommended to the Board of Directors that the auditors, Foo Kon Tan Grant Thornton, be nominated for re-appointment as auditors of the Company at the forthcoming Annual General Meeting of the Company.

Auditor

The auditor, Foo Kon Tan Grant Thornton, Certified Public Accountants, has expressed its willingness to accept the re-appointment.

On behalf of the Directors



PETER IVAN TOTH



ONG BENG CHONG

Dated: 27 March 2009

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## Statement by Directors

In the opinion of the directors, the accompanying balance sheets, consolidated income statement, consolidated statement of changes in equity and the consolidated cash flow statement, together with the notes thereon, are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the results of the business, changes in equity and cash flows of the Group for the financial year ended on that date, and at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Directors



PETER IVAN TOTH



ONG BENG CHONG

Dated: 27 March 2009

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# Independent auditor's report to the members of OM Holdings Limited

We have audited the accompanying financial statements of OM Holdings Limited ("the Company") and its subsidiaries ("the Group"), which comprise the balance sheets of the Company and the Group as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards ("IFRS"). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement.

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

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

## Opinion

In our opinion, the balance sheet of the Company and the consolidated financial statements of the Group give a true and fair view of the financial position of the Group and of the Company as at 31 December 2008 and of the financial performance, and cash flows of the Group for the year ended in accordance with International Financial Reporting Standards.



Foo Kon Tan Grant Thornton  
Public Accountants and  
Certified Public Accountants

Singapore, 27 March 2009

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## Balance sheets

	Notes	The Company		The Group	
		31 December 2008 A\$'000	31 December 2007 A\$'000	31 December 2008 A\$'000	31 December 2007 A\$'000
<b>Assets</b>					
<b>Non-Current</b>					
Goodwill	4	-	-	2,190	2,190
Property, plant and equipment	5	-	-	69,733	59,686
Prepaid lease payments on land use rights	6	-	-	1,577	1,192
Long-term prepayments	7	-	-	818	620
Exploration and evaluation costs	8	-	-	-	-
Mine development costs	9	-	-	20,384	12,379
Financial assets available for sale	10	4,443	40,243	4,443	40,243
Interest in subsidiaries	11	71,664	110,381	-	-
Deferred tax assets	12	-	-	313	-
		<b>76,107</b>	150,624	<b>99,458</b>	116,310
<b>Current</b>					
Inventories	13	-	-	86,272	51,023
Trade and other receivables	14	32,023	3	21,662	26,087
Derivative financial assets		-	-	-	851
Prepayments		-	145	5,241	312
Cash collateral	15	-	-	22,317	3,768
Cash and cash equivalents	15	70,813	877	96,961	20,614
		<b>102,836</b>	1,025	<b>232,453</b>	102,655
<b>Total assets</b>		<b>178,943</b>	151,649	<b>331,911</b>	218,965
<b>Equity</b>					
<b>Capital and Reserves</b>					
Share capital	16	23,879	22,747	23,879	22,747
Treasury shares	17	(1,006)	-	(1,006)	-
Reserves	18	152,826	127,014	225,305	141,611
		<b>175,699</b>	149,761	<b>248,178</b>	164,358
<b>Minority interests</b>		-	-	2,552	1,809
<b>Total equity</b>		<b>175,699</b>	149,761	<b>250,730</b>	166,167
<b>Liabilities</b>					
<b>Non-Current</b>					
Borrowings	19	-	-	-	5
Provisions	20	-	-	657	298
		-	-	<b>657</b>	303
<b>Current</b>					
Borrowings	19	-	-	2,170	6,032
Trade and other payables	21	3,244	1,888	46,435	41,072
Derivative financial liabilities		-	-	17,206	586
Current tax payable		-	-	14,713	4,805
		<b>3,244</b>	1,888	<b>80,524</b>	52,495
<b>Total equity and liabilities</b>		<b>178,943</b>	151,649	<b>331,911</b>	218,965

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

## Consolidated income statement

	Notes	Year ended 31 December 2008 A\$'000	Year ended 31 December 2007 A\$'000
Revenue	3	574,065	290,490
Cost of sales		(330,995)	(180,613)
Gross profit		243,070	109,877
Other income	22	3,011	8,877
Distribution costs		(38,842)	(29,097)
Administrative expenses		(32,055)	(18,432)
Other operating expenses		(40,748)	(7,549)
Finance costs		(973)	(1,854)
Profit before taxation	23	133,463	61,822
Taxation	24	(17,529)	(4,556)
Profit for the year		115,934	57,266
Attributable to:			
Equity holders of the parent		115,632	56,864
Minority interests		302	402
		115,934	57,266
Earnings per share			
- Basic	26	24.81	14.29
- Diluted	26	23.55	13.02

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

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## Consolidated statement of changes in equity

	Share capital A\$'000	Share premium A\$'000	Treasury shares A\$'000	Non-distributable reserve A\$'000	Capital reserve A\$'000	Share option reserve A\$'000	Fair value reserve A\$'000	Exchange fluctuation reserve A\$'000	Retained profits A\$'000	Total attributable to equity holders of the parent A\$'000	Minority interests A\$'000	Total equity A\$'000
Balance at 1 January 2007	14,833	62,431	-	1,435	637	1,745	6,819	(3,008)	(15,279)	69,613	1,869	71,482
Currency translation differences	-	-	-	-	-	-	-	(2,913)	-	(2,913)	(284)	(3,197)
Fair value gains on financial assets available for sale	-	-	-	-	-	-	26,831	-	-	26,831	-	26,831
Transfers	-	-	-	22	-	-	-	-	(459)	(437)	-	(437)
Utilisation of hedge reserve	-	-	-	-	-	-	(340)	-	-	(340)	-	(340)
Net gains/(losses) directly recognised in equity	-	-	-	22	-	-	26,491	(2,913)	(459)	23,141	(284)	22,857
Net profit for the year	-	-	-	-	-	-	-	-	56,864	56,864	402	57,266
Total recognised income and expense for the year	-	-	-	22	-	-	26,491	(2,913)	56,405	80,005	118	80,123
Issue of shares under entitlements issue (Note 16)	7,417	7,925	-	-	-	-	-	-	-	15,342	-	15,342
Share options exercised (Note 16)	887	3,707	-	-	-	-	-	-	-	4,594	-	4,594
Cancellation of ordinary shares following selective share buy back (Note 16)	(390)	(3,042)	-	-	-	-	-	-	-	(3,432)	-	(3,432)
Equity settled share-based transactions	-	-	-	-	-	2,765	-	-	-	2,765	-	2,765
Dividend paid to minority interest	-	-	-	-	-	-	-	-	-	-	(178)	(178)
Dividend paid (Note 25)	-	-	-	-	-	-	-	-	(4,529)	(4,529)	-	(4,529)
<b>Balance at 31 December 2007</b>	<b>22,747</b>	<b>71,021</b>	<b>-</b>	<b>1,457</b>	<b>637</b>	<b>4,510</b>	<b>33,310</b>	<b>(5,921)</b>	<b>36,597</b>	<b>164,358</b>	<b>1,809</b>	<b>166,167</b>
Balance at 1 January 2008	22,747	71,021	-	1,457	637	4,510	33,310	(5,921)	36,597	164,358	1,809	166,167
Currency translation differences	-	-	-	-	-	-	-	20,759	-	20,759	515	21,274
Fair value losses on financial assets available for sale	-	-	-	-	-	-	(35,681)	-	-	(35,681)	-	(35,681)
Deferred tax (Note 12)	-	-	-	-	-	-	4,401	-	-	4,401	-	4,401
Hedging reserve	-	-	-	-	-	-	(14,669)	-	-	(14,669)	-	(14,669)
Transfers	-	-	-	818	-	-	-	-	(1,155)	(337)	-	(337)
Net gains/(losses) directly recognised in equity	-	-	-	818	-	-	(45,949)	20,759	(1,155)	(25,527)	515	(25,012)
Net profit for the year	-	-	-	-	-	-	-	-	115,632	115,632	302	115,934
Total recognised income and expense for the year	-	-	-	818	-	-	(45,949)	20,759	114,477	90,105	817	90,922
Share options exercised (Note 16)	1,132	5,829	-	-	-	-	-	-	-	6,961	-	6,961
Equity settled share-based transactions	-	-	-	-	-	13,756	-	-	-	13,756	-	13,756
Dividend paid to minority interest	-	-	-	-	-	-	-	-	-	-	(74)	(74)
Purchase of treasury shares (Note 17)	-	-	(1,006)	-	-	-	-	-	-	(1,006)	-	(1,006)
Dividend paid (Note 25)	-	-	-	-	-	-	-	-	(25,996)	(25,996)	-	(25,996)
<b>Balance at 31 December 2008</b>	<b>23,879</b>	<b>76,850</b>	<b>(1,006)</b>	<b>2,275</b>	<b>637</b>	<b>18,266</b>	<b>(12,639)</b>	<b>14,838</b>	<b>125,078</b>	<b>248,178</b>	<b>2,552</b>	<b>250,730</b>

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

## Consolidated cash flow statement

	Year ended 31 December 2008 A\$'000	Year ended 31 December 2007 A\$'000
<b>Cash Flows from Operating Activities</b>		
Profit before taxation	133,463	61,822
Adjustments for:		
Amortisation of prepaid lease	33	35
Amortisation of long term prepayments	9	8
Amortisation of mine development	1,694	965
Depreciation of property, plant and equipment	7,017	8,001
Equity-settled share-based payments	13,756	2,765
Effect of foreign exchange rates	17,300	(6,988)
Exploration and evaluation costs written off	11,917	3,629
Impairment of mine development costs written back	(9,699)	-
Loss on disposal of financial asset available for sale	58	-
Loss on disposal of property, plant and equipment	968	19
Write down of inventories to net realisable value	3,511	-
Write back of provision for inventory obsolescence	-	(492)
Interest expenses	973	1,854
Interest income	(2,726)	(1,021)
Operating profit before working capital changes	178,274	70,597
Increase in inventories	(38,760)	(15,612)
Decrease/(increase) in trade and bill receivables	8,252	(9,867)
Increase in prepayments, deposits and other receivables	(7,947)	(1,292)
Decrease in trade and bill payables	(2,837)	(6,759)
Increase/(decrease) in other payables and accruals	14,420	(133)
Increase in long term liabilities	359	-
Cash generated from operations	151,761	36,934
Interest paid	(973)	(1,854)
Overseas income tax paid	(7,934)	(35)
Net cash generated from operating activities	142,854	35,045
<b>Cash Flows from Investing Activities</b>		
Payments for exploration and evaluation	(11,917)	(3,629)
Purchase of property, plant and equipment	(14,943)	(8,828)
Proceeds from disposal of property, plant and equipment	61	-
Proceeds from disposal of financial assets available for sale	97	-
Payments for land use rights	-	(21)
Interest received	2,726	1,021
Net cash used in investing activities	(23,976)	(11,457)
<b>Cash Flows from Financing Activities</b>		
Dividends paid to minority interests	(74)	(178)
Dividends paid	(25,996)	(4,529)
Repayment of bank and other loans	(3,867)	(22,618)
(Increase)/decrease in cash collateral	(18,549)	3,410
Purchase of treasury shares	(1,006)	-
Proceeds from issue of shares, net of issue costs	6,961	16,504
Net cash used in financing activities	(42,531)	(7,411)
Net increase in cash and cash equivalents	76,347	16,177
Cash and cash equivalents at beginning of year	20,614	4,437
Cash and cash equivalents at end of year (Note 15)	96,961	20,614

The annexed notes form an integral part of and should be read in conjunction with these financial statements.

## Notes to the financial statements

### 1 General information

The financial statements of the Company and of the Group for the year ended 31 December 2008 were authorised for issue in accordance with a resolution of the Directors on the date of the Statement by Directors.

The Company is incorporated as a limited liability company and domiciled in Bermuda.

The registered office is located at Clarendon House, 2 Church Street Hamilton, HM11 Bermuda.

### 2(a) Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) including International Accounting Standards (“IAS”), and interpretations by the Interpretation Standing Interpretations Committee (“SIC”), and the International Financial Reporting Interpretations Committee (“IFRIC”). The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The financial statements are presented in Australian dollars which is the Company’s functional currency. All financial information is presented in Australian dollars (to the nearest thousands), unless otherwise stated.

#### **Significant accounting estimates and judgements**

The preparation of the financial statements in conformity with IFRS requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the financial year. Although these estimates are based on management’s best knowledge of current events and actions, actual results may differ from those estimates.

The critical accounting estimates and assumptions used and areas involving a high degree of judgements are described below.

#### **Critical assumptions used and accounting estimates in applying accounting policies**

##### Property, plant and equipment and depreciation

The Group’s management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete assets that have been abandoned or sold.

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Income tax

The Group has exposure to income taxes in numerous jurisdictions. Significant judgement is involved in determining the Group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amount of the Group tax payable as at 31 December 2008 was A\$14,713,000 (2007 - A\$4,805,000).

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to business segments as follows:

	<b>2008</b> <b>A\$'000</b>	2007 A\$'000
Ores	<b>2,190</b>	2,190

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. The key assumptions for the value-in-use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period and are stated below:

Gross margin	10% - 20%
Growth rate	0% - 10%
Discount rate	10%

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

These assumptions have been used for the analysis of each CGU. Management determined the budgeted gross margin based on past performance and its expectation for market development. The weighted average growth rates used are consistent with industry reports. The discount rates used are pre-tax and reflect specific risks relating to the business segments.

Impairment of mining and exploration assets

The carrying value of mining and exploration assets, including property, plant and equipment and deferred exploration, evaluation and development costs, is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy as disclosed in the relevant part of this section. The recoverable amount of these assets, or, where appropriate, the cash generating unit to which they belong, is calculated as the higher of its fair value less costs to sell and value-in-use. Estimating the value-in-use required the Group to estimate future cash flows from the cash generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment in investment in subsidiaries

Determining whether investments in subsidiaries are impaired requires an estimation of the value-in-use of the investments. The value-in-use calculation requires the Group to estimate the future cash flows expected from the cash-generating units and an appropriate discount rate in order to calculate the present value of the future cash flows. Management has evaluated the recoverability of the investments based on such estimates.

Allowance for bad and doubtful debts

Allowances for bad and doubtful debts are based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgment and estimates. Where the expected outcome is different from the original estimate, such difference will impact carrying value of trade and other receivables and doubtful debt expenses in the period in which such estimate has been changed.

The accounting policies used by the Group have been applied consistently to all periods presented in these financial statements.

Valuation of share options

Share options issued were valued using the Binomial Model, taking into account the terms and conditions upon which the options were granted. Details of the assumptions and estimates used are given in Note 28 of the financial statements.

2(b) Interpretations and amendments to published standards effective in 2008

On 1 January 2008, the Group adopted the new or amended IFRS and IFRIC Interpretations that are mandatory for application on that date. This includes the following IFRIC Interpretations, which are relevant to the Group:

IFRIC - Int 11	IFRS 22 - Group and Treasury Share Transactions
IFRIC - Int 12	Service Concession Arrangements
IFRIC - Int 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new/revised IFRIC Interpretations did not result in substantial changes to the Group's accounting policies nor any significant impact on these financial statements.

2(c) New or revised accounting standards and interpretations

Certain new standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods and which the Group has not early adopted. The Group's assessment of the impact of adopting those standards, amendments and interpretations that are relevant to the Group is set out below:

(i) IAS 1(R) Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2009)

The revised standard requires:

- All changes in equity arising from transactions with owners in their capacity as owners to be presented separately from components of comprehensive income;
- Components of comprehensive income not to be included in statement of changes in equity;
- Items of income and expenses and components of other comprehensive income to be presented either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate statement of profit and loss followed by a statement of comprehensive income);
- Presentation of restated balance sheet as at the beginning of the comparative period when entities make restatements or reclassifications of comparative information.

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2(c) New or revised accounting standards and interpretations (cont'd)

The revisions also include changes in the titles of some of the financial statements primary statements.

The Group will apply the revised standard from 1 January 2009 and provide comparative information that conforms to the requirements of the revised standard. The key impact of the application of the revised standard is the presentation of an additional primary statement, that is, the statement of comprehensive income.

(ii) IFRS 8 *Operating Segments* (effective for annual periods beginning on or after 1 January 2009)

FRS 108 supersedes FRS 14 Segment Reporting and requires the Group to report the financial performance of its operating segments based on the information used internally by management for evaluating segment performance and deciding on allocation of resources. Such information may be different from the information included in the financial statements, and the basis of its preparation and reconciliation to the amounts recognised in the financial statements shall be disclosed.

The Group will apply FRS 108 from 1 January 2009 and provide comparative information that conforms to the requirements of FRS 108. The Group expects the new operating segments to be no different from segments information currently disclosed.

(iii) Revised IAS 23 *Borrowing Costs* (effective for annual periods beginning on or after 1 January 2009)

The revised standard removes the option to recognise immediately as an expense borrowing costs that are attributable to qualifying assets, except for those borrowing costs on qualifying assets that are measured at fair value or inventories that are manufactured or produced in large quantities on a repetitive basis. The Group will apply the revised FRS 23 from 1 January 2009. As the Group has been capitalising the relevant borrowing costs, the revised standard is not expected to have any impact to the Group.

2(d) Summary of significant accounting policies

**Consolidation**

The financial statements of the Group include the financial statements of the Company and its subsidiaries made up to the end of the financial year. Information on its subsidiaries is given in Note 11.

All inter-company balances and significant inter-company transactions and resulting unrealised profits or losses are eliminated on consolidation and the consolidated financial statements reflect external transactions and balances only. The results of subsidiaries acquired or disposed of during the financial year are included or excluded from the consolidated income statement from the effective date in which control is transferred to the Group or in which control ceases, respectively.

Acquisitions of subsidiaries are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities represents goodwill. The goodwill is accounted for in accordance with the accounting policy for goodwill stated below.

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### **Consolidation (cont'd)**

Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognised in the profit and loss account on the date of acquisition.

Where accounting policies of a subsidiary do not conform with those of the Company, adjustments are made on consolidation when the amounts involved are considered significant to the Group.

Minority interests represent the portion of profit or loss and net assets in subsidiaries not held by the Group. They are presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity, and are separately disclosed in the consolidated profit and loss account.

### **Intangible assets**

Intangible assets are accounted for using the cost model with the exception of goodwill. Capitalised costs are amortised on a straight-line basis over their estimated useful lives for those considered as finite useful lives. After initial recognition, they are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Indefinite life intangibles are not amortised but are subject to annual impairment testing.

Intangible assets are written off where, in the opinion of the Directors, no further future economic benefits are expected to arise.

### **Goodwill**

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

### **Property, plant and equipment and depreciation**

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation is computed utilising the straight-line method to write off the cost of these assets over their estimated useful lives as follows:

Leasehold building and improvements	3 to 5 years
Plant and machinery	3 to 20 years
Plant and equipment - Process Facility	Life of mine: 8 years
Computer equipment	1 year
Office equipment	3 to 5 years
Furniture and fittings	3 to 5 years
Motor vehicles	5 to 10 years

No depreciation is provided on assets under construction.

The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the items. Dismantlement, removal or restoration costs are included as part of the cost of property, plant and equipment if the obligation for dismantlement, removal or restoration is incurred as a consequence of acquiring or using the asset.

Subsequent expenditure relating to property, plant and equipment that have been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the standard of performance of the asset before the expenditure was made, will flow to the Group and the cost can be reliably measured. Other subsequent expenditure is recognised as an expense during the financial year in which it is incurred.

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### **Property, plant and equipment and depreciation (cont'd)**

For acquisitions and disposals during the financial year, depreciation is provided from the month of acquisition and to the month before disposal respectively. Fully depreciated property, plant and equipment are retained in the books of accounts until they are no longer in use.

Depreciation methods, useful lives and residual values are reviewed, and adjusted as appropriate, at each reporting date.

### **Land use rights**

Land use rights represent up-front payments to acquire long term interests in the usage of land in the People's Republic of China ("PRC"). They are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is charged to the consolidated income statements on the straight-line basis over the period of the leases which ranged from 10 years to 50 years.

### **Long term prepayments**

Long term prepayments represent an office premise in Singapore that is held under a long term lease. They are stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is charged to the consolidated income statements on the straight-line basis over the lease period of 73 years on acquisition.

### **Exploration and evaluation costs**

Costs arising from exploration and evaluation are accumulated in respect of each separate area of interest. These costs are capitalised and carried forward as assets which rights to tenure are current and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or, where activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence of economically recoverable reserves, active and significant operations in the area of interest are continuing. Amounts received during the exploration and evaluation phases which are in the nature of reimbursement or recoupment of previously incurred costs are offset against such costs.

Accumulated costs in respect of an area of interest subsequently abandoned are written off to the income statement in the reporting period in which the Directors' decision to abandon is made.

Capitalised exploration and evaluation costs are assessed for impairment when facts and circumstances suggest that the carrying amount of those costs exceeds their recoverable amount. Where a mineral resource has been identified and where it is expected that future expenditures will be recovered by future exploitation or sale, the impairment of the exploration and evaluation is written back only to the extent that the carrying value amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised and transferred to mine development costs.

### **Mine development and mine properties costs**

In respect of each separate area of interest, when the technical feasibility and commercial viability of the exploration and evaluation is demonstrable, the relevant capitalised exploration and evaluation costs are classified as mine development costs.

Costs arising from the development of the mine site (except for the expenditures incurred for building the mine site and the purchases of machinery and equipments for the mining operation which are included in property, plant and equipments) are accumulated in respect of each identifiable area of interest and are capitalised and carried forward as an asset to the extent that they are expected to be recouped through the successful timing of the areas of interest. Accumulated costs in respect of an area of interest subsequently abandoned are written off to the income statement in the reporting period in which the Directors' decision to abandon is made.

Amortisation is not charged on the mine development costs carried forward in respect of areas of interest until production commences. Where mining of a mineral deposit has commenced, that accumulated development costs are transferred to mine properties. When production commences, carried forward mine properties expenditure is amortised on a unit of production basis. The unit of production basis results in an amortisation charge proportional to the depletion of the estimated economically recoverable ore reserves.

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### **Mine development and mine properties costs (cont'd)**

Capitalised mine development and mine properties costs are assessed for impairment when facts and circumstances suggest that the carrying amount of those costs exceeds their recoverable amount.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal and rehabilitation of the site in accordance with the clauses of the mining permits. Such costs have been determined using estimates for the costs, current legal requirements and technology on a discounted basis. Any changes in the estimates for the costs are accounted for on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed in the final year of abandoning the site.

Pre-production operating expenses and revenues were accumulated and capitalised into mine development costs until 31 August 2007. These costs will continue to be carried forward to the extent that they are expected to be recouped through the successful mining of the area of interest.

The amortisation of capitalised mine development costs commenced from 1 September 2007 and will be amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

### **Financial assets**

Financial assets, other than cash and hedging instruments can be divided into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated and classification may be changed at the reporting date with the exception that the designation of financial assets at fair value through profit or loss is not revocable.

All financial assets are recognised on their trade date - the date on which the Company and the Group commit to purchase or sell the asset. Financial assets are initially recognised at fair value, plus directly attributable transaction costs except for financial assets at fair value through profit or loss, which are recognised at fair value.

Derecognition of financial instruments occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company and the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

Loans and receivables include trade and other receivables. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. If there is objective evidence that the asset has been impaired, the financial asset is measured at the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised. The impairment or write back is recognised in the income statement.

### **Available-for-sale financial assets**

Available-for-sale financial assets include non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

All financial assets within this category are subsequently measured at fair value with changes in value recognised in equity, net of any effects arising from income taxes, until the financial assets is disposed of or is determined to be impaired, at which time the cumulative gains or losses previously recognised in equity is included in the income statement for the period.

When a decline in the fair value of an available-for sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity shall be removed from the equity and recognised in the income statement even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from equity and recognised in the income statement shall be the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

Impairment losses recognised in the income statement for equity investments classified as available-for-sale are not subsequently reversed through the income statement. Impairment losses recognised in the income statement for debt instruments classified as available-for-sale are subsequently reversed in the income statement if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Impairment losses recognised in a previous interim period in respect of equity instruments or financial assets carried at cost are not reversed even if the impairment losses would have been reduced or avoided had the impairment assessment been made at a subsequent reporting or balance sheet date.

### **Derivative financial instruments and hedging contracts**

A derivative financial instrument is initially recognised at its fair value on the date the contract is entered into and is subsequently carried at its fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates each hedge as either: (a) fair value hedge; (b) cash flow hedge; or (c) net investment hedge.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategies for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The carrying amount of a derivative designated as a hedge is presented as a non-current asset or liability if the remaining expected life of the hedged item is more than 12 months, and as a current asset or liability if the remaining expected life of the hedged item is less than 12 months. The fair value of a trading derivative is presented as a current asset or liability.

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## Derivatives financial instruments and hedging contracts (cont'd)

### Cash flow hedge

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in the hedging reserves, while the ineffective portion is recognised in the income statement.

Changes in the carrying amount of cash flow hedges are charged to the hedging reserve in equity. Amounts accumulated in equity are recycled to the income statement in the periods when the hedged item affects profit or loss. When the hedged transaction results in the recognition of a non-financial asset or liability, the gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a cash flow hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transactions is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss reported in equity is immediately transferred to the income statement.

### **Subsidiaries**

For consolidation purposes, a subsidiary is an entity controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether there is control.

Shares in subsidiaries are stated at cost less allowance for any impairment losses on an individual subsidiary basis. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values on the date of acquisition, irrespective of the extent of minority interest.

### **Related party**

A party is considered to be related to the Group if:

- (i) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (ii) the party is an associate;
- (iii) the party is a jointly-controlled entity;
- (iv) the party is a member of the key management personnel of the Group or its parent;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

### **Prepayments**

Prepayments are recognised and carried at cost.

### **Inventories**

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

- (a) Raw materials at purchase cost on a weighted average basis; and
- (b) Finished goods and work in progress at cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity.

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

### **Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and bank deposits.

### **Share capital, share premium and treasury shares**

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Share premium includes any premium received on the issuing of the share capital over the par value. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits.

When any entity within the Group purchases the Company's ordinary shares ("treasury shares"), the consideration paid including any directly attributable incremental cost is presented as a component within equity attributable to the Company's equity holders, until they are cancelled, sold or reissued.

When treasury shares are subsequently cancelled, the cost of treasury shares are deducted against the share capital account if the shares are purchased out of capital of the Company, or against the retained earnings of the Company if the shares are purchased out of earnings of the Company.

When treasury shares are subsequently sold or reissued pursuant to the employee share option scheme, the cost of treasury shares is reversed from the treasury share account and the realised gain or loss on sale or reissue, net of any directly attributable incremental transaction costs and related income tax, is recognised in the capital reserve of the Company.

### **Dividends**

Final dividends proposed by the Directors are not accounted for in shareholders' equity as an appropriation of retained profit, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because of the articles of association of the Company grant the Directors the authority to declare interim dividends. Consequently, interim dividends are recognised directly as a liability when they are proposed and declared.

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### **Financial liabilities**

The Company's and the Group's financial liabilities include borrowings, trade and bill payables, other payables and accruals, provisions and other long-term liabilities.

Financial liabilities are recognised when the Company and the Group becomes a party to the contractual agreements of the instrument. All interest related charges is recognised as an expense in "finance cost" in the income statement. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Borrowings are recognised initially at fair value of proceeds received less attributable transaction costs, if any. Borrowings are subsequently stated at amortised cost which is the initial fair value less any principal repayments. Any difference between the proceeds (net of transaction costs) and the redemption value is taken to the income statement over the period of the borrowings using the effective interest method. The interest expense is chargeable on the amortised cost over the period of the borrowings using the effective interest method.

Gains and losses are recognised in the profit and loss account when the liabilities are derecognised as well as through the amortisation process.

Borrowings which are due to be settled within twelve months after the balance sheet are included in current borrowings in the balance sheet even though the original terms was for a period longer than twelve months and an agreement to refinance, or to reschedule payments, on a long-term basis is completed before the balance sheet date. Borrowings to be settled within the Group's normal operating cycle are classified as current. Other borrowings due to be settled more than twelve months after the balance sheet date are included in non-current borrowings in the balance sheet.

Trade and bill payables, other payables and accruals and other long term liabilities are initially measured at cost, which is the fair value of the consideration to be paid in future for goods and services received.

### **Financial guarantees**

The Company has issued corporate guarantees to banks for bank borrowings of its subsidiaries. These guarantees are financial guarantee contracts as they require the Company to reimburse the banks if the subsidiaries fail to make principal or interest payments when due in accordance with the terms of their borrowings.

Financial guarantee contracts are initially recognised at their fair value plus transaction costs.

Financial guarantee contracts are subsequently amortised to the income statement over the period of the subsidiaries' borrowings, unless the Company incurred an obligation to reimburse the bank for an amount higher than the unamortised amount. In this case, the financial guarantee contracts shall be carried at the expected amount payable to the bank.

### **Contingent liabilities and contingent assets**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable and can be measured reliably, they will then be recognised as a provision.

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### **Contingent liabilities and contingent assets (cont'd)**

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

### **Fair value estimation of financial assets and liabilities**

The fair values of financial instruments traded in active markets (such as exchange traded and over-the-counter securities and derivatives) are based on quoted market prices at the balance sheet date. The quoted market prices used for financial assets are the current bid prices; the appropriate quoted market prices for financial liabilities are the current asking prices.

The fair values of currency forwards are determined using actively quoted forward exchange rates. The fair values of interest rate swaps are calculated as the present value of the estimated future cash flows discounted at actively quoted interest rates.

The fair values of current financial assets and liabilities carried at amortised cost approximate their carrying amounts.

### **Leases**

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- (i) There is a change in contractual terms, other than a renewal or extension of the arrangement;
- (ii) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- (iii) There is a change in the determination of whether fulfillment is dependant on a specified asset; or
- (iv) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios i), iii) or iv) and at the date of renewal or extension period for scenario ii).

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of IFRIC - Int 4.

### **Group as a lessee**

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased asset, are capitalised from the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the leased term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

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Group as a leasee (cont'd)

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

**Income taxes**

The liability method of tax effect accounting is adopted by the Company and the Group. Current taxation is provided at the current taxation rate based on the tax payable on the income for the financial year that is chargeable to tax. Deferred taxation is provided at the current taxation rate on all temporary differences existing at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax liabilities are recognised for all taxable temporary differences (unless the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor taxable profit or loss). Deferred income tax is provided on all temporary differences arising on the investment in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised (unless the deferred tax asset arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.)

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**Provisions**

Provisions are recognised when the Company and the Group have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Present obligations arising from onerous contracts are recognised as provisions.

The Directors review the provisions annually and where in their opinion, the provision is inadequate or excessive, due adjustment is made.

If the effect of the time value of money is material, provisions are discounted using a current pretax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of the time is recognised as finance costs.

**Employee benefits**

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance sheet date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

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## **Employee benefits (cont'd)**

### **Pension obligations**

Salaries, annual bonuses, paid annual leave and contributions to defined contribution plans are recognised as an expense in the profit and loss account in the period in which the associated services are rendered by the employees.

### **Employee leave entitlements**

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for unconsumed leave as a result of services rendered by employees up to the balance sheet date.

### **Employee Share Option Plan and Other Options Issued Following Shareholder Approval**

The Company has an employee share option plan for the granting of non-transferable options.

The Group issues equity-settled share-based payments to certain employees and Directors. The fair value of the employee services received in exchange for the grant of options is recognised as an expense in the income statement with a corresponding increase in the share option reserve over the vesting period. The total amount to be recognised over the vesting period is determined by reference to the fair value of the options granted on the date of the grant. Non-market vesting conditions are included in the estimation of the number of shares under option that are expected to become exercisable on the vesting date. At each balance sheet date, the Group revises its estimates of the number of shares under option that are expected to become exercisable on the vesting date and recognises the impact of the revision of the estimates in the income statement, with a corresponding adjustment to the share option reserve over the remaining vesting period.

When the options are exercised, the proceeds received (net of transaction costs) and the related balance previously recognised in the share option reserve are credited to share capital account, when new ordinary shares are issued, or to the "treasury shares" account, when treasury shares are re-issued to the employees.

In the Company's separate financial statements, the fair value of options granted to employees of its subsidiaries is recognised as an increase in the cost of the Company's investment in subsidiaries, with a corresponding increase in equity over the vesting period.

### **Key management personnel**

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity. Directors and certain managers are considered key management personnel.

### **Impairment of non-financial assets**

The carrying amounts of the Company's and Group's non-financial assets subject to impairment are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

If it is not possible to estimate the recoverable amount of the individual asset, then the recoverable amount of the cash-generating unit to which the assets belong will be identified.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Company at which management controls the related cash flows.

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### **Impairment of non-financial assets (cont'd)**

Individual assets or cash-generating units that include goodwill and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the assets or cash-generating units carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

Any impairment loss is charged to the income statement unless it reverses a previous revaluation in which case it is charged to equity.

With the exception of goodwill,

- An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount or when there is an indication that the impairment loss recognised for the asset no longer exists or decreases.
- An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.
- A reversal of an impairment loss is credited as income in the income statement.

An impairment loss in respect of goodwill is not reversed, even if it relates to an impairment loss recognised in an interim period that would have been reduced or avoided had the impairment assessment been made at a subsequent reporting or balance sheet date.

### **Revenue recognition**

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue excludes goods and services taxes and is arrived at after deduction of trade discounts. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Dividend income from investments is recognised gross when the right to receive the dividend has been established.

Interest income is recognised on a time apportioned basis, using the effective interest rate method.

### **Functional and presentation currencies**

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the functional currency"). The consolidated financial statements of the Group and the balance sheet of the Company are presented in Australian dollars to the nearest thousand dollars, which is also the functional currency of the Company.

### **Conversion of foreign currencies**

#### Monetary items

Foreign currency monetary items measured at fair value are translated into the functional currency at rates of exchange closely approximating those ruling at balance sheet date. Transactions in foreign currencies are converted at rates closely approximating those ruling at transaction dates. Except for the situation described below and in the note on derivative financial instruments, exchange differences arising from such transactions are recorded in the income statement in the period in which they arise.

- Where a monetary item in substance forms part of the Company's net investment in the foreign subsidiaries and associates, exchange differences arising on such a monetary item are recorded directly to exchange fluctuation reserve to the extent that the net investment is represented by net assets in the foreign entity until the disposal of the investments.

#### Non-monetary items

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the date when the fair values are determined. Currency translation differences on non-monetary items, whereby the gains or losses are recognised in the income statement, such as equity investments held at fair value through profit or loss or investment properties carried at fair value, are reported as part of the fair value gains or losses in "other gains/losses – net".

Changes in the fair value of monetary securities denominated in foreign currencies classified as available for sale are analysed into currency translation differences on the amortised cost of the securities, and other changes. Currency translation differences on the amortised cost are recognised in the income statement, and other changes are recognised in fair value reserve within equity.

Non-monetary items that are measured in items of historical cost in a foreign currency are not retranslated.

#### Group entities

The results and financial position of all the entities within the Group that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities are translated at the closing exchange rates at the date of the balance sheet;
- (ii) Income and expenses are translated at average exchange rates; and
- (iii) All resulting currency translation differences are recognised in the currency translation reserve in equity.

Goodwill and fair value adjustments arising on the acquisition of foreign operations on or after 1 January 2005 are treated as assets and liabilities of the foreign operations and translated at the closing rates at the date of the balance sheet. For acquisitions prior to 1 January 2005, the exchange rates at the dates of acquisition are used.

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### Segment reporting

A segment is a distinguishable component of the Group within a particular economic environment (geographical segments) and to a particular industry (business segment) which is subject to risks and rewards that are different from those of other segments.

Inter-segment pricing is determined on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise income-earning assets and revenue, borrowings and expenses, and corporate assets and expenses.

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

Segment information is presented in respect of the Group's geographical and business segments. The primary format, business segments, is based on the Group's management and internal reporting structure. In presenting information on the basis of business segments, segment revenue and segment assets are based on the nature of the products or services provided by the Group. Information on segment revenue and assets for geographical segments is based on the location of customers and assets respectively.

### 3 Principal activities and revenue

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are stated in Note 11.

Revenue is turnover from sales of goods which represents the invoiced values of goods sold, net of discounts, goods and services tax and other sales taxes.

### 4 Goodwill

	<b>2008</b>	2007
	<b>A\$'000</b>	A\$'000
The Group		
<b>Cost at 1 January and 31 December</b>	<b>2,190</b>	2,190

5 Property, plant and equipment

The Group	Construction in-progress A\$'000	Leasehold buildings and improvements A\$'000	Plant and machinery A\$'000	Computer equipment, office equipment and furniture A\$'000	Motor vehicles A\$'000	Total A\$'000
<b>Cost</b>						
At 1 January 2007	2,004	5,914	56,478	922	455	65,773
Additions	4,106	47	4,167	149	359	8,828
Transfers	(2,836)	(139)	(1,070)	4,045	-	-
Disposals	-	-	(6)	(25)	(21)	(52)
Exchange realignment	-	(223)	(299)	(8)	(15)	(545)
<b>At 31 December 2007</b>	<b>3,274</b>	<b>5,599</b>	<b>59,270</b>	<b>5,083</b>	<b>778</b>	<b>74,004</b>
Additions	12,149	309	2,025	110	350	14,943
Transfers	(7,092)	169	9,576	(2,653)	-	-
Disposals	-	-	(1,094)	(230)	-	(1,324)
Exchange realignment	6	1,979	2,736	40	255	5,016
<b>At 31 December 2008</b>	<b>8,337</b>	<b>8,056</b>	<b>72,513</b>	<b>2,350</b>	<b>1,383</b>	<b>92,639</b>
<b>Accumulated depreciation</b>						
At 1 January 2007	-	1,189	4,831	331	215	6,566
Depreciation for the year (Note 23)	-	274	7,186	491	50	8,001
Transfers	-	(24)	-	24	-	-
Disposal	-	-	-	(25)	(8)	(33)
Exchange realignment	-	(43)	(144)	(7)	(22)	(216)
<b>At 31 December 2007</b>	<b>-</b>	<b>1,396</b>	<b>11,873</b>	<b>814</b>	<b>235</b>	<b>14,318</b>
Depreciation for the year (Note 23)	-	346	6,053	496	122	7,017
Transfers	-	-	223	(223)	-	-
Disposals	-	-	(121)	(138)	-	(259)
Exchange realignment	-	561	1,099	35	134	1,829
<b>At 31 December 2008</b>	<b>-</b>	<b>2,303</b>	<b>19,127</b>	<b>984</b>	<b>491</b>	<b>22,905</b>
<b>Net book value</b>						
<b>At 31 December 2008</b>	<b>8,337</b>	<b>5,753</b>	<b>53,386</b>	<b>1,366</b>	<b>892</b>	<b>69,733</b>
<b>At 31 December 2007</b>	<b>3,274</b>	<b>4,203</b>	<b>47,397</b>	<b>4,269</b>	<b>543</b>	<b>59,686</b>

Leasehold buildings are situated in the PRC and held under a medium-term lease.

The cost of property, plant and equipment includes an amount of A\$359,508 (2007 - A\$442,000) in respect of assets held under finance leases and the related accumulated depreciation amounts to A\$41,241 (2007 - A\$154,000).

Certain property, plant and equipment with an aggregate net book value amounting to A\$2,624,000 (2007 - A\$1,691,000) were pledged to a bank to secure an interest bearing loan (Note 19).

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6 Prepaid lease payments on land use rights

The Group	2008 A\$'000	2007 A\$'000
Cost		
At 1 January	1,294	1,328
Additions	-	21
Exchange realignment	466	(55)
At 31 December	1,760	1,294
Accumulated amortisation		
At 1 January	(102)	(70)
Amortisation for the year (Note 23)	(33)	(35)
Exchange realignment	(48)	3
At 31 December	(183)	(102)
Net book value	1,577	1,192

7 Long term prepayments

The Group	2008 A\$'000	2007 A\$'000
Cost		
At 1 January	645	765
Additions	42	-
Exchange realignment	175	(120)
At 31 December	862	645
Accumulated amortisation		
At 1 January	(25)	(19)
Amortisation for the year (Note 23)	(9)	(8)
Exchange realignment	(11)	2
At 31 December	(45)	(25)
Net book value	818	620

Leasehold property is situated in Singapore and held under long-term leases. It relates to the acquisition of leasehold office premises. The full cost of acquiring the leasehold property is therefore amortised over the remaining lease period.

8 Exploration and evaluation costs

The Group	2008 A\$'000	2007 A\$'000
At 1 January	-	-
Costs incurred during the year	11,917	3,629
Costs written off during the year (Note 23)	(11,917)	(3,629)
At 31 December	-	-

The ultimate recoupment of such costs is dependent upon successful development and commercial exploitation or alternatively, sale of the respective areas. The Directors consider that the accumulated costs of the ongoing exploration and evaluation in the identified area of interest are not expected to be recouped through sale. As a result accumulated costs are written off to the income statement in the reporting period.

9 Mine development costs

	<b>2008</b>	2007
	<b>A\$'000</b>	A\$'000
The Group		
Cost		
At 1 January and 31 December	<b>24,201</b>	24,201
Accumulated amortisation/impairment losses		
At 1 January	<b>11,822</b>	10,857
Amortisation for the year (Note 23)	<b>1,694</b>	965
Impairment losses reversed* (Note 23)	<b>(9,699)</b>	-
At 31 December	<b>3,817</b>	11,822
Net book value	<b>20,384</b>	12,379

The ultimate recoupment of the mine development costs is dependent upon successful mining or sale of the areas of interest. The Directors consider that the current results of the ongoing development and production on the identified areas of interest are positive and expect that the costs will be fully recouped through sales of product generated from the mining operation.

\* The Board assessed and considered that the negative indicators of impairment associated with the Bootu Creek Manganese Mine no longer exist and consequently, an impairment write back of A\$9,699,000 (2007 - Nil) has been recorded.

10 Available-for-sale financial assets

	<b>2008</b>	2007
	<b>A\$'000</b>	A\$'000
The Company and The Group		
Quoted equity investment as 1 January	<b>40,243</b>	9,250
Additions	-	4,162
Disposal	<b>(119)</b>	-
Fair value (loss)/gain transferred to equity	<b>(35,681)</b>	26,831
Quoted equity investment as at 31 December	<b>4,443</b>	40,243

Note:

The fair value of the quoted equity investment is determined by reference to quoted bid prices on the ASX.

11 Interests in subsidiaries

	<b>2008</b>	2007
	<b>A\$'000</b>	A\$'000
The Company		
Unquoted equity investments, at cost	<b>8,013</b>	8,013
Amounts due from subsidiaries:		
- Interest-free	<b>3</b>	16,925
- Interest-bearing	<b>63,648</b>	85,443
	<b>71,664</b>	110,381

The amounts due from subsidiaries are unsecured. The amounts include a balance of A\$63,648,000 (2007 - A\$85,443,000) which is interest-bearing at 10.13% (2007 - 10.6% to 11.35%) per annum. The remaining balances, which represent quasi investment, are interest-free.

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11 Interests in subsidiaries (cont'd)

The subsidiaries are:

<u>Name</u>	<u>Country of incorporation/ of business</u>	<u>Percentage of equity held</u>		<u>Principal activities</u>
		<b>2008</b>	2007	
<u>Held by the Company</u>				
OM Holdings (B.V.I.) Ltd ("OMBVI") <sup>(1)</sup>	The British Virgin Islands	<b>100%</b>	100%	Investing holding
OM (Manganese) Ltd ("OMM") <sup>(2)</sup>	Australia	<b>100%</b>	100%	Operation of manganese mine
OM Holdings Investment Limited ("OMHI") <sup>(1)</sup>	The British Virgin Islands	<b>100%</b>	100%	Investment holding
OM Manufacturing (China) Ltd ("OMC") <sup>(3)</sup>	Hong Kong	<b>100%*</b>	100%*	Investment holding
Liaoyang International Boronalloy Co. Ltd ("LFB") <sup>(4)</sup>	People's Republic of China	<b>51%*</b>	51%*	Sales and processing of ferroboron
OM Materials (Tianjin) Ltd ("OMT") <sup>(5)</sup>	PRC	<b>100%*</b>	100%*	Trading of metals and fabricated metals
OM Materials (S) Pte Ltd ("OMS") <sup>(6)</sup>	Singapore	<b>100%*</b>	100%*	Investment holding and trading of metals and ferroalloy products
OM Materials (Qinzhou) Co Ltd ("OMQ") <sup>(7)</sup>	PRC	<b>100%*</b>	100%*	Sales and processing of ferroalloy and ores
OM Materials (PNG) Limited <sup>(8)</sup>	Papua New Guinea	<b>100%*</b>	100%*	Exploration and evaluation activities
Capricorn Enterprises Madagascar <sup>(1)</sup> (Incorporated on 31 March 2008)	Madagascar	<b>88%*</b>	-	Exploration and evaluation activities

\* Held indirectly.

(1) no audit required in the country of incorporation

(2) audited by WHK, Horwath

(3) audited by Lam & Chui CPA Limited

(4) audited by Liaoning Tian Yi Certified Public Accountants Co. Ltd

(5) audited by Tianjin Zhenze Certified Public Accountants

(6) audited by Foo Kon Tan Grant Thornton

(7) audited by Guangxi JiaHai Accountant Affairs Office Co. Ltd

(8) audited by HLB Niugini Certified Public Accountants

12 Deferred taxation

The Group		<b>2008</b> <b>A\$'000</b>	2007 A\$'000
<b>Deferred tax assets</b>			
Balance at beginning		-	-
Transfer to income statement (Note 24)		<b>443</b>	-
Charged to equity		<b>4,401</b>	-
Balance at end	(i)	<b>4,844</b>	-
<b>Deferred tax liabilities</b>			
Balance at beginning		-	-
Transfer from income statement (Note 24)		<b>4,531</b>	-
Balance at end	(ii)	<b>4,531</b>	-
<b>Total (i) - (ii)</b>		<b>313</b>	-

The balance comprises tax on the following temporary differences:

The Group	Excess of net book value over tax written down value of property, plant and equipment A\$'000	Fair value losses A\$'000	Others A\$'000	Total A\$'000
At 1 January 2008	-	-	-	-
Charged/(credited) to				
- income statement (Note 24)	4,055	-	33	4,088
- equity	-	(4,401)	-	(4,401)
<b>At 31 December 2008</b>	<b>4,055</b>	<b>(4,401)</b>	<b>33</b>	<b>(313)</b>

As at 31 December 2008, the Group has tax losses arising in Hong Kong of A\$438,000 (2007 - A\$359,000) and in Australia of A\$Nil (2007 - A\$11,300,000) which are available for offsetting against future taxable profits. No deferred tax asset has been recognised in respect of these tax losses due to the uncertainty of future profit streams against which the asset can be utilised. The tax losses arising in Hong Kong can be carried forward indefinitely without any expiry date.

As at 31 December 2008, the tax losses which arose from the Australia subsidiary were fully utilised against its taxable profit for the year.

13 Inventories

The Group	<b>2008</b> <b>A\$'000</b>	2007 A\$'000
Raw materials, at net realisable value	<b>49,293</b>	36,950
Work-in-progress, at cost	<b>2,462</b>	239
Finished goods, at cost	<b>34,517</b>	13,834
	<b>86,272</b>	51,023
<b>Cost of inventories included in cost of sales</b>	<b>330,995</b>	180,613

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14 Trade and other receivables

	The Company		The Group	
	2008 A\$'000	2007 A\$'000	2008 A\$'000	2007 A\$'000
Trade receivables	-	-	16,792	11,551
Bills receivable	-	-	-	12,805
	-	-	16,792	24,356
Allowance for impairment of trade receivables				
Balance 1 January	-	-	(875)	(812)
Allowance for the year	-	-	(375)	-
Exchange realignment	-	-	(313)	(63)
Balance at 31 December	-	-	(1,563)	(875)
Net trade receivables (i)	-	-	15,229	23,481
Other receivables				
Amounts due from subsidiary companies	31,976	-	-	-
Deposit & other receivables	47	3	6,433	2,606
Net other receivables (ii)	32,023	3	6,433	2,606
Total (i) + (ii)	32,023	3	21,662	26,087

Amounts due from subsidiary companies are interest-free, unsecured and repayable on demand.

Trade receivables are generally on 30 to 90 (2007 - 30 to 90) days credit term.

Trade and other receivables are denominated in the following currencies:

	The Company		The Group	
	2008 A\$'000	2007 A\$'000	2008 A\$'000	2007 A\$'000
Australian dollar	32,023	3	3,198	1,383
Renminbi	-	-	10,800	5,686
United States dollar	-	-	7,566	19,018
Others	-	-	98	-
	32,023	3	21,662	26,087

The credit risk for trade receivables based on the information provided by key management is as follows:

	The Company		The Group	
	2008 A\$'000	2007 A\$'000	2008 A\$'000	2007 A\$'000
<u>By geographical areas</u>				
Australia	-	-	2,016	1,191
People's Republic of China	-	-	5,582	3,464
Singapore	-	-	7,631	18,826
	-	-	15,229	23,481

The ageing analysis of trade receivables past due but not impaired is as follows:

	The Company		The Group	
	2008 A\$'000	2007 A\$'000	2008 A\$'000	2007 A\$'000
Past due less than 3 months	-	-	4,949	5,267
Past due 3 to 6 months	-	-	84	562
	-	-	5,033	5,829

14 Trade and other receivables (cont'd)

Based on historical default rates, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due or past due up to 6 months. These receivables are mainly arising by customers that have historically a good trading record with the Group.

15 Cash and cash equivalents

	The Company		The Group	
	2008 A\$'000	2007 A\$'000	2008 A\$'000	2007 A\$'000
Cash at bank and on hand	46	877	8,551	10,538
Short-term bank deposits	70,767	-	110,727	13,844
<b>Total cash and cash equivalents [Notes (a) and (b)]</b>	<b>70,813</b>	<b>877</b>	<b>119,278</b>	<b>24,382</b>
Less: Cash collateral [Note (c) and (d)]	-	-	(22,317)	(3,768)
	<b>70,813</b>	<b>877</b>	<b>96,961</b>	<b>20,614</b>

Notes:

- (a) Cash at bank earns interest at floating rates based on daily bank deposits rates. Short-term bank deposits are made for varying periods of one day to one month depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates.
- (b) At 31 December 2008, the total amount of cash and cash equivalents of the Group which were deposited with banks in the PRC and denominated in Renminbi ("RMB") amounted to A\$3,345,000 (2007 - A\$6,313,000). The RMB is not freely convertible into other currencies.
- (c) Certain bank deposits were pledged to bankers to secure the banking facilities granted to the Group in respect of bank loans (Note 19) and letters of credit. The USD cash collateral has an average maturity of 3 months (2007 - 6 months) with the weighted average effective interest rates of 2.19% (2007 - 5.98%).
- (d) Certain bank deposits held by its Australian subsidiary were pledged to a hedge facility provider to cover a mark-to-market shortfall related to forward foreign exchange contracts. The AUD cash collateral has an average maturity of 1 (2007 - Nil) month with weighted average effective interest rate of 4.25% (2007 - Nil).

Cash and bank balances are denominated in the following currencies:

	The Company		The Group	
	2008 A\$'000	2007 A\$'000	2008 A\$'000	2007 A\$'000
Australian dollar	70,813	877	93,491	12,394
Renminbi	-	-	3,345	6,313
Singapore dollar	-	-	12,999	307
United States dollar	-	-	8,529	5,071
Others	-	-	914	297
	<b>70,813</b>	<b>877</b>	<b>119,278</b>	<b>24,382</b>

16 Share capital

	<b>2008</b>	2007
The Company and The Group	<b>A\$'000</b>	A\$'000
<b>Authorised:</b>		
2,000,000,000 (2007 - 1,000,000,000) ordinary shares of A\$0.05 (2007 - A\$0.10) each [Note (a)]	<b>100,000</b>	100,000
<b>Issued and fully paid:</b>		
454,945,150 (2007 - 148,332,717) ordinary shares of A\$0.05 (2007 - A\$0.10) each as at 1 January	<b>22,747</b>	14,833
Nil (2007- 74,166,358) Shares issued under entitlements issue	-	7,417
Nil (2007- 3,900,000) Cancellation of ordinary shares following selective share buy back	-	(390)
Options exercised [Note (b)]	<b>1,132</b>	887
477,579,150 (2007 - 227,472,575) ordinary shares of A\$0.05 (2007 - A\$0.10) each as at 31 December	<b>23,879</b>	22,747

Notes:

- (a) At the Company's Annual General Meeting, held on 30 May 2008, shareholders approved the subdivision of the Company's issued capital on the basis that every one ordinary share was subdivided into two ordinary shares. Unlisted options on issue were also adjusted in accordance with the ASX Listing Rules.
- (b) During the year 22,634,000 (2007 - 8,873,500) ordinary share were issued following the exercise of unlisted options. As at 31 December 2008, the Company had 72,226,000 (2007 - 19,335,000) unlisted options on issue at various exercise prices and expiry dates. The newly issued shares rank pari passu in all respects with the previously issued shares.
- (c) The holders of ordinary shares (excluding treasury shares) are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares (excluding treasury shares) rank equally with regard to the Company's residual assets.

17 Treasury shares

	No. of ordinary shares		Amount	
	<b>2008</b>	2007	<b>2008</b>	2007
The Company and The Group	<b>'000</b>	'000	<b>A\$'000</b>	A\$'000
At 1 January	-	-	-	-
Repurchased during the year	<b>983</b>	-	<b>1,006</b>	-
Balance at 31 December	<b>983</b>	-	<b>1,006</b>	-

The Company acquired during the year 983,295 of its own shares through an on-market share buy-back programme previously announced to the Australian Securities Exchange on 8 October 2008. The total amount paid to acquire the shares was A\$1,006,065 and has been deducted from the shareholders' equity. The shares are held as "treasury shares" in accordance with Bermuda corporate law.

18 Reserves

(a) The Group

	<b>2008</b>	2007
	<b>A\$'000</b>	A\$'000
Share premium	<b>76,850</b>	71,021
Non-distributable reserves [Note (i)]	<b>3,275</b>	1,457
Capital reserve [Note (ii)]	<b>637</b>	637
Share option reserve [Note (iii)]	<b>18,266</b>	4,510
Fair value reserve [Note (iv)]	<b>(12,639)</b>	33,310
Exchange fluctuation reserve	<b>14,838</b>	(5,921)
Retained profits	<b>125,078</b>	36,597
	<b>225,305</b>	141,611

Notes

- (i) In accordance with the accounting principles and financial regulations applicable to Sino-foreign joint venture enterprises, the subsidiaries in the PRC are required to transfer part of their profit after tax to the “Statutory Reserves Fund”, the “Enterprise Expansion Fund” and the “Staff Bonus and Welfare Fund”, which are non-distributable, before profit distributions to joint ventures partners. The quanta of the transfers are subject to the approval of the board of Directors of these subsidiaries.

The annual transfer to the Statutory Reserves Fund should not be less than 10% of profit after tax, until it aggregates to 50% of the registered capital. However, foreign enterprises may choose not to appropriate profits to the Enterprise Expansion Fund.

The Statutory Reserves Fund can be used to make good previous years' losses while the Enterprise Expansion Fund can be used for acquisition of property, plant and equipment and financing daily funds required. The Staff Bonus and Welfare Fund is utilised for employees collective welfare benefits and is included in other payables under current liabilities in the consolidated balance sheet.

- (ii) This arose from the capitalisation of various reserves and retained profits in one of the Sino-foreign joint ventures of the Group. The purpose of the capitalisation is to increase the registered capital of the joint venture.
- (iii) During 2008, the Board exercised its discretion under the OM Holdings Limited Employee Share Option Plan and where relevant shareholders of the Company approved the grant of 56,650,000 (2007 - 23,490,000) unlisted options of the Company to certain Directors and employees of the Company and its subsidiaries.
- (iv) The fair value reserve of the Company represents the fair value loss on financial assets available-for-sale and forward exchange contracts.

18 Reserves (cont'd)

(b) The Company

	<b>2008</b> <b>A\$'000</b>	2007 A\$'000
<b>Share premium:</b>		
At 1 January	71,021	62,431
Shares issued under entitlements issue	-	7,925
Share options exercised	5,829	3,707
Cancellation of ordinary shares following selective share buy back	-	(3,042)
At 31 December	<b>76,850</b>	71,021
<b>Contributed surplus [Note (a)]</b>		
At 1 January and 31 December	<b>3,312</b>	3,312
<b>Share option reserve:</b>		
At 1 January	4,510	1,745
Equity settled share-based transactions [Note (b)]	13,756	2,765
At 31 December	<b>18,266</b>	4,510
<b>Fair value reserve</b>		
At 1 January	33,310	6,479
Fair value (loss)/gain of financial assets	(35,681)	26,831
At 31 December	<b>(2,371)</b>	33,310
<b>Retained profits/(accumulated losses)</b>		
At 1 January	14,861	(25,189)
Profit for the year	67,904	44,579
Dividends	(25,996)	(4,529)
At 31 December	<b>56,769</b>	14,861
<b>Total reserves</b>	<b>152,826</b>	127,014

Notes:

- (a) The contributed surplus of the Company represents the difference between the nominal value of the Company's shares issued for acquisition of the subsidiaries and the aggregate net asset value of the subsidiaries acquired. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to shareholders under certain circumstances.
- (b) This arose from the recognition of expenses arising from the grant of 56,650,000 (2007 - 23,490,000) options to certain Directors and employees of the Company and its subsidiaries during 2008 (Note 28).

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19 Borrowings

The Group	2008 A\$'000	2007 A\$'000
<b>Non-current</b>		
Obligations under finance lease (Note 19.1)	-	5
<b>Current</b>		
Obligations under finance lease (Note 19.1)	24	170
Bank loans	2,146	5,862
	<b>2,170</b>	<b>6,032</b>
<b>Total borrowings</b>	<b>2,170</b>	<b>6,037</b>

19.1 Obligations under finance leases

The Group	2008 A\$'000	2007 A\$'000
Minimum lease payments payable:		
Due not later than one year	24	160
Due later than one year and not later than five years	-	22
Due later than five years	-	-
	<b>24</b>	<b>182</b>
Finance charges allocated to future periods	-	(7)
Present value of minimum lease payments	<b>24</b>	<b>175</b>
Present value of minimum lease payments:		
Due not later than one year	24	170
Due later than one year and not later than five years	-	5
Due later than five years	-	-
	<b>24</b>	<b>175</b>

19.2 Bank loans

The Group	2008 A\$'000	2007 A\$'000
Secured	2,146	5,000
Unsecured	-	862
	<b>2,146</b>	<b>5,862</b>

The loan is repayable on demand. Interest is charged at 6% (2007 - 6%) per annum.

The loans are secured by:

- (a) charge over certain bank deposits as disclosed in Note 15;
- (b) pledge of certain property, plant and equipment as disclosed in Note 5; and
- (c) a fixed and floating charge over all of OM (Manganese) Ltd's assets including the Bootu Creek Manganese Mine project assets and a mortgage over the mining tenements.

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19 Borrowings (cont'd)

**19.3 Currency risk**

Total borrowings are denominated in the following currencies:

	<b>2008</b>	2007
	<b>A\$'000</b>	A\$'000
The Group		
Australian dollar	<b>24</b>	5,175
Renminbi	<b>2,146</b>	862
	<b>2,170</b>	6,037

**19.4 Effective interest rates**

The weighted average effective interest rates of total borrowings at the balance sheet date are as follows:

	<b>2008</b>	2007
The Group		
Bank loans	<b>7.7%</b>	8.8%
Obligations under finance leases	<b>6.8%</b>	7.5%

**19.5 Carrying amounts and fair values**

The carrying amounts of current borrowings approximate their fair value.

20 Provisions

	<b>2008</b>	2007
	<b>A\$'000</b>	A\$'000
The Group		
Provision for restoration		
At 1 January	<b>298</b>	278
Movement for the year (Note 23)	<b>324</b>	20
At 31 December (i)	<b>622</b>	298
Employee long service leave		
At 1 January	-	-
Movement for the year (Note 23)	<b>35</b>	-
At 31 December (ii)	<b>35</b>	-
Total (i) + (ii)	<b>657</b>	298

According to the Mine Management Plan submitted to The Northern Territory Government in Australia, the Group is obligated for the restoration of the disturbed area arising from mining activities conducted by OM (Manganese) Ltd, a wholly owned subsidiary.

Employees of a subsidiary are entitled, under the labour law of the country of its incorporation, to additional leave over and above their annual leave if they stay with the subsidiary beyond 10 years. Employee benefits payable later than one year has been measured at the present value of the estimated future cash outflows to be made for those benefits.

21 Trade and other payables

	The Company		The Group	
	2008 A\$'000	2007 A\$'000	2008 A\$'000	2007 A\$'000
Trade payables	-	-	10,104	17,714
Accruals and other payables	3,244	1,888	35,395	23,102
Welfare expense payable	-	-	936	256
	<b>3,244</b>	1,888	<b>46,435</b>	41,072

Trade payables are generally on 30 to 90 (2007 - 30 to 90) days credit terms.

Trade and other payables denominated in the following currencies:

	The Company		The Group	
	2008 A\$'000	2007 A\$'000	2008 A\$'000	2007 A\$'000
Australian dollar	3,244	1,888	27,233	13,229
Renminbi	-	-	11,820	19,236
United States dollar	-	-	7,371	8,601
Others	-	-	11	6
	<b>4,271</b>	1,888	<b>46,435</b>	41,072

22 Other Income

	2008 A\$'000	2007 A\$'000
The Group		
Interest income	2,726	1,021
Disposal gain on sale of Territory Resources Ltd marketing right	-	7,823
Sundries	285	33
	<b>3,011</b>	8,877

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23 Profit before taxation

The Group	Note	2008 A\$'000	2007 A\$'000
Profit before tax is arrived at after charging/(crediting):			
Amortisation of prepaid lease payment on land use rights	6	33	35
Amortisation of long term prepayments	7	9	8
Amortisation of mine development cost	9	1,694	965
Cost of inventories recognised as expenses #		330,995	180,613
Depreciation of property, plant and equipment	5	7,017	8,001
Directors' fee - Directors of the Company		478	308
Equity-settled share-based payment *		13,756	2,765
Exchange losses		19,778	2,426
Exploration and evaluation costs written off	8	11,917	3,629
Interest expenses			
- bank loans		963	1,830
- finance leases		10	24
Inventory written off		-	147
Impairment of mine development costs written back	9	(9,699)	-
Loss on disposal of property, plant and equipment		968	19
Loss on disposal of financial asset available for sale		58	-
Operating lease charges in respect of land and buildings		203	270
Provision for restoration		324	20
Provision for employee long service leave		35	-
<b>Staff costs</b>			
Directors' remuneration other than fees			
- Directors of the Company		10,375	2,116
- Directors of the subsidiaries		1,620	2,575
- Defined contribution plans		31	72
Key management personnel (other than Directors)			
- Salaries, wages and other related costs		2,252	993
- Defined contributions plans		157	94
Other than key management personnel			
- Salaries, wages and other related costs		8,632	1,958
- Defined contribution plans		522	27
		<b>23,589</b>	<b>7,835</b>
Write down of inventories to net realisable value *		3,511	-
Write back of provision for inventory obsolescence		-	(492)

# Cost of inventories includes amount of A\$10,445,451 and A\$860,584 (2007 - A\$7,555,758 and A\$727,223) relating to staff costs and depreciation respectively.

\* Included in other operating expenses.

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24 Taxation

	<b>2008</b>	2007
The Group	<b>A\$'000</b>	A\$'000
Current taxation		
- Singapore income tax	<b>6,116</b>	4,204
- PRC tax	<b>258</b>	365
- Australian tax	<b>7,058</b>	-
	<b>13,432</b>	4,569
Deferred taxation (Note 12)	<b>4,088</b>	-
	<b>17,520</b>	4,569
Under/(over) provision of current taxation in respect of prior years	<b>9</b>	(13)
	<b>17,529</b>	4,556

Provision for enterprise income tax of the subsidiaries operating in the People's Republic of China (the "PRC") is made in accordance with the Income Tax Law of the PRC concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws.

The Singapore Ministry of Trade and Industry approved the award of Global Trade Programme Status to the OM Materials (S) Pte Ltd ("OMS"). Accordingly, OMS is entitled to a concessionary rate of 10% for a period of 5 years with effect from 1 July 2004, subject to fulfilment of the specific conditions. The Directors are confident that OMS will be able to fulfil those conditions. Before 1 July 2004, the effective Singapore income tax rate was 20% on the estimated assessable profits.

Taxation has been provided at the appropriate tax rates prevailing in the countries in which the Group operates on the estimated assessable profits for the year. These rates range from 17.5% to 30% (2007 - 17.5% to 30%).

The income tax expenses for the year can be reconciled to the profit before income tax per the income statement as follows:

	<b>2008</b>	2007
The Group	<b>A\$'000</b>	A\$'000
Profit before income tax	<b>133,463</b>	61,822
Tax at applicable tax rates	<b>37,322</b>	14,562
Utilisation of unrecognised tax losses and temporary differences arising from previous year	<b>(11,549)</b>	(6,952)
Tax effect of non-taxable revenue	<b>(6,029)</b>	(531)
Tax effect of non-deductible expenses	<b>2,769</b>	1,803
Tax effect of allowances given by tax jurisdiction	<b>(4,993)</b>	(4,265)
Double tax relief	-	(48)
Under/(over) provision in prior years	<b>9</b>	(13)
Actual tax expenses	<b>17,529</b>	4,556

25 Dividends

	<b>2008</b>	2007
The Company and The Group	<b>A\$'000</b>	A\$'000
Ordinary dividends paid:		
- final dividend of A\$0.04 (2007: A\$ Nil) per ordinary share paid in respect of the previous financial year	<b>9,361</b>	-
- interim dividend of A\$0.035 (2007: A\$0.02) per ordinary share paid in respect of the current financial year	<b>16,635</b>	4,529
	<b>25,996</b>	4,529

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25 Dividends (cont'd)

The board will be proposing a final tax-exempt (one-tier) dividend of A\$0.03 cents per share amounting to approximately A\$14,327,000 at the Annual General Meeting to be held in May 2009. These financial statements do not reflect these dividends payable, which will be accounted for as a reduction in equity as a distribution of retained profits in the financial year ending 31 December 2009.

26 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of A\$115,632,000 (2007 - A\$56,864,000) and the weighted average number of ordinary shares of 466,066,068 (2007 - 397,675,784) in issue during the year.

Diluted earnings per share is calculated based on the profit attributable to equity holders of the Company of A\$115,632,000 (2007 - A\$56,864,000) and the weighted average number of ordinary shares adjusted for the effects of all dilutive potential shares of 491,115,369 (2007 - 436,345,784), calculated as follows:

	2008 '000	2007 '000
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	466,066	397,676
Effect of dilutive potential ordinary shares in respect of share options	25,049	38,670
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<b>491,115</b>	<b>436,346</b>

At the Company's Annual General Meeting held on 30 May 2008, the shareholders approved the subdivision of every ordinary share into two ordinary shares. The weighted average number of ordinary shares for financial year ended 31 December 2007 was computed after taking this share split into consideration.

If the earnings per share for financial year ended 31 December 2007 was computed based on the weighted average number of shares before the share split, the earnings per share would be 28.60 cents (basic) and 26.06 cents (diluted) as reported previously.

27 Derivative financial instruments

	2008		2007	
	Assets A\$'000	Liabilities A\$'000	Assets A\$'000	Liabilities A\$'000
The Group				
Forward currency contracts	-	17,206	851	586

At 31 December 2008, the terms of these contracts are as follows:

	Exchange Rate	Contract amount \$'000	Maturity
<b>Forward currency contracts</b>			
Sell contracts - US dollar	0.8255	US\$73,361	January to May 09

The carrying amounts of forward currency contracts are the same as their fair values.

28 Employee benefits

The Company

**Employee Share Option Plan and Other Options Issued Following Shareholder Approval.**

At the Annual General Meeting held on 25 May 2007, the shareholders approved the introduction of the OM Holdings Limited Employee Share Option Plan which provided for the grant of share options to subscribe for shares in the Company to persons engaged in senior management positions and Directors of the Company or its subsidiaries. Each option shall be issued for no consideration and allows the option holder to subscribe for one ordinary share of the Company.

There are no participating rights or entitlements inherent in the options and holders of the options will not be entitled to participate in new issues of capital which may be offered to shareholders during the currency of the option.

Information with respect to the number of options granted under the Company's Employee Share Option Plan and options issued to Directors and Senior Management which were separately approved by Shareholders are as follows:

	Options 2008	Weighted Average Exercise Price 2008 A\$	Options 2007	Weighted Average Exercise Price 2007 A\$
Outstanding at 1 January	19,335,000	0.66	6,068,500	0.83
Share split exercise	38,670,000	0.31	-	-
Granted	56,650,000	1.97	23,490,000	0.51
Expired	(460,000)	0.30	(1,350,000)	0.58
Exercised <sup>(1)</sup>	(22,634,000)	0.31	(8,873,500)	0.69
<b>Outstanding at 31 December</b>	<b>72,226,000</b>	<b>1.61</b>	<b>19,335,000</b>	<b>0.31</b>
<b>Exercisable at 31 December</b>	<b>25,096,000</b>	<b>1.85</b>	<b>8,395,000</b>	<b>0.66</b>

(1) Consideration received from options exercised during the year was A\$6,961,140 (2007 - A\$4,594,775).

The following table summarises information about options outstanding and exercisable at 31 December 2008:

Exercise Price A\$	Outstanding Options	Average Life <sup>(2)</sup>	Exercisable	
			Options	Average Exercise Price A\$
2.58	1,000,000	3.67	1,000,000	2.58
2.49	22,650,000	4.43	4,000,000	2.49
1.87	6,000,000	8.63	-	-
1.755	6,000,000	5.63	-	-
1.64	6,000,000	4.63	-	-
1.52	7,000,000	3.63	-	-
1.405	7,000,000	2.63	7,000,000	1.405
0.72	1,000,000	3.25	500,000	0.72
0.365	4,750,000	2.5	4,750,000	0.365
0.36	48,000	2.5	48,000	0.36
0.30	3,778,000	3.19	798,000	0.30
0.28	6,000,000	4.42	6,000,000	0.28
0.14	1,000,000	4.16	1,000,000	0.14
<b>Total</b>	<b>72,226,000</b>		<b>25,096,000</b>	

28 Employee benefits (cont'd)

(2) Weighted-average contractual life remaining in years.

The fair value of share options as at the date of grant, is estimated by an external independent valuer using a Binomial Model, taking into account the terms and conditions upon which the options were granted. The inputs to the model used for the years ended 31 December 2008 and 31 December 2007 are shown below.

	<u>2008</u>	<u>2007</u>
Underlying share price	A\$1.30 to A\$2.16	A\$0.655 to A\$0.83*
Option exercise price	A\$1.97	A\$0.51
Expected volatility	62.87% to 97.25%	72.46% to 80%
Expected option life	1.51 to 5.78	1.5 to 3.01
Risk free rate	4.18% to 5.58%	6.16% to 6.33%
Expected dividend yield	2.51% to 4.14%	-
Fair value at measurement date	A\$1.24	A\$0.51

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. Other than stated, no other features of the options grant were incorporated into the measurement of fair value.

\* Adjusted for two for one share split approved by Shareholders on 30 May 2008.

**Post employment benefit plans**

The Group operates defined contribution retirement benefits schemes for all qualifying employees. The assets of the schemes are held separately from those of the Group in an independently administered fund.

The retirement benefits scheme cost charged to the income statement represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes.

29 Directors' remuneration

The remuneration of directors of the Company (including base remuneration, sign-on entitlements to newly appointed Executive Directors, equity compensation, performance bonuses and other benefits) are disclosed in bands as follows:

	Number of Directors	
	2008	2007
Above A\$1,000,000	5	1
A\$500,000 to A\$1,000,000	2	-
Below A\$500,000	1	9
<b>Total</b>	<b>8</b>	<b>10</b>

30 Related party transactions

In addition to the related party information disclosed elsewhere in the financial statements, the following are significant transactions with related parties:

	<b>2008</b> <b>A\$'000</b>	2007 A\$'000
The Company and the Group		
Company secretarial fees paid to a company of which a Director is a director and beneficial shareholder	<b>360</b>	160
Legal fees paid to a firm of which a Director is a director and beneficial owner	<b>10</b>	6
	<b>370</b>	166

31 Commitments

(a) Operating lease commitments (non-cancellable)

As at 31 December 2008, the Group was committed to making the following rentals in respect of non-cancellable operating leases of office premises with an original term of more than one year:

	<b>2008</b> <b>A\$'000</b>	2007 A\$'000
The Group		
Within next year	<b>169</b>	269
In the second to fifth years inclusive	<b>354</b>	1,698
	<b>523</b>	1,967

The leases on the Group's office premises on which rental payment are payable will expire on 14 April 2010 and 14 September 2011 subject to options to renew, the current rent payable on the leases are A\$4,351 and A\$12,964 per month respectively which are subject to revision on renewal.

The Company did not have any outstanding operating lease commitments as at the balance sheet date.

(b) Mineral Tenements

In order to maintain the mineral tenements in which a subsidiary is involved, the subsidiary is committed to fulfil the minimum annual expenditures in accordance with the requirements of the Northern Territory Department of Primary Industry Fisheries and Mines, Australia, for the next financial year are set out below:

	<b>2008</b> <b>A\$'000</b>	2007 A\$'000
Mineral covenant commitments	<b>1,246</b>	682

(c) Operating commitments

Operating commitments include the provision of mining and processing services, catering, cleaning and village management, electrical power services, road haulage and rail haulage. These commitments are not provided for or payable at the balance sheet date.

	<b>2008</b> <b>A\$'000</b>	2007 A\$'000
The Group		
Not later than 12 months	<b>81,184</b>	43,878
Between 12 months and five years	<b>154,379</b>	37,505
Later than 5 years	<b>6,000</b>	6,300
	<b>241,563</b>	87,683

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31 Commitments (cont'd)

**(d) Environmental bonds**

A subsidiary has environmental bonds to the value of A\$417,000 (2007 - A\$368,500) lodged with the Northern Territory Government (Department of Business, Industry and Resources Development) to secure environment rehabilitation commitments.

32 Contingent liabilities

A subsidiary of the Group engaged Lonsdale Investments Pty Ltd (previously trading as ProMet Engineers Pty Ltd) ("ProMet") to design a process plant for the subsidiary's mining operation at Bootu Creek Manganese Mine. The subsidiary has refused to pay A\$645,000 of the invoices claimed by ProMet in respect to the design services performed, and Supreme Court proceedings were commenced against the subsidiary in August 2006 seeking recovery of these monies.

In December 2006, the subsidiary commenced a counterclaim against ProMet and two of ProMet's directors, for alleged breaches of contract, the Trade Practices Act 1974 (Cth) and the Fair Trading Act 1987 (WA) and negligence.

The subsidiary's damages claim against ProMet and the two directors are for monies paid to ProMet under the contract; the cost of rectification of ProMet's defective work; additional costs to complete and commission the plant; additional charges payable by the subsidiary as a result of the plant not producing at the required production volumes; and the loss of the benefit of revenue resulting from the inability to make sales of manganese product at the designed production volumes.

The quantum of the subsidiary's claim will be finalised once it has completed the rectification of ProMet's defective design work, but is expected to substantially exceed the amount claimed against the subsidiary.

No provision is made in the financial statements as the Directors are of the view that the amounts to be claimed by the subsidiary would far exceed the amount being claimed by ProMet. The Directors are also confident of succeeding in its counter claim against ProMet.

33 Segment information

The Group

Segment information is presented in respect of the Group's geographical and business segments. The primary format (geographical segments) is based on the Group's management and internal reporting structure. Secondary information is reported business. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

Inter-segment pricing is determined on mutually agreed terms.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments (other than investment properties) and related revenue, loans and expenses, corporate assets and head office expenses, and income tax assets and liabilities.

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33 Segment information (cont'd)

All operating revenue, segment results, segment assets and segment liabilities for the financial years ended 31 December 2008 and 31 December 2007 were related to the Group's principal business activities. The Group's principal business activities during the financial years were the mining, processing and sale of specialised metal materials in the PRC and Korea.

(a) Geographical segments

Analysis of operating revenue, segment results, segment assets and segment liabilities by geographical location based on location of customers is as follows:

	PRC		Korea		Others		The Group	
	2008 A\$'000	2007 A\$'000	2008 A\$'000	2007 A\$'000	2008 A\$'000	2007 A\$'000	2008 A\$'000	2007 A\$'000
Sales to customers outside the Group	<b>390,552</b>	248,488	<b>71,089</b>	12,808	<b>112,424</b>	29,194	<b>574,065</b>	290,490
Segment results	<b>60,536</b>	50,867	<b>7,495</b>	4,993	<b>63,679</b>	825	<b>131,710</b>	56,685
Unallocated corporate income and expenses							-	(1,853)
Profit from operations							<b>131,710</b>	54,832
Finance costs							<b>(973)</b>	(1,854)
Finance Income							<b>2,726</b>	1,021
Gain on disposal of marketing rights							-	7,823
Profit before income tax							<b>133,463</b>	61,822
Income tax expenses							<b>(17,529)</b>	(4,556)
Profit for the year							<b>115,934</b>	57,266
Assets								
Segment assets	<b>106,570</b>	162,597	<b>6,278</b>	3,055	<b>143,014</b>	9,557	<b>255,862</b>	175,209
Unallocated corporate assets							<b>76,049</b>	43,756
							<b>331,911</b>	218,965
Liabilities								
Segment liabilities	<b>25,366</b>	45,063	<b>2,505</b>	1,163	<b>49,277</b>	4,678	<b>77,148</b>	50,904
Unallocated corporate liabilities							<b>4,033</b>	1,894
							<b>81,181</b>	52,798

33 Segment information (cont'd)

(a) Geographical segments (cont'd)

	PRC		Korea		Others		The Group	
	2008 A\$'000	2007 A\$'000	2008 A\$'000	2007 A\$'000	2008 A\$'000	2007 A\$'000	2008 A\$'000	2007 A\$'000
Costs to acquire property, plant and equipment	1,637	8,768	67	14	13,239	46	14,943	8,828
Depreciation of property, plant and equipment	1,124	6,844	16	353	5,877	804	7,017	8,001
Amortisation of prepaid lease	33	30	-	2	-	4	33	35
Amortisation of long term prepayments	6	7	1	-	2	1	9	8
Amortisation of mine development	-	-	-	-	1,694	965	1,694	965
Impairment of evaluation and exploration costs	-	3,104	-	160	11,917	365	11,917	3,629

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment analysed by geographical location of assets:

	PRC		Singapore		Australia		The Group	
	2008 A\$'000	2007 A\$'000	2008 A\$'000	2007 A\$'000	2008 A\$'000	2007 A\$'000	2008 A\$'000	2007 A\$'000
Carrying amounts of segment assets:								
Segment assets	73,212	41,841	48,798	61,094	133,852	72,274	255,862	175,209
Unallocated corporate assets							76,049	43,756
							331,911	218,965
Costs to acquire property, plant and equipment	1,279	400	536	262	13,128	8,166	14,943	8,828

(b) Business segments

The following is an analysis of the carrying amount of segment assets and additions to property, plant and equipment analysed by products:

	Ores		Ferroalloys		Others		The Group	
	2008 A\$'000	2007 A\$'000	2008 A\$'000	2007 A\$'000	2008 A\$'000	2007 A\$'000	2008 A\$'000	2007 A\$'000
Sales to customers outside the Group	370,122	220,822	203,891	69,602	52	66	574,065	290,490
Carrying amounts of segment assets:								
Segment assets	190,826	129,126	62,522	46,072	2,484	11	255,862	175,209
Unallocated corporate assets							76,049	43,756
							331,911	218,965
Costs to acquire property, plant and equipment	13,895	8,432	1,035	396	13	-	14,943	8,828

## 34 Financial risk management objectives and policies

### 34.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments such as interest rate swaps and forward foreign exchange contracts to hedge certain risk exposures.

Risk management is carried out by the Finance Division under policies approved by the Board of Directors. The Finance Division identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments and investing excess liquidity.

#### Treasury Risk Management

One of the subsidiaries has a treasury committee consisting of senior executives plus an external treasury advisor which meets on a regular basis to analyse currency and interest rate exposure and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts. The primary objective of the financial risk policy is to minimise the financial risk and uncertainty that the subsidiary faces through the uncertain and volatile nature of its cash flows that could materially reduce the subsidiary's revenues and profitability.

### 34.2 Market risk

#### 34.2.1 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group operates and sells its products in several countries and transacts in foreign currencies. As a result, the Group is exposed to movements in foreign currency exchange rates arising from normal trading transactions, primarily with respect to United States Dollars, Renminbi and Euro. Foreign currency forward contracts are entered into to manage the Group's exposure to movements in foreign currency exchange rates on specific transactions.

Forward foreign exchange contracts are entered into to manage exposure to fluctuations in foreign currency exchange rates on specific transactions. The Group's risk management policy is to enter into foreign currency forward contracts for up to 50% of net foreign currency receipts anticipated in each month over the next one year.

At 31 December 2008, the settlement dates on open foreign currencies forward contracts are 5 months (2007 - 6 months).

34 Financial risk management objectives and policies (cont'd)

Sensitivity analysis for foreign currency risk

The following table demonstrates the sensitivity to a reasonably possible change in the USD, RMB and SGD exchange rates (against AUD), with all other variables held constant, of the Group's profit net of tax and equity.

		Group			
		2008		2007	
		Profit net of tax A\$'000	Equity A\$'000	Profit net of tax A\$'000	Equity A\$'000
United States dollars	- strengthened 5% (2007 - 5%)	69	69	557	557
	- weakened 5% (2007 - 5%)	(69)	(69)	(557)	(557)
RMB	- strengthened 5% (2007 - 5%)	116	116	(362)	(362)
	- weakened 5% (2007 - 5%)	(116)	(116)	362	362
SGD	- strengthened 5% (2007 - 5%)	650	650	15	15
	- weakened 5% (2007 - 5%)	(650)	(650)	(15)	(15)

**34.2.2 Cash flow and fair value interest rate risk**

Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Group's exposure to movements in market interest rates relate primarily to its short term deposits placed with financial institutions and debt borrowings with financial institutions. The Group has no policy to hedge against its interest rate risk. The Group is in a net interest expenses position during the current financial year.

In respect of interest-bearing financial assets and financial liabilities, the following table indicates their effective interest rates at balance sheet date and the periods in which they reprice or mature, whichever is earlier:

**Financial assets**

	Note	Effective Interest rate %	1 year or Less A\$'000
<b>2008</b>			
<b>Fixed deposits</b>	<b>15</b>	<b>2.19</b>	<b>110,727</b>
<b>2007</b>			
Fixed deposits	15	5.98	13,844

**Financial liabilities**

	Note	Effective interest rate %	1 year or less A\$'000	1 to 5 years A\$'000
<b>2008</b>				
<b>Bank borrowings</b>	<b>19</b>	<b>7.7</b>	<b>2,146</b>	<b>-</b>
<b>Obligation under finance lease</b>	<b>19</b>	<b>6.8</b>	<b>24</b>	<b>-</b>
<b>2007</b>				
Bank borrowings	19	8.8	5,862	-
Obligation under finance lease	19	7.5	153	22

34 Financial risk management objectives and policies (cont'd)

**34.2.2 Cash flow and fair value interest rate risk (cont'd)**

For illustrative purposes, the sensitivity analysis performed below is based on the exposure to interest rates for financial instruments at the balance sheet date and the stipulated change taking place at the beginning of the financial year with all other variables held constant throughout the financial year ended 31 December 2008.

Sensitivity analysis for interest rate risk

At the balance sheet date, if the interest rates had been 0.50% (2007 - 0.50%) per annum lower/higher with all other variables held constant, the Group's profit before tax would have been A\$8,765 (2007 - A\$4,165) higher/lower, arising mainly as a result of lower/higher interest expense on borrowings, and the Group's equity would have been A\$8,765 (2007 - A\$4,165) higher/lower, arising mainly as a result of an increase/decrease in the net borrowings.

**34.2.3 Price risk**

Price risk is the risk that the value of a financial instrument will fluctuate due to changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.

The Group and the Company are exposed to market price risk arising from its investment in equity investment quoted on the ASX in Australia classified as available-for-sale. Available-for-sale equity instrument is held for strategic rather than trading purposes. The Group does not actively trade available for sale investment.

Market price sensitivity

At the balance sheet date, if the market share price had been 2% (2007 - 2%) higher/lower with all the other variables held constant, the Group's other reserve in equity would have been A\$88,850 (2007 - A\$804,855) higher/lower, arising as a result of increase/decrease in fair value of equity instruments classified as available-for-sale.

The Group's sensitivity to market price has not changed significantly from the prior year.

**34.3 Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group has no significant concentrations of credit risk. The maximum exposure to credit risk in relation to each class of recognised financial assets, other than derivatives, is represented by the carrying amount of each financial asset as indicated in the balance sheet. Derivative instruments are entered into with, and cash is placed with, reputable financial institutions. The credit exposure of derivatives is represented by the net fair values of the contracts, as disclosed above.

Management has a credit control policy in place. Credit evaluations are performed on all customers requiring credit over a certain amount. Transactions are conducted with customers with appropriate credit histories. The credit risk and amount outstanding is monitored on an ongoing basis. With this credit evaluation processes, credit control policies and collection procedures in place, the credit risk is mitigated substantially. The Group does not require collateral in respect of financial assets.

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34 Financial risk management objectives and policies (cont'd)

Exposure to credit risk

As the Company and the Group do not hold any collateral, the maximum exposure to credit risk for each class of financial instruments is the carrying amount of that class of financial instruments presented on the balance sheet, except as follows:

	Company	
	2008 A\$'000	2007 A\$'000
Corporate guarantees provide to banks on subsidiaries' banking facilities	119,337	114,618

The Company's and the Group's major classes of financial assets are bank deposits and trade receivables. Cash is held with financial institutions of reputable financial institutions. Further details of credit risks on trade and other receivables are disclosed in Note 14.

As at 31 December 2008, the Company has given an unlimited corporate guarantee to banks in respect of banking facilities granted to certain of its subsidiaries. The extent of facilities utilised by its subsidiaries as at 31 December 2008 amounting to A\$Nil (2007 - A\$16,965,000).

**34.4 Liquidity risk**

Liquidity or funding risk is the risk that the Group and companies will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

The Company's and the Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Company's and the Group's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

The Group ensures that there are adequate funds to meet all its obligations in a timely and cost-effective manner.

The table below summarises the maturity profile of the Group's financial liabilities at the balance sheet date based on contractual undiscounted payments:

	31 December 2008 A\$'000	31 December 2007 A\$'000
<b>The Group</b>		
Trade and other payables		
- 1 year or less	78,354	41,658
Loans and borrowings		
- 1 year or less	2,170	6,032
- 1 to 5 years	-	5
	<b>80,524</b>	<b>47,695</b>
<b>The Company</b>		
Trade and other payables		
- 1 year or less	4,271	1,888

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### 35 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure so as to maximise shareholder value. In order to maintain or achieve an optimal capital structure, the Group may issue new shares, adjust the amount of dividend payment or reduce its capital, subject to the provisions of the Company's Memorandum and Articles of Association, and the Companies Act of Bermuda. The Group currently does not adopt any formal dividend policy.

The Company and its subsidiaries are not subject to externally imposed capital requirements.

### 36 Financial instruments

#### **Fair values**

The carrying amount of financial assets and liabilities with a maturity of less than one year is assumed to approximate their fair values.

However, the Company and the Group do not anticipate that the carrying amounts recorded at balance sheet date would be significantly different from the values that would eventually be received or settled.

### 37 Events subsequent to balance sheet date

Subsequent to 31 December 2008, a subsidiary received a Notice of Assessment of Royalty in relation to the subsidiary's 2007 royalty year. This royalty assessment may have an impact for the royalty payable in the 2008 royalty year. The subsidiary has sought advice and met with the Northern Territory Mineral Royalties Division in relation to the effects. The subsidiary is in the process of finalising the amount and timing of the effects and determining what action (if any) it will take to address the issue raised for future royalty calculations.

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